FINANCE — GENERAL

1989

AUGUST →

Sanlam gives R175 000 to colleges

STW 1/12/89

Staff Reporter

Donations to tertiary institutions in the Transvaal amounting to R175 000 were announced by the managing director of Sanlam, Mr Pierre Steyn, in Johannesburg yesterday.

These bring to R1,5 million Sanlam's total donations to tertiary institutions.

"It is vital to eliminate the backlog in education and technology in order to give the people of southern Africa a future in which everyone can live together in peace and harmony," Mr Steyn said.

"Education and training promote a more just community because people are helped to realise their full potential. We have unlimited possibilities if each South African's full potential can be developed."

Education warranted Sanlam's support because of its essential role in promoting economic prosperity and its contribution to personal development and social progress.

Standard Bank earnings up 32,4%

Artis

Own Correspondent

JOHANNESBURG. — Powered by its huge asset base, the Standard Bank Group's earnings leapt by 32,4% to 143c a share in the half-year to June 1989 from the comparable period last year.

Taxed profit rose 33,8% to R144,4m, largely because the large asset base pushed net interest income sharply higher. The group's assets rose by 25% to R33,1bn because of strong demand for credit (advances rose by 24%).

The huge growth in lending volumes started tapering off in the first six months of this year as the economy moved slowly into a downswing.

However, the gentle slow-down had no impact because the group had already built up a large asset base.

Analysts said SBIC had ensured it was in an excellent position to achieve good profits in the peak of the current business cycle this year — traditionally a favourable period for banks' profitability.

Group MD Conrad Strauss said yesterday the commercial bank was the significant contributor to SBIC's profits, with Standard Merchant Bank retaining profitability and Stannic showing a decline in profits.

"Even though margins were slightly narrower, we saw the benefit of volume growth, not only in lending, but also in other revenues such as foreign business service fees and commissions."

Bad debt provision rose sharply to R67,5m, consisting of R35,2m in specific provisions. The latter represents an increase of almost three times from the previous interim — reflecting the start of the economic slowdown.

But Strauss commented: "This is symptomatic of the times but the figure is by no means cause for concern. The situation is much better than it was in the last downswing."

He added that banks' profitability ebbed and flowed with the economy, but he did not expect any dramatic weakening in the bad debt situation. The group was budgeting for "level-pegging" on bad debts.

An interim dividend of 32c a share was declared in line with the group's policy of declaring a third of the previous year's total at the half-year.

Strauss hoped that by the year-end the group's target of a cover of three times will have been achieved.

Standard sets hot pace for the banking sector

2/8/89. (58) Star

By Ann Crotty

The excellent results reported by Standard Bank Investment Corporation (Stanbic) certainly endorse the Institute of Marketing Management's choice of MD Dr Conrad Strauss as marketing man of the year.

For the six months to June, Stanbic reported a 32,4 percent surge in earnings to 143c (108c) a share.

A sharp increase in exposure to the home-loan market and reasonably strong corporate demand were major contributors to the results.

The performance is well ahead of market expectations and is all the more impressive considering it was achieved off a fairly high base and in a climate deemed to be unsympathetic to profit growth in the financial sector.

Results suggest there is no such thing as a good or bad sector, but rather, good or bad management.

With the exception of Nedcor, the investment community had come to expect pedestrian performances from major banks this year.

First National kicked off with a dismal 10,8 percent increase in earnings for the six months to March Shareholders were told much of the problem lay with government policy — holding down prime rate while the banks' cost of funds increased.

Next came Nedcor where a 26 percent increase in earnings (for the six months to March) was achieved after a massive transfer to the tax equalisation account.

Recovery phase

This performance was in line with expectations and to a large extent reflected the group's recovery phase, with the emphasis on enhancing returns on the existing asset base, rather than enlarging it.

Volkskas reported a 15 percent increase in earnings per share for the 12 months to March. Again there was an element of recovery in this performance.

Trust Bank has yet to release its figures for the 12 months to June. But at the interim stage earnings showed little improvement and analysts are not expecting a marked change in the second half.

Against this backdrop, the figures from Stanbic are excellent. One analyst said yesterday: "This earnings growth is what one would expect from an industrial company, not from a bank."

The figures reflect the benefits of strong management.

The directors say that although the group felt a moderate reduction in demand for credit, the rise in the asset base (from June 1988) produced an increase in net interest income.

"Satisfactory growth was achieved in revenue from foreign business, service fees and commissions," they say.

The only blemish is the surge in the specific provision for bad debt — up from R11,8 million to R35,2 million.

Dr Strauss says this does not include provision for Shareworld (written off in the last financial year), but is in line with the prevailing phase of the economic cycle, characterised by higher interest rates, inflation and unemployment.

Group operating profit before interest was up 86,2 percent to R1,8 billion (R994,4 million). Interest paid rose 95,4 percent to R1,6 billion (R842,4 million), leaving pre-tax profit showing a 35,4 percent advance to R205,9 million.

After allowing for tax, income from minorities, minority and preference shareholders, attributable income was up 32,4 percent to R140,1 million (R105,8 million)

The balance sheet shows little real growth in the six months under review. Investments were up 13,8 percent to R2 billion (R1,1 billion at end-December 1988) and advances were up 11,4 percent to R26,2 billion (R21,1 billion).

But growth from end-June 1988 looks far more significant, with investments up 87 percent and advances up 24 percent.

Helped by the march on the home-loan front (in the review period the exposure to this end of the market rose from R3 billion to R3,8 billion) and by good demand from corporate clients, the commercial bank turned in a strong performance.

Standard Merchant Bank maintained its profitability.

Ex-banker tells US . . .

Overseas banks 'are disguising SA deals'

58

Star

3/8/89.

By David Braun, The Star Bureau

WASHINGTON — A number of major European banks are via nominees and shadow accounts using their New York branches to disguise South African transactions, including those prohibited in terms of US sanctions legislation.

This allegation was made to the US Congress by Mr Terry Crawford-Browne, a former Nedbank manager and now advisor to Archbishop Desmond Tutu and Dr Allan Boesak on international financial pressure against apartheid.

He was giving evidence this week at a hearing of the House of Representatives' banking sub-committee on rescheduling of South Africa's foreign debt.

The chairman of the sub-committee, Mr Walter Fauntroy, said he would forward the allegations to the US authorities.

Asked by Mr Fauntroy if he could substantiate and document his allegations, Mr Crawford-Browne, a former manager with Nedbank, said there were no documents, but his former banking experience had placed him in a position to see what was going on.

Among the transactions prohibited by the CAAA, he said, had been payments for arms transactions.

Like drug-dealer

Mr Crawford-Browne said the guilty banks included Commerzbank and Bayerische Vereinsbank of Germany, Standard Chartered and Barclays banks of Britain, some of the Swiss banks and also the Bank of Tokyo, New York.

Mr Crawford-Browne singled out Citibank. Citibank's policies, he said, were rather comparable to that of a drug dealer.

"On the one hand Citibank got us hooked on easy credit of $700 million (R1,75 billion). Then the going got rough. Rather than attempt to rehabilitate us, Citibank completely knuckles under pressure from the SA Government and reschedules its facilities under the 10-year exit clause.

"It pleads that it has no leverage, and that its sole responsibility is to safeguard the interests of its shareholders. In the process, it has enabled the SA Government to trumpet that Citibank has confidence in its economic and political policies."

Mr Crawford-Browne called on Congress to censure Citibank for its irresponsible conduct.

(58) Finweek 4/8/89

not that proves optimistic, if economists' present expectations that interest rates may be easing during the first half of next year prove correct, that will bode well for Federale. Meanwhile, the return on assets has been rising steadily, and the dividend cover has been lifted to 4,1 times compared with 2,5 times in 1984.

Even if EPS increase by only about 10%-12% this year, the prospective p:e would be about 4,3 times. The share is worth accumulating around current levels. *Andrew McNulty*

(58) Finan 4/8/89.

INSURANCE (58)

Soft-boiled

Is the outer edge hardening or are insurers — and ultimately consumers — about to get egg on their faces?

The insurance market has been described as "dangerously soft" and the rate war as "the worst since tariff controls collapsed in the mid-Seventies." But premiums in most sectors continue to soften.

The only hint of hardening comes from increases in motor premiums by some companies. Auto and General (A&G), for example, have advised clients rates will rise 20% from September 1. "The 60% surcharge on imported spare parts, a sharp increase in the repair cost of damaged cars and continuing increasing inflation are the main reasons," says A&G MD Steve Klinkert.

SA Insurance Association (Saia) chairman Ron Carter says: "This might be the start of some increases in motor insurance premiums and possibly domestic insurance, but commercial and industrial rates aren't likely to harden for some time yet."

In the face of no real growth in the commercial and industrial markets and the worldwide soft cycle, local insurers have found themselves in an increasingly competitive environment. "The size of the market is very limited here and everyone is fighting over the same piece of the pie," Carter says. "We don't have the option of looking for business overseas."

Which is what overseas insurers, justifiably, are doing in SA. With a reduction in income from the US, Lloyd's and other underwriters have been looking for alternative markets and have come to SA offering rates and cover most SA insurers are unable to equal.

So, though members of the local industry complain about increasing expenses and diminishing premium income, they cannot raise rates because of competition with overseas operators and each other.

With increased competition combined with the required strengthening of the capital base, insurers have found their free reserves under pressure.

"Dissipation of free reserves from whatever cause will of course eventually affect shareholders," says Carter. However, he sees record underwriting profits over the past 18 months carrying insurers through until the beginning of next year, when the effects of a soft market will take their toll on bottom lines.

"The rate war could see some of the smaller companies facing extreme difficulties," says Allianz MD Tileman Fischer.

Carter

Fluctuations such as interest rate movements have a much greater effect on cash flow in a company which is operating on a fine edge. Lower interest rates will erode the capital base as investments earn less — and, if the base isn't strong at the outset, it could dwindle to dangerously low levels.

Saia and the SA Insurance Brokers Association are to meet shortly to discuss the consequences of the soft market and steps which should be taken to avoid market instability ■

Fmail 4/8/89.

HOME LOANS (58)

Rate for the risk

The relationship between risk and return is clear to every investor. The higher the risk, the higher the return expected. In the sophisticated world of corporate borrowing, this ratio is well understood and those who are not blue-chip borrowers expect to be charged more for their funds than the wealthiest clients who qualify for the best rates going.

To mortgage holders, however, the concept is not so familiar because provision of home finance (via building societies) started as a community project rather than a business.

Initially, members who subscribed to building society funds and people who borrowed them were identical and, when all the members were adequately housed, the society terminated. Later, the system was extended to allow permanent building societies to provide loans for homes on a continuing basis — financed from funds raised in the retail market at a comparatively modest cost. More recently, changes in financial markets have driven societies to the corporate market for their funds, where they are far more costly.

So, with profits turning on tiny margins, building societies — and banks now also heavily involved in property loans — are considering alternative ways of structuring mortgage loans.

Differentiated rates which relate to the risk profile of a borrower and the administration costs of the loan are being considered "by all financial institutions," Perm MD Bob Tucker said last week at a press conference to announce his organisation's sponsorship of the Institute of Estate Agents' convention later this year.

"At present, whether you borrow 90% or 50% of the purchase price, whether your bond profile is high risk with high administrative costs or low risk with low administrative costs, you pay a flat rate. There is now consensus in the banking and building society industries that to get the market mechanism working so people can get the funds they need, we have to eliminate this subsidisation. The bond rate must be determined with reference to risk and administrative cost profiles."

This is, as he points out, a logical development of free market principles.

What is not clear, however, is whether its introduction will help borrowers at the bottom end of the market, as Tucker claims. The lowest earners (and, therefore, less-favoured borrowers) with the smallest bonds (which means they carry highest administration costs) will attract the highest rates.

It will mean, of course, that lower-income borrowers can at least qualify for loans by increasing the ratio of interest payments to reduction of capital. Says Perm GM Denis Creighton: "If rates of return take into account administrative costs and if risk is adequately compensated for by the interest rate, more financial institutions will be induced to invest in this market (high cost, high risk) which would make funds more available and remove a bottleneck in the housing process." Which is fair enough.

On the other hand, he concedes, in these circumstances, "in the early stage of a long-term bond, the amount of capital reduction is negligible." If almost the entire monthly instalment goes to servicing debt, there is little room for manoeuvring when interest rates rise.

This produces a contradiction to the sentiments expressed in the speech with which Tucker preceded this announcement.

Speaking of the "vicious and at times destructive competition between financial institutions," he made several specific criticisms:

(58)

- "In the crazy scramble to increase home loan portfolios, we induced borrowers to commit as much as 30%-35% of monthly income to paying monthly instalments. When bond rates rose (from lower levels) to 19%-20%, this proportion became 45%-50%;
- South Africans used to have a minimum 20% stake in their homes. Now few South Africans have more than 10% and often have no stake at all. Worldwide experience has shown that, where an individual stake is reduced to below 20%, you get a significant drop in commitment to maintain the bond; and
- The life of the bond is extended to its absolute limit — 30 years — and virtually the whole instalment goes to servicing debt."

These reservations would most certainly apply to those low-risk borrowers, who take the opportunity now offered, to raise expensive loans. ■

58 4/8/89.

AA JTUAL

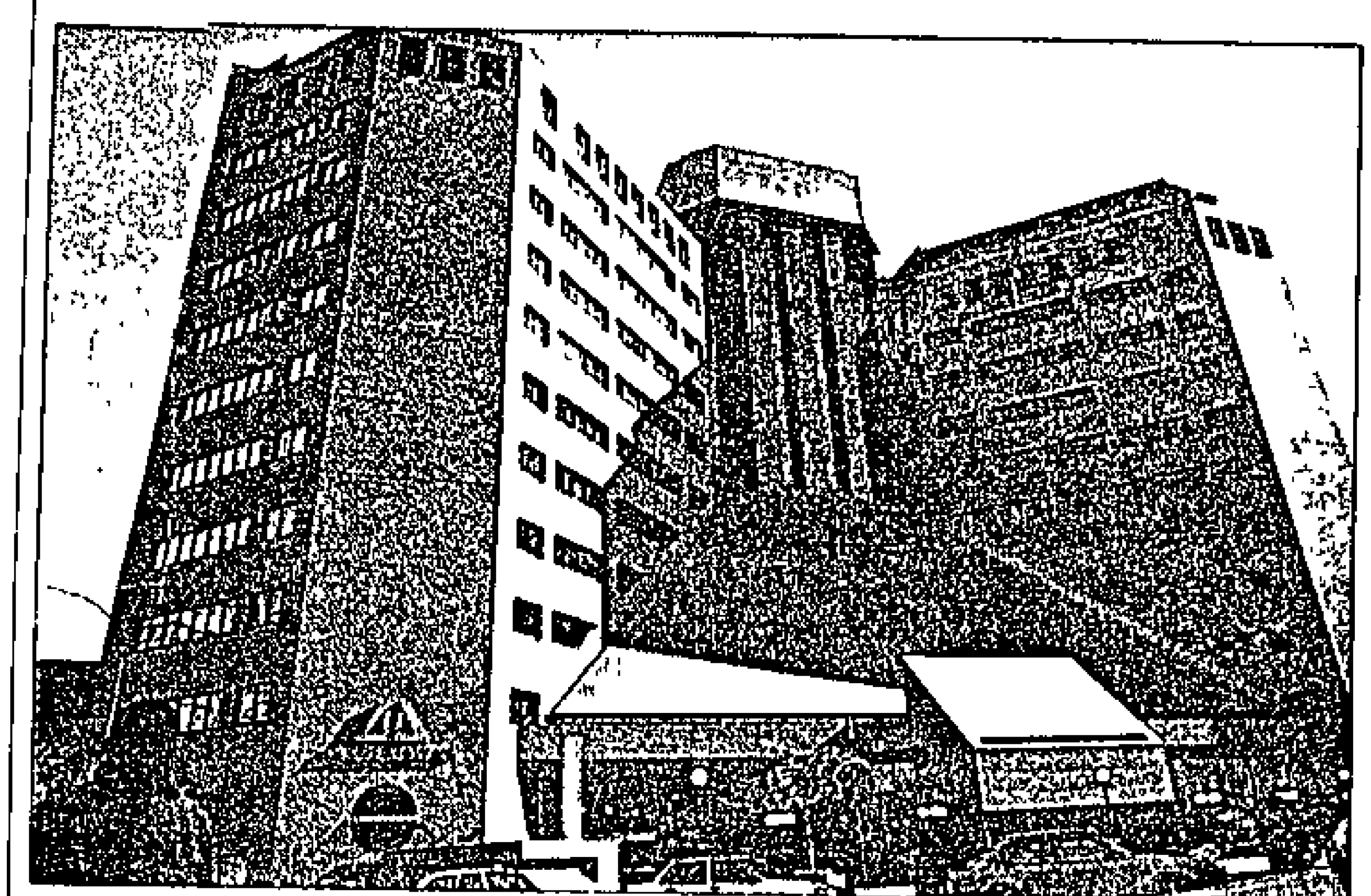
Dagonally opposed

A cou attle is looming to decide the fate of one Johannesburg's newer CBD office block velopments, AA Life Building in Diago Street.

Thoh the building, conservatively valued at tween R40m and R60m, represents one th iggest single assets of the liquidated short-tm interests of the AA Mutual Associatio nd lawyers winding up the company are keeo sell it, they are being thwarted by an ownship wrangle which will probably have to e resolved in court.

Davi Rennie, for the liquidators, explains the buiing was erected by the AA Mutual Compay in accordance with the conditions of a log-term lease entered into with the owner c the land. The company was granted an optio to acquire the land. The liquidators of the sprt-term business maintain that the right to exercise the option is a right which belongs to the business. They contend they will be able to sell the building once it has been exrcised.

The ompany, on the other hand, maintains that the right to exercise the option remains with it and is not an "asset" which was vested in the liquidators upon the liquidation of the short-term business.



Building may boost payouts to creditors

The liquidators have applied to the court for an order declaring they have the right to exercise the option and requesting the authority to do so. The application is being opposed by the company. No date has yet been set for the hearing.

The first prize for whoever wins the battle is a big one. However, the liquidators already have a valuable asset in the form of a head lease over the property which brings in estimated annual rentals of R5,6m from tenants. Nevertheless, if the liquidators also win the right to exercise the option, it should make a significant difference to the final payout to AA Mutual's creditors who, as it stands, are only expected to realise in the region of 50c in the rand.

With or without the option, the liquidators are sitting on a valuable asset. According to letting agents J H Isaacs, the 22 000 m², A-grade building is currently fully let, though a few, small, short-term leases are coming up for renewal.

Rennie says he would like to sell the building as soon as possible and he hopes the issue can be resolved before the end of the year. If the issue is decided in favour of the liquidators, the building will probably be sold by negotiation rather than through public auction.

"One tends to negotiate the sale for buildings which fetch a lot of money. We've had a lot of organisations express an interest in buying the property. We will probably go back to them and negotiate on the basis of the best offer."

Just what would an institution or company be buying if it bought 27 Diagonal Street?

Certainly, it is ideally located in the financial district right next to the JSE. As such it is well suited as premises for stockbroker tenants. The largest and first tenant, in fact, was Davis Borkhum Hare.

Others include Mathison & Hollidge, Pinnacle Merchant Bank and AA Life, which holds the naming rights and claims it would be interested in buying the property if the price was right.

Since most of these leases were probably negotiated a few years ago, one can assume that the larger tenants pay rentals in the region of R17/m² (net). Added to this would be about R250/m² for Deals Restaurant on the ground floor and about R170/bay for 440 basement parking spaces. The yield on the building is probably about 9,25%.

Though the building is next to the JSE, it is still on the fringes of the financial district until further development takes place in Newtown to the west. When this happens, there is likely to be intense competition from owners of newer buildings attempting to lure key tenants away with highly competitive leasing packages.

However, this is unlikely to deter institutions interested in buying the property; the lure of a ready-built and occupied A-grade building would make an extremely attractive addition to the property portfolios of any one of a dozen institutions active in the Johannesburg CBD — including Old Mutual, Sanlam, Sage and, of course, Ampros, which is particularly active in this part of town. ■

RETIREMENT VILLAGES

Life rights or wrongs

Retirement homes are reportedly the third-biggest market after fast foods and second-hand cars in the US.

In SA, the emotive issue of housing the elderly may never reach those proportions, but it's certainly gaining in importance. Analysis of the different schemes through which pensioners may acquire their retirement homes is now becoming imperative.

The simplest option is for the elderly to buy a unit in a retirement village on a sectional title or shareblock basis. But, latterly, high costs have forced many to consider purchasing life rights.

The basis of life rights schemes is that the purchaser buys, either with a lump sum or a bond, the lifetime right to occupy a unit in a retirement village. The main advantage is that the buyer lives rent-free, except for levies, for the rest of his or her life at a lower cost than freehold purchase permits

The downside is that the unit remains the property of the village operator. In the event of death, the occupier's estate receives only the initial lump sum down-payment — with no accumulated interest or consideration for appreciation in the unit's value.

Some developers, such as Darrenwood Leisure Village (DLV), chose not to take the life rights route. DLV MD Larry McFarlane says it was because there seemed little advantage to the buyer.

But life rights exponents, such as Sanlam Properties MD Hendrik Bester, stress the schemes are not intended as an investment, but as an assurance of accommodation for life with no hidden charges (Sanlam guarantees the level of future levies).

Bester says Sanlam intends selling units on life rights, but it has devised a variation in which the tax implications have been taken into consideration. "We have consulted two leading tax specialists and we are at present clearing it with, among others, the Receiver. We don't expect a problem."

Nevertheless, it is becoming increasingly evident that there can be tax pitfalls both for unwary developers and buyers of units under life rights schemes (*Economy* July 21).

Fmail 4/8/89.

SAAMBOU 58

Wrong tack

A R6,7m loss incurred by the building society subsidiary of Saambou Holdings in the capital market was the result of a miscalculation about the extent and direction of interest rate movements.

The loss was announced last week by holding company chairman Hendrik Sloet, at the shareholders' AGM. "It had only recently come to the attention of the directors," he said, "that certain transactions had been concluded in the capital market division of (the building society) without the authority of the executive management or directors and that these transactions had not been recorded in the financial records."

Sloet told the *FM* that "a view was apparently taken during the latter part of 1988 that interest rates would increase gradually and remain at higher levels, but would start declining during the second quarter of 1989. As a result of the fact that interest rates hardened to a greater extent and remained at the higher levels for a longer period than anticipated, the market value of stock declined, resulting in the loss."

He revealed that the losses related to repurchase agreements entered into with other financial institutions — but would not confirm rumours that Saambou's close relationship with these institutions was terminated last week.

Saambou has not disclosed the volume of stock involved. But based on the movement in interest rates during the latter part of 1988 and early 1989, one can assume a fairly substantial holding must have been involved.

Sloet

However, all the damage may not have been suffered on the upward leg of the interest rate move. There is speculation in the market that, as rates turned, the dealers reversed strategy and started writing call options, leaving Saambou open to losses incurred when rates went down.

Since the losses "came to my notice," says Sloet, "we have embarked on a completely new system of controls." However, he believes he would be able to defend himself from any criticism arising out of the failure of the previous system. "Whatever rules you have you can never ensure they are not circumvented."

He was not prepared to say what action would be taken against the employees but said he did not believe in "throwing people out on to the street." There are reports that an employee has been suspended but this was not confirmed by Sloet.

The R6,7m realised loss from the sale of the repurchased stock will be written off in the current year. "A R6,6m holding cost for the unsold stock (measured at present levels of interest rates) has already been provided for in the current budget," says Sloet.

He adds that revised projections indicate a profit for the year ending March 31 1990 which would be slightly lower than this year's R18,4m after-tax profit. And, "we will be paying a dividend and strengthening our reserves," he said. The effect of the losses is to eliminate what he had hoped would be a substantial rise in profits in the current year.

☐ Saambou Holdings' results for the financial year ended March 31 1989 show: total assets, R3,1bn; mortgage advances granted, R693,6m; general advances due, R115,3m; total reserves, R101,5m; net income after taxation, R18,4m; issued share capital, R85,3m; EPS, 21,6c; dividends per share, 11,5c; and net asset value per share, 225c. ■

US opposes ban on reschedule of SA debt

Cape Times 2/8/89

58

From SIMON BARBER

WASHINGTON. — The Bush administration opposed any attempt to prohibit US banks from rescheduling their loans to SA, a senior Treasury official told Congress yesterday.

Such a ban would result in $2,6bn SA "windfall" — the value of SA's outstanding debt to the US — while effectively cutting the capital base of the nine largest US banks by 3,4%, said Richard Newcomb, director of the Treasury's Office of Foreign Assets Control (OFAC).

He added it was legally questionable whether SA could be held liable for defaulting on its US loans if it did so as a result of Congressional action.

He was speaking before the House Banking Committee's Subcommittee on International Finance which is studying ways of complementing Commonwealth proposals for new financial sanctions.

John Lind, director of the California-Nevada Interfaith Centre on Corporate Responsibility, argued that if all creditor banks would demand principal repayments of $1,65bn annually starting in 1990, this would "cause maximum strain on the SA economy in 1990-91, without causing default and possible loss to US banks".

Lind added that this figure had been "confirmed as reasonable in discussions with banks."

Bank representatives declined to testify.

Rand closes steady

Forex losses: Huge bill for taxpayers

w/c Argus 5/8/89 58

From CLAIRE GEBHARDT
Weekend Argus Correspondent

JOHANNESBURG. — Taxpayers will have to foot the bill for R15,6-billion of losses incurred by the Reserve Bank through the depreciation of the rand, say economists.

The bank provides foreign exchange cover for importers, guaranteeing them against swings in exchange rates where they have to pay for goods in foreign currencies.

Losses on the Reserve Bank's forward cover operations have soared to an estimated R15,6-billion from R2,6-billion in March 1988.

The losses represent a R12-billion increase in 16 months says Volkskas economist Adam Jacobs.

Shrinking rand

In September last year the accumulated losses amounted to R7,4-billion. Since then the figure has more than doubled in the wake of a steadily depreciating rand.

"The government cannot go on raising taxes so it simply prints the money and we are paying the price in the form of higher inflation — an invisible tax," said Mr Jacobs.

However, Deputy Governor of the Reserve Bank Dr Jan Lombard says the inflationary effect of these negative cash outflows has already been felt.

"From the bank's point of view the losses are a paper figure on the accounts but because of legal considerations it cannot be written off."

He says there is no reason why this debt should call for any increase in taxes.

"The crucial issue for the Reserve Bank is that the redemption of the claims can be undertaken whenever domestic financial conditions make that appropriate.

"Next year, if the dollar weakens, we could have an inflow of cash which will reduce the debt or we might find that we have such an improvement in the price of gold that we have a lot of liquidity in the market. This would mean that we could float government securities and book this against the debt."

Economists, however, view the losses in a serious light.

Mr Jacobs labels the losses as an "involuntary" creation of huge quantities of credit which fuels inflation through higher money supply growth and further depresses the rand.

Effectively, the government is subsidising imports by making the import bill too cheap for the importer, he says.

Unlike dealers in the market, the Reserve Bank cannot protect itself by balancing its book. It is constrained by limited holdings of foreign currencies and is suffering continual one-way losses because of deteriorating perceptions of the rand.

Most economists are pessimistic about the bank's ability to withdraw from the market because of the parlous state of the country's foreign exchange reserves.

Mr Jacobs puts the figure for net reserves at minus R1,4-billion.

Standard Bank economist Nico Czypionka says that in the short term there is little to be done about the losses, but adds that the Reserve Bank cannot continue to carry these numbers ad infinitum.

"It is a matter of concern, either taxes must be raised or the figure must be added to the public debt.

In the latter case, the taxpayer still foots the bill as interest must be paid on the debt.

The Reserve Bank's undertaking in December to provide preferential forward cover rates over the next few months represents a subsidy of importers by the Reserve Bank, and indirectly the taxpayer, he says.

United Building Society economist Dr Hans Falkena says South Africa's interest rates are out of line with major trading partners.

"The cost of capital is an international commodity. We are incurring the cost of being out of line with the rest of the world and the result is a weak rand and continuous losses on the forward cover book. Either we put up interest rates by another 2 percent or we put up with foreign exchange losses."

Printing money

He agrees an interest rate increase would accelerate the downturn in the economy but says this is the reality the country has to face.

Mr Ulrich Joubert, Trust Bank's chief economist, says the losses can either be refunded by printing money or otherwise by a transfer from the Treasury to the Reserve Bank. In either case the taxpayer pays.

"Looking at the balances of the Treasury, there is a large surplus at the moment. Bearing in mind that we expect a weakening of the economy next year and a decline in the growth rate of revenue, the authorities should be careful how they apply these funds."

UK bankers ready to rescue SA economy

Cape Times 5/8/89

58

By AUDREY D'ANGELO
Financial Editor

BRITISH bankers are looking for an excuse to rescue the SA economy, Denis Worrall, co-leader of the Democratic Party (DP), told members of the Seeff/-Cape Times Executive Breakfast Club yesterday.

He said that on a recent visit to London he had asked an influential banker whether SA was considered rescuable.

The banker told him SA was not considered in the same light as a Third World country.

SA had so much going for it, including the fact that it was in a commercially strategic position between East and West, that it was "not only rescuable but it is considered desirable that it should be rescued. We are looking for the excuse for a formula to do so".

However, said Worrall, the outside world was expecting a signal from white South Africans in the September election that they were ready to end apartheid and build a new SA.

If this did not come there would be pressure on West German and British bankers not to reschedule SA debts. It would be more difficult to get SA goods into Europe after 1992, when there would be greater scrutiny of imports from outside the EEC.

Worrall said British companies were already finding it harder to make worthwhile profits in this country because of the weak rand, which discouraged further commitment. And the Dellums Bill threatened British companies operating in both the US and SA.

Discussing the state of the economy, Worrall said this was a major concern of the DP, which was constantly encountering dissatisfaction.

Enormous savings could be made in government expenditure by abolishing the apartheid structure, which had resulted in wasteful duplication such as the cost of running 13 different education departments.

There had been a tremendous growth in the public service. No more jobs should be created in it and sections of it should be privatised and run on a profit basis.

The weak rand, which resulted in imported inflation, reflected a lack of confidence in this country.

Asked if the DP's commitment to a free enterprise society was compatible with the views of black groups, Worrall said it fitted in with those of Inkatha.

The ANC was in the process of adjusting its views, influenced by developments in other African countries.

But the trade unions inside SA had not yet been exposed to these changes in outlook.

Countries meet over boycott call

CA-7475
8/8/87
58

CANBERRA. — Tough new financial and trade sanctions against South Africa, being discussed by a special committee of Commonwealth foreign ministers here this week, have been overshadowed by the prospect of rebel English cricketers and British Australian rugby players going on tour later this year.

Fears of a boycott of next January's Commonwealth Games in Auckland have embarrassed the British and Australian governments at the worst time possible — and angered the New Zealand government.

New Zealand's foreign minister, Mr Russell Marshall, who was not due to attend the meeting, is to make a special trip to meet both the committee and anti-apartheid groups in Canberra tomorrow.

Black African representatives, in Canberra to lobby the foreign ministers, say Britain has disqualified itself from taking part.

"If I were an organiser of the Games," said Sir Shridath Ramphal, the Commonwealth Secretary-General, "I would be very troubled," he said referring to the "shabby" proposed South African tour.

"But we must be very careful that in our own righteous anger we do not lose our heads.

"We do nothing by making the athletes of the Commonwealth the effective target of our response."

While opening the conference yesterday the Prime Minister, Mr Bob Hawke, again made an impassioned appeal to the rugby players not to go. He ruled out the possibility of withdrawing passports. "This is a free country," he said.

Mr Joe Clark, the committee's chairman and Canada's Secretary of State for External Affairs, said yesterday that he hoped to be able to head off a boycott of the Games by promising to provide developing Commonweath countries with financial assistance to hold the Games in future years.

The foreign ministers are in Canberra to consider a controversial report which proposes that the Commonwealth phase out all trade with South Africa over the next five years.
— Daily Telegraph

Aids victims claim R3-m

AN insurance company executive said yesterday his organisation had received claims totalling nearly R3 million as a results of Aids cases.

Desmond Smith, senior general manager of Sanlam, was speaking at the South African Medical Research Institute in Johannesburg where he handed institute director Professor Jack Metz a donation for the institute's Aids centre.

Mr Smith said Sanlam has so far received 14 death and disability claims as a result of Aids.

Two claims had to be turned down because essential information had been withheld and one because of suicide. Currently two claims were under consideration.

"An extremely disturbing aspect of the claims is not only the amount of money involved - Sanlam can absorb it because we created a reserve of R200 million to cope with Aids claims - but the fact that the majority of the claims arose from professional people - in all cases males, men who in most cases spent years studying and training in preparing themselves for their careers.

"For South Africa, with its shortage of trained people, such claims are indeed a blow. They underline the great value of the educating and counselling being done by ... Aids centres."

58

Smith added that in view of these facts it was understandable that Sanlam had to take further steps to protect current and future policy-owners against excessive payments as a result of Aids after it had initiated stricter selection of policy proposals. - Sapa.

Stals takes over Governor's seat

CPT TIMES 9/8/89 58

PRETORIA. — Dr Chris Stals has been appointed Governor of the SA Reserve Bank as from yesterday, following the sudden death of Dr Gerhard de Kock on Monday.

The Minister of Finance, Mr Barend du Plessis, said in a statement that: "As previously announced, Dr Chris Stals was appointed Governor of the SA Reserve Bank with effect from November 1, 1989.

"Because of the sudden passing away of Dr C P G de Kock, President P W Botha has approved that Dr Stals be appointed from today, August 8."

Top positions in the Department of Finance were suddenly left vacant after the premature departure of Dr Stals.

His move leaves open two important positions previously held by the new governor — special adviser to the Minister of Finance and chairman of the Taxation Standing Advisory Committee.

Another potential problem is created by Dr Stals's duties as South Africa's chief debt negotiator. He will effectively be doing two full-time jobs: Running monetary policy and negotiating a new payment agreement on South Africa's debt caught in the standstill net.

Dr Stals yesterday acknowledged that it would be difficult to combine both positions.

"But I will continue as chief debt negotiator until we have reached consensus with our creditor banks. The foreign debt situation is delicately poised at the moment with political pressure mounting."

He said he would not be able to continue as chairman of the tax committee and that a replacement would have to be found soon. The same went for his position as special adviser.

The Department of Finance has also not yet filled the post of Chief of Policy, left vacant by the promotion of Mr Gerhard Croeser to director general.

Mr Croeser is being mentioned as the most likely candidate to take over from Dr Stals as chairman of the tax committee, which has the task of formulating tax policy.

Another name mentioned for that position was the current deputy chairman, Mr Michael Katz, but a senior civil servant said it was unlikely the position would go to someone from the private sector.

Another possible was the Commissioner of Inland Revenue, Mr Hannes Hattingh.

Dr Stals has not yet moved into the Governor's office on the 32nd floor of the Reserve Bank, as he still has a few loose ends to tie up before he goes. — Sapa and Own Correspondent

Thatcher no to new sanctions

Cape Times 9/8/89

CANBERRA. — Tough new trade and financial sanctions against South Africa have been agreed to by Commonwealth foreign ministers meeting here. The sanctions plan will be put to the Commonwealth summit in October for a final decision.

But British Prime Minister Mrs Margaret Thatcher will refuse to impose the new sanctions, it is reported from London.

Mrs Thatcher has remained silent but Whitehall officials said there would be no change in the British government's policy that dialogue with South Africa must be encouraged and would be harmed by increased sanctions.

Australian Prime Minister Mr Bob Hawke, however, gave prominent support to the sanctions move.

High interest

Foreign ministers from eight countries recommended that the Commonwealth nations discourage all governments from granting South Africa credit in trade deals, which they said had cushioned South Africa's balance of payments. They want future credit deals restricted to a maximum 90 days.

They also recommended asking banks to impose stringent repayment terms on South Africa's $12 billion (R32m) foreign debt, which is due in June 1990.

The ministers also proposed the establishment of a monitoring body to watch the international finance community's links with South Africa.

The Commonwealth will also urge banks to charge South Africa the highest possible interest rates and reject any attempt to extend repayment over 10 years.

Canada's Secretary for External Affairs Mr Joe Clark said: "We want to exert the most stringent possible pressure on South Africa at a critical time."

Pik Botha's plea

Last night Mr Clark, who is chairman of the eight-nation Commonwealth committee, consisting of Australia, Canada, Guyana, India, Nigeria, Tanzania, Zambia and Zimbabwe, denied that the committee's white and black members had been divided.

"Obviously there are different views on things that might be done," he said. But he said there was complete agreement that sanctions would be maintained and increased "until we have seen real change in the apartheid system".

Yesterday South Africa's Foreign Minister, Mr Pik Botha, released the text of a letter he had sent to Mr Clark, urging the Commonwealth ministers to reconsider their sanctions stance.

Mr Botha said recent "authoritative and independent surveys" indicated that most South African blacks rejected sanctions He also said South Africa had proved its commitment to peace in Southern Africa by agreeing to grant independence to Namibia and encouraging talks between warring factions in Angola and Mozambique.

Last night the chairman of the Debt Standstill Co-ordinating Committee, Dr Chris Stals, said: "This is the kind of political pressure South Africa has encountered before

"As chairman of the committee I would prefer not to make any comment at this time," he said.

To page 3

From page 1

Cape Times 9/8/89

The Minister of Finance, Mr Barend du Plessis, was not available for comment last night.

But Sapa reports that Democratic Party finance spokesman Mr Harry Schwarz said his party rejected the "negative, destructive attitude" of the Commonwealth foreign ministers towards South Africa.

He said the refusal to extend by reasonable periods or to allow reasonable repayments as well as seeking to impose punitive interest rates would cause serious harm to the South African economy, inhibit growth and create further unemployment.

And DP co-leader Dr Denis Worrall said all indications were that "a considerable head of steam" was building up within the Commonwealth against South Africa.

Speaking at a meeting in Cape Town last night, Dr Worrall said: 'And, once again, if there is no major change in the political situation, this country will be relying on Mrs Margaret Thatcher to come to our assistance."

Dr Worrall said that if Mrs Thatcher "stays off" these sanctions against SA, there would be other "pressure deadlines" down the track.

In 1990 there was an election in Germany and Chancellor Helmut Kohl would be under great pressure from opposition parties, as well as its coalition partner. — Political Correspondent, Sapa-Reuter-AP and Daily Telegraph

(With reports by A Johnson, 122 St George's Street, Cape Town, and A Carlisle, 141, Commissioner St, Jhb)

TransAtlantic lifts earnings by 15 pct

(58)

9/8/89

Finance Staff

Liberty Life's UK investment arm, TransAtlantic, increased its pre-tax profits by 27,5 percent to £33,8 million (£26,5 million) in the six months to end-June.

TransAtlantic chairman Donald Gordon announced yesterday that earnings per share rose by 15 percent, from 7,07p to 8,17p, while an interim dividend of 5p was declared.

Net asset value per share of TransAtlantic, in which Libery Life holds 48 percent, breached 400p for the first time, although Mr Gordon points out that this does not take into account recent property re-evaluations.

The group raised its stake in Capital & Counties by a further £12,7 million to 74,6 percent of the equity. The subsidiary is currently developing the Thurrock's Lakeside shopping centre, which is set to open next year, while three major retail developments are also under construction.

TransAtlantic's other major investments remained static. Its stake in Continental and Industrial Trust was raised slightly to 41,7 percent of the equity, while its interest in Sun Life was virtually unchanged at 29,9 percent. The valuation of this stake, however, increased by £30 million to £181 million following on the contracted battle for control of the group last year.

Business Day

SURVEY

***INVESTMENTS FOR THE OVER 50s** require astute planning. For instance, the average taxpayer outlays almost twice the real tax of 10 years ago. But SA's economic ills are boosting equities and property syndications, meaning short-term investments are challenging the long-term market in the form of new products designed to spread the risk — but life assurance lives on.*

***LYNN CARLISLE** reports.*

Major problems plague investors

OLDER investors must broaden their outlook and plan their finances with great care if they are to build up and preserve a decent nest egg.

They face two major problems — inflation and a lack of a sound knowledge of the investment arena, says First Personal Asset Management MD Ken Burgess.

Add rising taxation, which is reflected in government departmental exchequer issues rising from 22% of gross national product in fiscal year 1982 to 27,4% last fiscal, and the task is formidable.

While the average taxpayer outlays almost twice the real tax he did 10 years ago, Ernst & Whinney international tax division's Ray Eskinazi adds that a married man earning R40 000 annually works almost 12 weeks to pay the Receiver, with a Briton (£20 000) and an American ($40 000) slaving just five weeks for their taxmen.

In SA there are no short-cuts to successful accumulation of wealth, as all proven strategies require patience, focus, discipline and effort.

Still, the process can be accelerated by skilful asset selection and prudent changes to the asset balance of one's portfolio when viewed as a whole, says Fedlife investment division GM Fraser Simpson.

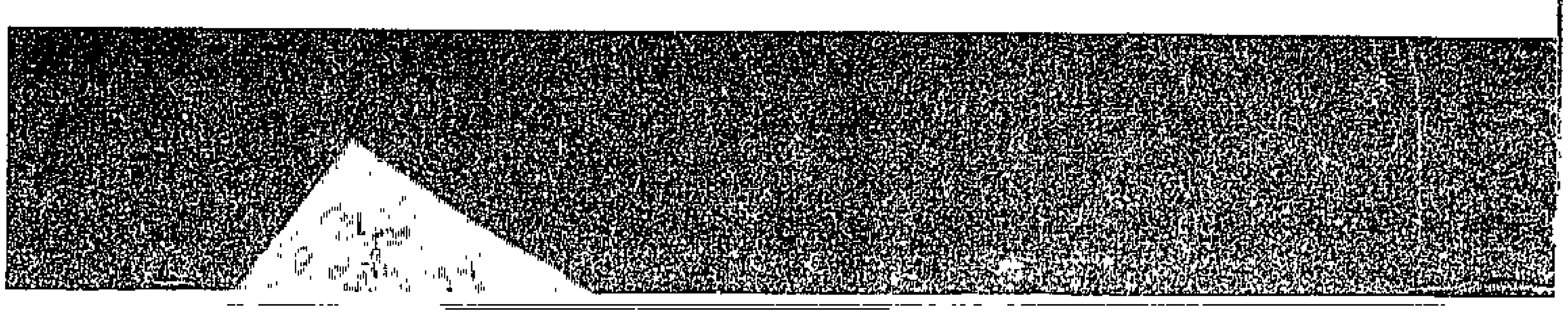
Looking at these problems, inflation was last at single figures in 1973 and has since fluctuated between 10% and 18%.

There is little to encourage anyone that this will drop much from its current 15,7% in future years.

Seen differently, the buying power of R100 in 1979 is, 10 years later, less than R30. By 1999 a loaf of bread could cost R3.

On this basis it is of little use to invest all one's funds to generate high income at the expense of capital growth.

Burgess says that with



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Investment for the over 50s

Getting older gets better

FINANCIAL institutions are actively targeting the senior citizens market by offering packages to suit the overall needs of this sector of society.

Being a stable market, higher-than-normal interest rates and the convenience of one-stop banking for older investors — particularly those who have paid off home loans and have their children off their hands — are on offer.

Standard Bank personal banking services GM Bill Mansfield says the prevailing high interest rate scenario enables institutions to offer investment interest rates well in excess of the rate being earned on the current series of "granny bonds".

"It can be said with reasonable certainty that maturing granny bonds are being reinvested in ordinary fixed deposits with the banks and building societies."

In most instances, the elderly are very concerned with the income earned on their investments and on maturity — the capital amounts are generally reinvested.

"This provides a stable resources base to the banks, which they strive to increase by offering specific concessions or packages to senior citizens," says Mansfield.

UBS marketing GM Tienie van den Berg says demand for granny bonds will taper off as government is only prepared to match up to 15% interest rate over the 12-month fixed period after May next year.

This is reinforced by more investors becoming aware that a growing number of financial institutions are offering investors better deals made possible by higher interest rates.

Some more recent examples are the United's "bonus deposit" and Standard's "consolidator" package

While many senior citizens will face the quandary of where to invest their money when their granny bonds mature next year, Van den Berg says United's "bonus deposit" has not been set to outperform the granny bond.

Offering a 12-month starting rate of 16,5% with an additional 0,5% for people over 60, bonus deposit starting rate may rise by up to 2% if prime interest goes up.

"But should prime fall, the rate earned on bonus deposits is guaranteed not to fall below the starting rate for the specified period of the investment."

Standard's consolidator is an all-in-one plan for the over 60s which provides free banking, access to a range of investment products, a preferential interest rate (presently 17% for fixed deposits of 12 months), discounts on comprehensive insurance and travel and leisure offers.

Free estate planning is included while consolidator is linked to a hospital cash plan where daily payments for hospitalisation as a result of accident or illness are paid.

Trust Bank senior product manager Martus Claassen says all individual investors for 12 to 36 months get an up-front 5% bonus on the interest earned.

This effectively raises a rate of 17% to 17,85%,paid monthly or half-yearly.

Rate-guaranteed deposits are available to senior citizens. When a 12-month deposit is made, Trust guarantees this rate, or higher, for another 12 months if the client extends the deposit for another year.

People aged 55 to 64 years with "supertrust" accounts will get paid a 10% bonus on interest earned on December 1, says Claassen.

For example, on at least R75 000, the nominal interest is 14,75% compounded monthly, which effectively increases to 17,37%, assuming the interest remains in the account for the year.

Citizens aged 65 upwards are paid a 20% bonus in December, giving them an effective rate of 18,95%, assuming interest is not withdrawn periodically.

Other major banks also offer competitive interest bonus rates plus a wide variety of free or subsidised services to older people.

Participation bonds (part bonds) present an opportunity to benefit from the development of prime space, such as in multi-million-rand buildings, for as little as R1 000 with some part bond managing companies

Board of Executors (BOE) regional GM, Transvaal, Mike Hyslop says part bonds — along with property syndications and managed share portfolios — rank among the top investment options for the over 50s.

Combining an inflation-beating return with security, the decision to invest in any of these is governed by the amount of money available and the period it can be invested.

The beauty of part bonds is they are always subject to a guaranteed minimum interest rate, usually paid quarterly in advance but which can still go up — a reassuring factor in these economically volatile times.

Provided an investor can tie his money up for five years, he stands to receive market-related interest payments quarterly or monthly in advance.

Nor does the investor get locked into a rate which, in time, may prove to have been at too low a level says Hyslop

"Any change in the rate of interest is also subject to three month's notice being given "

Thus, at a nominal rate of interest of 18% paid quarterly in advance, part bonds yield an effective return of 20% The minimum floor rate is 11%, he says

Not forgetting the important lessons arising after the high interest rates of 1984 85, Masterbond Trust marketing director Jack McLeod says should interest rates soar, or patterns seem uncertain, investors may consider the longer term advantages of fixed-rate part bonds.

This means that as soon as rates come off, they stand to score handsomely in the years ahead

McLeod says options which add to the flexibility of part bonds include

☐ Selecting a fluctuating rate linked to a minimum floor rate, which provides protection against falling interest rates, or

☐ Selecting a fixed rate which assures the investor of a continued steady monthly income.

"Investors at Masterbond can further improve returns and obtain capital growth by investing their monthly interest in a unit trust or alternatively use the interest to fund annuity premiums "

He says part bonds can also be linked to a number of other investments such as quoted shares and property participation investments — both of which provide the necessary capital growth element

While most investments today entail a degree of risk, few people can afford high risk as they don't have much to invest. Besides, what they possess often represents their only source of income.

But part bonds are said to be as safe as houses.

NBS part bond manager MD Mike Maidment says the part bond industry growth by about 7,5% last year was partly attributable to its low-risk nature, which appeals to investors who are mainly to the middle-aged or pensioned investors

SA Association of Participation Mortgage Scheme Managers chairman Al Human says there is no record of any SA investor ever having lost a cent through investing in reputable part bonds.

People drop dead financially but remain physically alive

TWO major problems confront South Africans reaching retirement age, say advisers, inflation and the strong possibility retirees may live too long.

Due to medical advancement, people generally live longer, but in SA one's real income is progressively eroded.

Thus most South Africans have an outstanding chance of "dropping dead" financially before physically dying

They have been outliving their retirement provision for a variety of reasons.

Retirement Planning Services director Leon Bredenkamp says the buying power of money halves every 4,7 years.

In other words, R1 000 a month at retirement now will reduce to R12,50 in 14 years at the current inflation rate.

In the year 1900 the average male expectancy worldwide was 47 years; today it is 67 years while among white male South Africans it is 74,6 for men and 78,8 years for women.

To ensure they don't end up destitute, Bredenkamp suggests members of pension funds should investigate the rules of their funds and determine their actual benefits.

"People falsely believe that being a member of such a fund sets them up for retirement. This is not so," says Bredenkamp.

Most funds equate to 2% of salary for every year of service. The average service in a penion fund in SA is about 15 years At 2% of salary this yields 30% of final salary.

A person with 40 years service would retire on 80% (i.e. 48 000) of his final salary (R60 000).

"This could prove inadequate if proper planning and provision through additional investments to supplement pensions are not made."

Old Mutual's (Natal) Steve Manning agrees that a lifetime of sound nutrition and improving medical facilities have ushered a large proportion of retirees into a killing zone where they are hunted down by inflation

For example, if inflation averages 18% then after only four years that R48 000 pension would be worth only R24 000 and only R12 000 after eight years.

Pension increases seldom — if ever — are anywhere near the rate of inflation.

Liberty Life deputy investment marketing GM Harry Brews says many over 50s are finding themselves in the position of not having enough money to retire on.

"Unless the company is generous in providing after-retirement increases, people relying solely on their pension fund will be in trouble," he says

A survey shows that out of an average of 100 people aged 25 years today, by the time they reach retirement aged 65 years, 34 will have died and, based on current averages, 10 will be receiving a State pension (R185 a month) while only six will be financially secure

Wives are often forgotten and some planning should go into this aspect.

Says Bredenkamp · "As we tend to live longer, we should consider planning for periodic injections of capital/income up to the age of 75 or even 80 years.

"Then we should structure retirement benefits in such a way that any income we receive will escalate yearly from the actual retirement date as inflation will start to decimate this income from the outset."

Wives are often forgotten and some planning should go into this aspect.

"If we consider that a woman's longevity is greater than a man's and that a man normally marries a woman younger than himself, it stands to reason that most married women must end up as widows."

Remember also that most pension/annuity income is guaranteed in the main for 10 years only.

This could be disastrous when a husband passes away For those nearing retirement, counselling with a qualified adviser is vital.

Such advice is available from lawyers or at less cost from Institute of Life and Pensions Advisers (ILPA) members,

"Many people pay more tax than is necessary at retirement because they have not carefully considered all the tax-savings options," says Cronje

Sage Life senior sales and development manager Henri Odendaal says the 1988 and 1989 amendments to the Income Tax Act brought about three significant concessions for many older taxpayers relating to retirement annuities (RAs):

☐ If a married women's remuneration is subject to SITE, the ceiling for tax deductible contributions has been raised by at least R875 a year and possibly much more,

☐ A married woman no longer has to obtain a tax directive for her RA contribution to be deducted for SITE purposes -- she merely has to furnish proof to her employer of the existence of her RA,

☐ Every married woman who has an RA will have tax after retirement, which can mean an appreciable deduction in the couple's after tax retirement income.

Odendaal says. "Any annuity payable to a married woman from an RA is subject to SITE and is taxed separately from her husband's income This separate taxation results in lower taxes."

Cronje says when retiring it should be as early as possible in that tax year.

Total income for the year should be kept as low as possible so as to pay a lower rate on any pension lump sum.

To make full use of tax concessions available, Cronje says.

☐ Lump sum payments will be tax-free only up to certain amounts,

☐ The taxable portion of the lump sum will be taxed at your average rate for the year of assessment in which you become entitled to it;and

☐ The taxable portion of certain lump sums may be spread over three years.

"By reducing taxable income, one lowers the average rate of tax and accordingly pays less tax on the taxable portions of the lump sum payments."

Cronje further suggests one should plan for RAs to mature in a tax year after retirement while increasing RA contributions in the year of retirement to the maximum allowed

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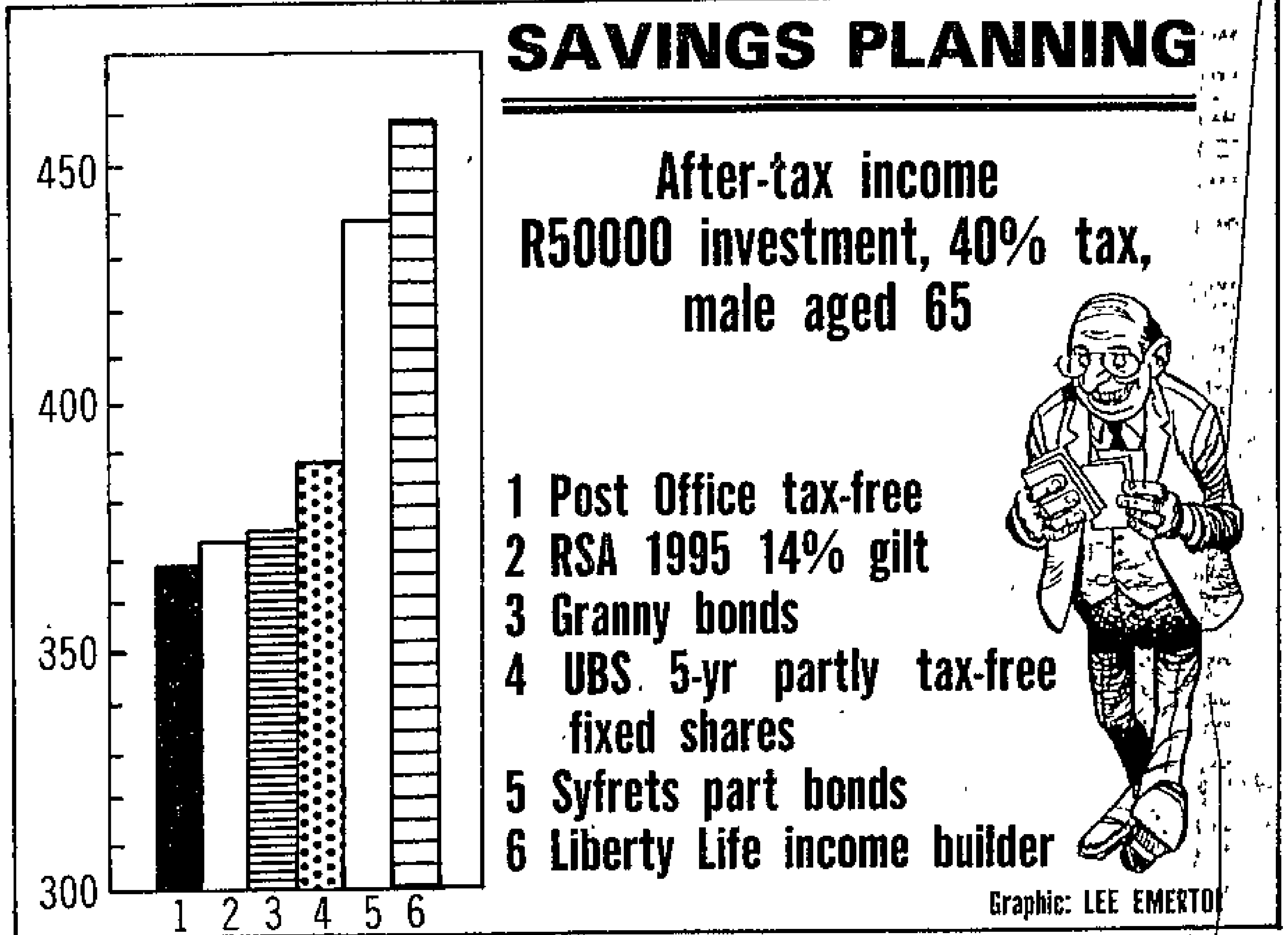


Economic ills boosting unit trusts

UNBRIDLED inflation and fluctuating interest rates are shifting SA's traditionally risk-averse over-50 age group away from more traditional savings and into equity investments.

These economic ills are behind the increasing move in unit trusts, says Syfrets portfolio management services manager Mike Anderson.

"We are finding that the long-standing success of unit trusts as an inflation-beating equity investment is making it easier for the older age group to change its investment habits."

At the same time, says Anderson, the development of specialist unit trust funds — mining, gilts and so on — has made it possible for the investor to create a uniquely personal portfolio.

"This is an important element to the over-50s who are carefully planning their retirement," he says.

Board of Executors executive director Tom Boardman says inflation and negative interest rates have whittled away the incomes of older people because of their tendency to tie up their funds in fixed interest investments.

These twin economic ills have also been a disincentive for the population as a whole to save, Boardman says.

"Equity investments have, on the other hand, proved to be good by outperforming other investments such as long-term government stock and 12-month fixed deposits as well as outstripping inflation by 100% over the last 10 years."

Boardman supports this view by noting that annual aged 14,9% in this period compared with gilts (9,2%), fixed deposits (11,8%) and equities a healthy 28,9%.

He recommends a longer term approach to equity investments which counters the volatility of returns from year to year.

For example, the return of 1970 following the crash of '69 was a negative 58%; yet, in 1979 it was a positive 75%.

In order to assist people to plan their investments, Anderson says Syfrets has recently launched a special computer-based investment planning programme — the "wealth creator plan" — which it provides as a free service.

The wealth creator plan examines the ramifications of a number of different investment decisions in terms of income, tax implications and capital growth with a view to determining an investment plan specifically suited to each client's requirements.

With such a variety of "off-the-peg" financial products on offer, it believes even the shrewdest investor can be sold an ill-fitting plan or be given inappropriate advice.

Using this modern technology, the Syfrets investment planner and client, within the space of a single interview, can explore earnings, growth and tax implications of a variety of investment choices for a balanced spread of investments, minimising the risk of inflation and tax while maximising income and capital growth opportunities.

Unit trusts are proving an increasingly effective way of saving and reducing tax payments on long-term

Over the long-term, investors not only find them an effective way of saving for retirement, but also a tax-efficient medium-to-long-term savings vehicle.

"Capital growth, which is the major portion of the increasing value of the investment, is tax free," says Metboard senior manager Richard Forlee.

Sage Life marketing communications manager Mike Belling says the capital growth of unit trusts should remain tax free only provided the investor's intention is not speculative.

Some of the more popular means of saving, such as fixed deposits, part bonds and so on provide income growth that is taxable.

Admittedly this taxation also applies to the dividends paid out on unit trusts.

While the dividends paid by unit trusts are taxable, in most cases only two-thirds of dividend income is subject to tax. However, contributions do not qualify for a tax rebate, says Belling.

Although returns on other long-term investment instruments, such as life assurance and endowment policies, are also tax free, the contributions to retirement annuities are tax deductible within limits.

"Here an investor may have to wait many years to be paid out, but as unit trusts are more flexible, they can be cashed in with payment usually made in a matter of days."

Besides, some life assurers offer clients the opportunity of linking their endowment or retirement annuity policy investments to unit trusts, offering the potential of excellent re-

INVESTMENT FOR THE OVER 50s

inflation currently running so high, it is important that, in the long term, investments are planned and assets managed to ensure an increase in one's future income flow.

The investment scene is becoming more and more sophisticated and the choice facing today's older investor is far more complex and involved than ever before.

Conventionally, fixed property has provided a person with a "core" investment, which he often regarded as the most important component of his perception of his own wealth.

Its features were family security, containment of living expenses, an asset whose market value kept abreast of inflation and offering good collateral for borrowing purposes.

But while Fedlife's Simpson says it is true that most personal fortunes have been based on property the scenario has even changed here.

"It can be strongly argued today that to place fixed property at the 'core' of a portfolio would give rise to an underperforming portfolio."

He submits a number of reasons for this, including that established housing generally trades at a discount to replacement values while a property investment today could well provide its owner with negative cash flow and, in consequence, require to be subsidised by other assets.

It is also increasingly difficult to plan for retirement — a traumatic event in its own right.

Here the retiree must carefully plan his affairs to best advantage or face possible impoverishment later on when he should be enjoying the fruits of his labour.

Preferably, his assets should be managed in a professional manner to avoid such a disaster.

Because inflation erodes retirement capital as well as hard-earned income, Old Mutual's senior citizen consultant Shereen Walbeck says it is essential a person continues building capital from actual retirement income.

Examples of options available for this purpose include endowment plans, retirement annuities and equity-related instruments such as unit trusts.

Startling figures on financial independence argue heavily in favour of the need for individuals to supplement their pensions if a reasonable standard of living after retirement is to be maintained.

Syfrets Trust senior GM Nigel Franks says only nine out of 100 white South Africans are financially independent at retirement age.

Supporting the widespread need for additional retirement provision to be made privately, Old Mutual employee benefits GM Gerard van Niekerk adds that even middle-income people often figure poorly in the retirement provision stakes.

"This is particularly true where short service yields a mediocre company pension which rapidly diminishes under the impact of inflation," says Van Niekerk.

Greater incentives are needed for the voluntary preservation of pension contributions and possibly certain penalties should apply to early withdrawal.

However, while Franks adds that most white-collar workers contribute to well-managed pension funds, one cannot trust inflation not to reduce the buying power of eventual payouts substantially over the next 10 to 15 years.

"Financial adversities look set to increasingly undermine the value of conventional retirement benefits."

One solution he suggests is to build up future income through various life assurance products designed to do just that.

Retirement annuities are useful particularly when one considers that all major insurance houses have beaten the inflation rate over the past 10 years.

Similarly, endowment assurance — often recommended for its versatility — is a savings medium with inflation-beating and tax-free returns on maturity.

Also providing cover against death or disablement before or after retirement, such products offer excellent returns after the policy's maturity date through the built-in continuation option.

Sanlam senior marketing manager Jacques de Villiers says this option is not generally known to policy owners.

"In terms of the option, the insured can leave the maturity amount, or part of it, with the assurance company and earn bonus benefits.

"Should he require an income, then the growth on this amount is paid out in the form of regular tax-free cash bonuses.

"Otherwise the growth is added to the amount invested and paid out at the end of the continuation term," De Villiers says.

BD 11 August 1989

Syndications gear up

GOOD returns can be obtained at relatively low risk through property syndications and geared property syndications managed by reputable companies, sources say.

Until recently the domain of the wealthy, commercial property has traditionally provided real interest over the long-term. Now syndications make prime property more freely available to people with limited funds.

Metboard senior manager Richard Forlee says good real returns, including a measure of capital growth within an acceptable framework of risk, are obtained over a longer period.

"The smaller investor can obtain these benefits through rental escalations, but the income from the investment would be subject to tax. However, any capital growth should not be taxable," he points out.

The encumberance of administration, like rent collections, is undertaken by the management company.

Board of Executors, Transvaal, GM Mike Hyslop says a sum of R20 000 invested would be syndicated over an average property valuation of about R5m.

The yield on the investment depends on the property involved. But it usually commences at about 11% and grows by about 10% annually thereafter.

Capital appreciation is usually at least 10% a year.

An enhancement to property syndications comes with the introduction of the geared property syndication concept, adds Forlee.

"Here Metboard will arrange for a loan (gearing) to be made to an investor over and above his/her own investment," he says.

The principle is similar to buying an investment property by means of a mortgage bond and using the rent received to service the bond.

Forlee suggests that using borrowed funds during inflationary times, the cost of which is deductible from income, has considerable benefits.

"In exercises performed on projected returns, an after-tax return of 128% after five years was increased to an equivalent 352% with 75% gearing — a loan of three times the investor's own investment." (Assuming the maximum rate of tax and an ultra-conservative scenario of interest rates).

The cost of the gearing is deductible for tax purposes as the difference between rent income received and interest paid would be taxed or allowed as a reduction of taxable income — depending on whether a net income of deficit position arises.

"When the investment is finally realised, the capital profit arising would not be subject to tax as long as the investor's intention was that of investment and not speculation," says Forlee.

58

Shorten the repayment period on home loans

HIGH interest-rate levels again focus attention on how important it is to shorten the repayment period on a home loan, even if it is nearly paid off.

Besides the distressing rise in interest rates, other factors which seriously affect a bondholder's ability to meet regular repayments include the higher cost of running or replacing a car and inflation generally.

AA Life deputy marketing GM Bruce Howard reports an in-depth survey among homeowners highlights two needs:

☐ Repayment of the bond in full in the event of death or disability;

☐ The earliest possible bond repayment so that crippling high interest rates won't mean having to pay several times the home's actual purchase price.

Liberty Life deputy investment marketing GM Harry Brews believes over 50s should try to have a fully paid home.

"A home is your most valuable asset. Apart from the fact that you get an immediate 19% tax-free — that is what you would be paying on your bond at this stage — it is also a growth asset," says Brews.

Howard says AA Life has a new policy called Easibond which helps to extend the company's "living benefits" commitment to homeowners burdened by paying off mortgage bonds.

"Aside from allowing bonds to be repaid years earlier, the policy provides inexpensive death cover for spouses and also covers permanent disablement," he says.

Providing high cover initially when interest repayments are at a peak and then tapering off, the policy counters rising interest rates since cover can be increased at regular intervals regardless of the homeowner's state of health.

Life cover for a specified number of years is directly geared to the bond, with the amount of cover reducing each year in proportion to bond reduction.

"By investing as little as 10% of one's current bond instalment, the repayment term of a 20 year bond of R100 000 at 18% would be reduced by as much as 6,25 years, thereby saving the houseowner R104 325 in subsequent repayments," says Howard.

Easibond also provides the option for the purchase of new amounts of life assurance should the homeowner wish to buy a more expensive home.

Earlier full bond repayment through AA Life's linked savings plan can also be arranged.

"In addition to shortening the repayment period, this consideration can save homeowners thousands of rands," he adds.

Springtex sees operating loss of nearly R1m

SYLVIA DU PLESSIS

NON-STORE retailer Springtex has posted an operating loss of nearly R1m, exacerbated by net interest payments of R2,2m for the six months to June, from which it is unlikely to recover in the current year.

In addition, the Cape-based group has formally announced the resignation of chairman Michael Teixeira, who is emigrating to Portugal.

Directors attributed the R965 000 operating loss, which compares with a profit of R3,1m in the corresponding period last year, to difficulties in the household textiles division and a new direct-selling venture.

They added that the venture had subsequently been closed and all losses fully provided for in the interim figures.

Since the proceeds of the group's recent R10m rights offer were unavailable for the reporting period, interest payments severely dented the bottom line.

A tax credit of R57 000 translated into attributable losses of R3,1m and earnings a share plunged 17,7c (8,1c) into the red. In view of the appalling results, no dividend was declared.

Former financial director and newly-appointed MD David Bruce said while trading for the first three months had exceeded budget, the second quarter proved "extremely difficult".

He said a number of strategic measures were being implemented to return the group to profitability.

"First, we sourced the R10m in new equity capital which will enable us to reduce our interest bill by some R650 000 during the second six months and which, clearly, will have an ongoing positive effect.

"Second, we are cutting back on credit sales in order to further reduce their proportion to cash business. This naturally contributed to a decline in turnover — down 5% — and this trend is likely to continue during the months ahead."

As a third measure, the group was improving cash flow through the tightening of its credit terms and by further reducing expenses.

However, the benefits of certain of these measures would materialise only in the medium term.

Accordingly, Springtex would still record a loss for the full financial year in spite of results which would "undoubtedly" improve in the remainder of the current year.

New names for Gencor and Federale Mynbou

GENCOR and Federale Mynbou are officially to change their names.

A statement said shareholders in General Mining Union Corporation Limited and parent company Federale Mynbou Beperk are to be asked to approve shorter, more convenient names for the companies.

Shareholders will be asked on September 18 to sanction a name-change to Gencor Limited (Gencor) and Gencor Beherend Beperk (Genbeheer). — Sapa.

DIAGONAL STREET

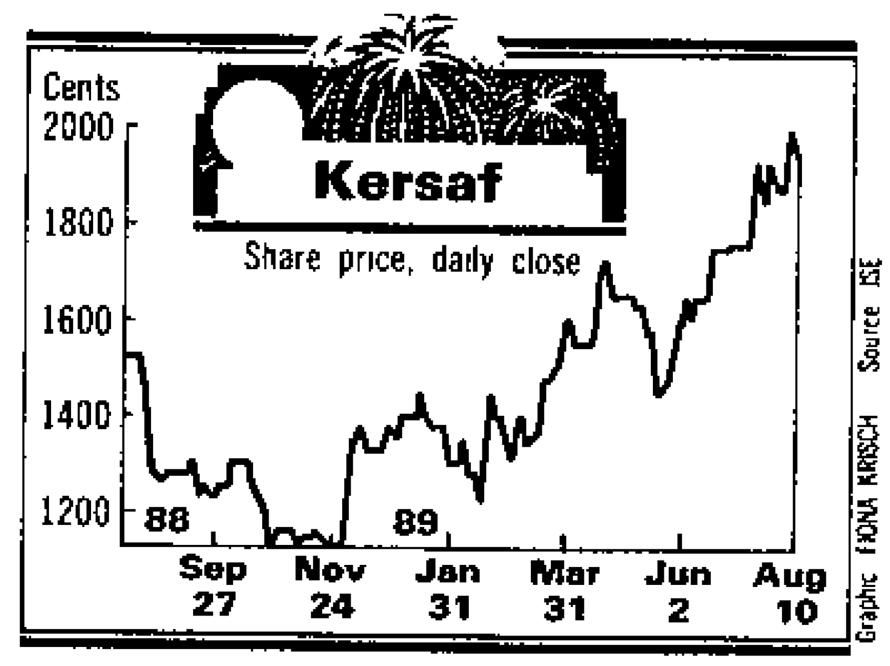
Industrials surge ahead to new high

BUOYANT trade on the JSE yesterday again disregarded the listless gold price with the industrial index maintaining its record-breaking run.

The overall index gained 17 points to close at 2 782, pushed up by the industrial index high of 2 769, 15 points above Wednesday's 2 754. The all gold index closed seven points higher at 1 663.

The rand ended the day at a firmer R2,67 to the dollar. The absence of any fresh factors kept the dollar at lower levels on international markets. The rand was steady against other major currencies, while the finrand was still inert.

The morning gold fix in London was at a slightly higher level than on Wednesday in response to the overnight weakness of the dollar, but by afternoon the price had fallen to $365,85 from the morning's $366,40. Dealers said new interest in the metal would appear only once the price returned to $370.



In the industrial sector, SASOL was the most actively traded share. A gain of 15c lifted the price to R13,10. More than 300 000 shares changed hands in 38 deals. AMIC was untraded at R103 and BARLOWS fell 25c to R43,75 in 31 deals. REMGRO lifted 5c to R12,30 and REMB BEH was unchanged at 910c. AVI gained 100c to close at R49, R3 below its May peak of R52.

Strong interest in DE BEERS pushed up the diamond index by 90 points to 11 083. At one point the share touched R61,70, but by the close of the day had slipped back to R61,50, representing a 50c improvement on Wednesday's price. There was some foreign buying and selling of the share.

GENCOR soared 275c to R96,50 on news of the group's purchase of a controlling interest in aluminium smelter Alusaf from the IDC. Alusaf supplies almost all of SA's aluminium requirements and has a strong export programme. Trade in NATSEL and IND SELE, which also hold shares in Alusaf, also showed optimism about the future of the project. Natsel rose 5c to 315c and Ind Sele was firm at 265c.

KERSAF held steady at R19,75 ahead of results from its subsidiaries. TRANSUN, reporting today, went up by 25c to a new high of 260c. The share reached 255c last December but was held back by the controversy surrounding its Transkei gambling rights. INTELES dropped 10c to 130c in spite of better than expected results.

HOMEMAKERS continued to rise on investor optimism over its recent acquisition of the Edworks assets. The share headed the list of the most active shares by volume when more than 2-million shares changed hands in only 21 deals. At least one deal was a book-over amounting to 1,69-million shares. The price rose 2c to 80c, 6% below its peak of 85c a year ago.

Cautionary announcements had little effect on FRASERS, which remained at its peak of 660c, and FRASCON, which was steady at 225c, below the 12-month high of 260c touched in March.

TRADEGRO moved 5c to 170c on a cautionary, while CIG and OHIO, also linked in a cautionary notice, were sluggish. CIG remained at 25c, only 5c above a low of 20c registered in July, while Ohio lifted 3c to 30c, 50% above July's 12-month low of 20c.

RUSFURN, which began to move on Wednesday and published a cautionary notice yesterday, lifted to a new year's high of 120c, exactly double May's 60c. The share gained 10c in 24 deals.

TECFIN, this week's new listing, rose another 5c to 35c. The shares came onto the market at 25c.

CHARLOTTE MATHEWS

Fedsure earnings growth up

KAY TURVEY

FEDSURE, the holding company for Fedlife and short-term insurer Fedgen, achieved a 24% rise in earnings a share from 10,8c to 13,4c for the six months to June.

This puts the group in line to match the 22% earnings growth obtained last year. CEO Arnold Basserabie is confident that in spite of the tough competitive environment, the group will achieve satisfactory growth for the full year.

Following group policy, an interim dividend of 8,25c (6,75c) is to be paid, representing 50% of the total payout for 1988.

Taxed profits climbed 25% to R9m and total group assets, up 15%, were just short of R3bn.

Fedlife, the group's long term insurance arm, which represents about 97% of group's assets, reported a 26% increase in attributable income to R8,7m.

Recurring business rose 31% to R193,2m, but single premium income dipped by R28,2m to R51,2m, resulting in an 8% climb in total premium income to R244,4m.

Basserabie said the company had not been active in the single premium market, where rates where uneconomic and had preferred to pursue the more solid recurring business.

A solid investment performance boosted investment income 25% to R149m, taking total income to R393,4m.

Fedlife subsidiary Fedgen, battered by fierce competition in the short-term insurance market, posted a 75% slide in profits to R1,4m. This profit is included in Fedlife's investment income and does not impact directly on Fedsure's earnings.

Following soft conditions in the market, the company reported a R1,2m underwriting loss which, coupled with a R3,3m provision to boost reserves in line with Melamet Commission recommendations, took the toll on bottom-line.

BD 11/08/89

No change of control at Berzack, Elgro

MERVYN HARRIS

THE proposed link-up between Berzack-Illman Investment Corp (Bivec) and Berzack Brothers in a joint venture with Elgro-Elcentre will not involve a change of control in the two groups.

This was confirmed by Berzack financial director Myron Berzack who was approached for comment yesterday after market speculation that the one group might be buying out the other.

"We emphasised in our cautionary statement to shareholders that there would be no change of control," he said, adding: "We are in fact interested in acquisitions and are talking to people."

It is believed the effect of the joint venture on Berzack and Elcentre will be largely the same.

The deal will considerably improve the earnings of both groups.

Results of Berzack for the year to June will be released in mid-September and the group is expected to maintain its good interim performance with strong earnings growth in the second half of the year

Bivec shares closed unchanged yesterday at their 12-month high of 515c, while Berzack shares held at 720c, 10c below the February peak of 730c.

There has been particularly strong activity in the shares of Elgro and Elcentre since the group and Berzack each issued cautionary announcements.

Elcentre shares yesterday rose a further 20c to a new high of 480c, representing a gain of 152% over the past year, while parent Elgro firmed 10c to 270c, a rise of 184% since touching a 12-month low last September.

Haggie shrugs off problems to post exceptional results

BRENT MELVILLE

HAGGIE shareholders can breathe a sigh of relief with the announcement today of its results for the six months to end-June.

The engineering group, involved in the manufacture and sale of wire rope and non-ferrous metals, managed to shrug off last year's labour problems and post exceptional interim results.

Bottom line earnings increased by 40% to R40m (R28,5m) or 207,5c (148c) a share compared with a 19% increase a year ago and as a result directors declared an interim dividend of 47c (34c) — covered 4,4 times.

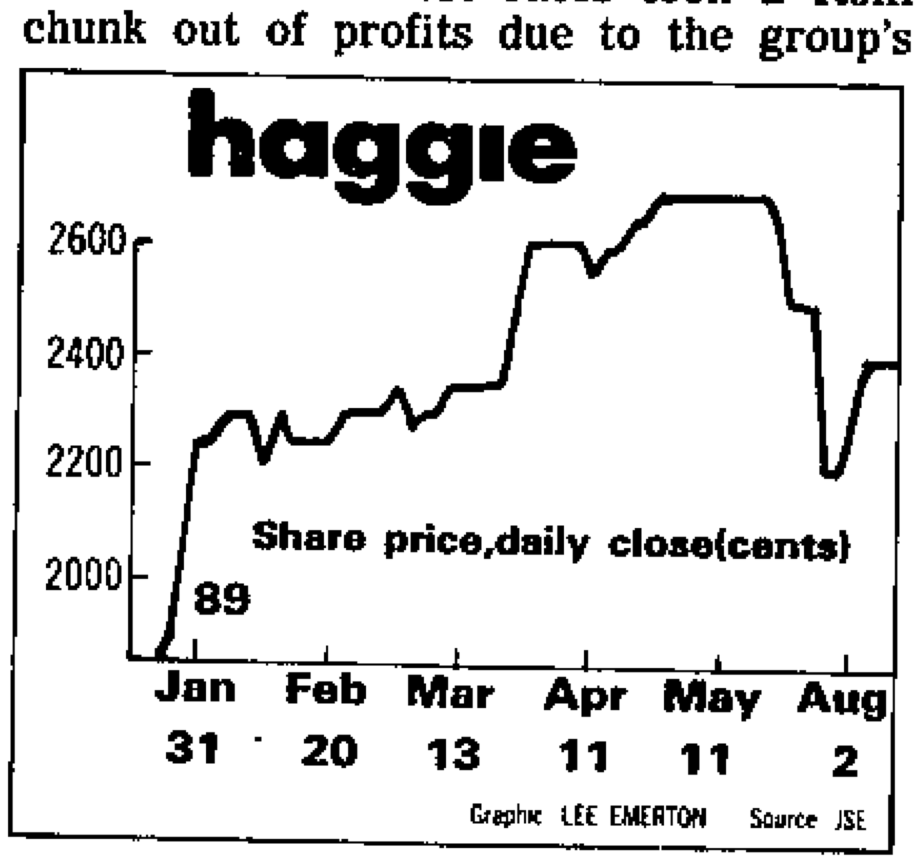
Turnover rose 41% to R584,7m (R415,3m), partly due to the elimination by subsidiary Haggie Rand of the backlog of orders created during last year's six-week Jupiter/Germiston lock-outs.

The lock-outs and a more recent industrial dispute at the Jupiter plant were resolved after recourse to the Industrial Court and an arbitrator.

Group MD John Feek believes there is now a greater sense of understanding between the National Union of Metalworkers and Seifsa.

Operating income increased 39% to R80,7m (R58,1m) with the slightly lowered margins ascribed by Feek to the escalating costs of copper and the fact that it was not possible for all costs to be passed on to the consumer.

Voracious interest rates took a R5m chunk out of profits due to the group's heavier reliance on short-term loans which jumped to R102,6m (R13,5m).



However, Feek said the debt was necessitated by the group's change in working capital requirements.

Indeed, current assets jumped by R107,5m, increasing the current ratio to 3,3:1 (2,8:1), and gearing remained at a healthy 28%.

While the improved results flowed from all group activities, Feek stressed the vital importance played by exports.

He expected exports, which currently accounted for 20% of production capacity, to increase to about 24% next year.

"Haggie exports a wide range of products to markets in more than 60 countries and is successfully penetrating more," he said.

In the current half-year, Haggie expected the mining industry's demand for wire rope to remain constant and order books looked "good". However, the group perceived a slowdown within the building industry and the agricultural sector was likely to suffer under the economic slowdown, Feek said.

Genrec earnings rocket by 206%

BRENT MELVILLE

REORGANISED Genrec Holdings, the engineering arm of Murray & Roberts (M & R), has achieved remarkable results for the year to June.

Attributable earnings rocketed by a staggering 206% (percentage change annualised from 16-month period to end-June 1988) to R10,1m (R4,4m).

A dividend of 25c (16 months — 9c) was declared, still covered a healthy 3,8 (5,4) times by total earnings of 95c (49c) a share.

Non-operating earnings — arising from the sale of properties and other fixed assets — amounted to R727 000 or 7c a share.

Turnover increased by an annualised 22% to R326,5m (R357m) and operating profit jumped by an annualised 96% to R8,2m (5,6m) off improved margins of 2,5% (1,6%).

Helped along by the receipt of R1,7m in accrued interest, pre-tax operating earnings swelled by an annualised 303% to R9,9m (R3,3m).

Coming off a non-tax paying position, the group paid R510 000 to the tax man, leaving attributable earnings before non-operating earnings improved by an annualised 183% to R9,4m (R4,4m).

On the balance sheet the group is geared at an extremely low 6% with total liabilities to equity of 168% — below the group defined limits of 50% and 175%, respectively.

During last year the group made several acquisitions, buying 100% of Lebus Engineering, Dragline Construction and Consani Engineering.

The acquisitions form part of the rationalisation and upgrading of the group's heavy engineering facilities which, says group CE Ian Colepeper, are expected to continue.

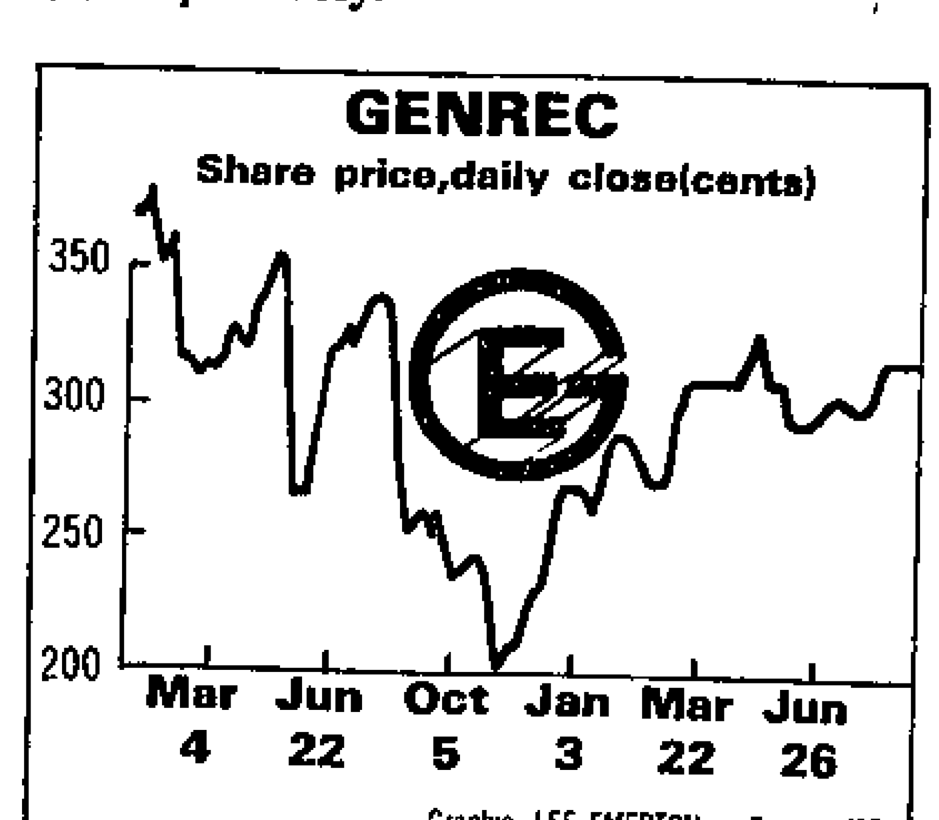
The announcement today of the acquisition of Consani, which manufactures bulk tanks, pressure vessels, road tankers and tanks for the beverage and petro-chemical industries, is tantamount to a restructuring manoeuvre with controlling group M & R.

Under the terms of the agreement Genrec is to acquire the entire issued share capital and loans from M & R for a cash consideration of R11,6m.

The effect of the acquisition, if it had been reflected on the income statement for the year under review, would have been to increase Genrec's earnings by 5% from 95c to 100c a share.

And in line with its expansion strategies, and the need to conserve cash resources, Genrec has offered shareholders the choice of receiving bonus shares as an alternative to the dividend.

Currently at 320c, Genrec is operating on a dividend yield of 7,8% and a P:E of 3,7, as against sector averages of 5,1% and 7,2, respectively.



PRICEFURN COCKS A SNOOK AT TOUGH INDUSTRY TIMES

SYLVIA DU PLESSIS

DURBAN-based furniture retailer Pricefurn Holdings has defied the adverse conditions facing the industry to post a healthy set of results in the year to end-June, with earnings a share 2,55c higher at 10c.

The group, which moved from the DCM onto the JSE main board in October last year, reported a 67% hike in turnover to R60,3m (R36,2) after expanding from 11 to 18 stores in Natal and the Transvaal in the period under review.

Operating income grew only marginally less than sales — 63% up at R2,7m (R1,6m) — and an interest bill of R392 000 (R87 000), reflecting the cost of establishing these stores, trimmed pre-tax income to R2,4m (R1,7m).

Taxation of R1,2m (R832 000) translated into attributable income 45% higher at R1,2m (R829 000).

Fixed assets grew to R1,6m from R838 000 and net current assets rose to R4,3m from R3,7m. Net asset value is 18% up at 36c (30,4c) a share.

A final dividend of 2,5c has been declared, bringing the total for the year to 4,5c (3,1c), covered 2,2 times.

Joint MD Sid Trickett said while he was not disappointed with the results, he had hoped for an increase in taxed profits in the region of 55%.

"We're happy, but we didn't know a year ago the extent to which government would go towards implementing restrictions on consumer-durable purchasing," he said.

"I think that when the results of other furniture and appliance retailers are produced it will be clear to government that current HP restrictions penalising the furniture and appliance sector will need to be adjusted."

He said the group remained "cautiously optimistic" about prospects in the current year and was anticipating similar growth.

Trading in July had been poor in comparison with June and it would be a "tough" year.

Trickett said further expansion was possible from February or March next year, should more suitable financing be available.

A "rather innovative" strategic plan which would render the group more profitable and strengthen its balance sheet further was in the pipeline, but the deal would be confirmed only towards the end of this month.

Royal shareholders oversubscribe to offer

SYLVIA DU PLESSIS

ENTHUSIASTIC shareholders of Royal Corporation — formerly Lovasz Chemicals — have effectively oversubscribed to the group's renounceable rights offer of 150 new shares for every 100 shares they hold at 150c a share.

Royal said shareholders had subscribed for 12,44-million or 95% of the 13-million shares on offer.

The group announced an offer to its shareholders today in terms of which they can exchange such of their shares as they may wish on a one-for-one basis for shares in group pyramid company Royal Group Holdings.

New products spread the risk

ONE of the basic principles of investment is not to have all your eggs in one basket.

Latest products from the non-banking sector give some idea of what is available.

While unit trusts were introduced with spread of risk in the equity market in mind, trust company Metboard diversified further by introducing its "three pillars of investment" (TPI) account.

The TPI account — comprising cash, equity and property — gives new investors the opportunity to diversify a portfolio in markets which, historically, have not suffered setbacks in unison.

Metboard GM Barry Kalkhoven says the degree to which one's funds are invested in each of all three pillars depends on personal circumstances and therefore could be in different ratios.

"For instance, a 55-year-old contemplating retirement in a few years' time would have very different needs to a 30-year-old actively employed person paying tax at the maximum rate."

The cash element comprises deposits of varying maturities, while equity is represented by a mutual fund which gives an equity spread.

The property element —through Metboard's property syndications.

Some assurers offer to link policy investments to the growth and liquidity of the stock exchange.

Sanlam's latest package, the "multi-payout plan", links an endowment policy to one of its unit trusts through monthly premiums or by a lump sum of R5 000 or more.

Sanlam unit trusts GM Otto Jaekel explains that normally a policy owner only receives tax-free benefits from a policy after 10 years.

"multi-payout provides security and steady growth, culminating in a completely tax-free payout after 10 years, while the Sanlam "index trust" mutual fund makes early, tax-free capital payouts possible."

Though no minimum investment period is prescribed, to maximise this investment the period should be not less than four years.

A lump sum investment purchases a term-life annuity, while half of the monthly subscriptions are invested in a savings endowment policy, half in a unit trust.

"After 10 years, the investor will receive the full proceeds of the policy," Jaekel adds.

For the over 50s, Liberty Life has designed several investment mediums — among them is Liberty's "income builder".

Designed for tax efficiency, it produces a high after-tax guaranteed income during the 10-year period. Assuming a 15% bonus rate is achieved, the purchase price is returned tax-free after 10 years.

Liberty's "capital bond with disability" is for the person who does not require income. A lump sum invested provides tax-free wealth accumulation on death or disability.

AA Life is pioneering instant response TV advertising in SA through its "senior security" plan for senior citizens. Having seen the commercial, an interested person dials a toll-free number and provides certain particulars.

If accepted, he/she gets immediate cover without a medical examination being necessary. The monthly premium starts at R15.

(58) Mail 11/8/89

SOUTHERN LIFE

Investment pay-off

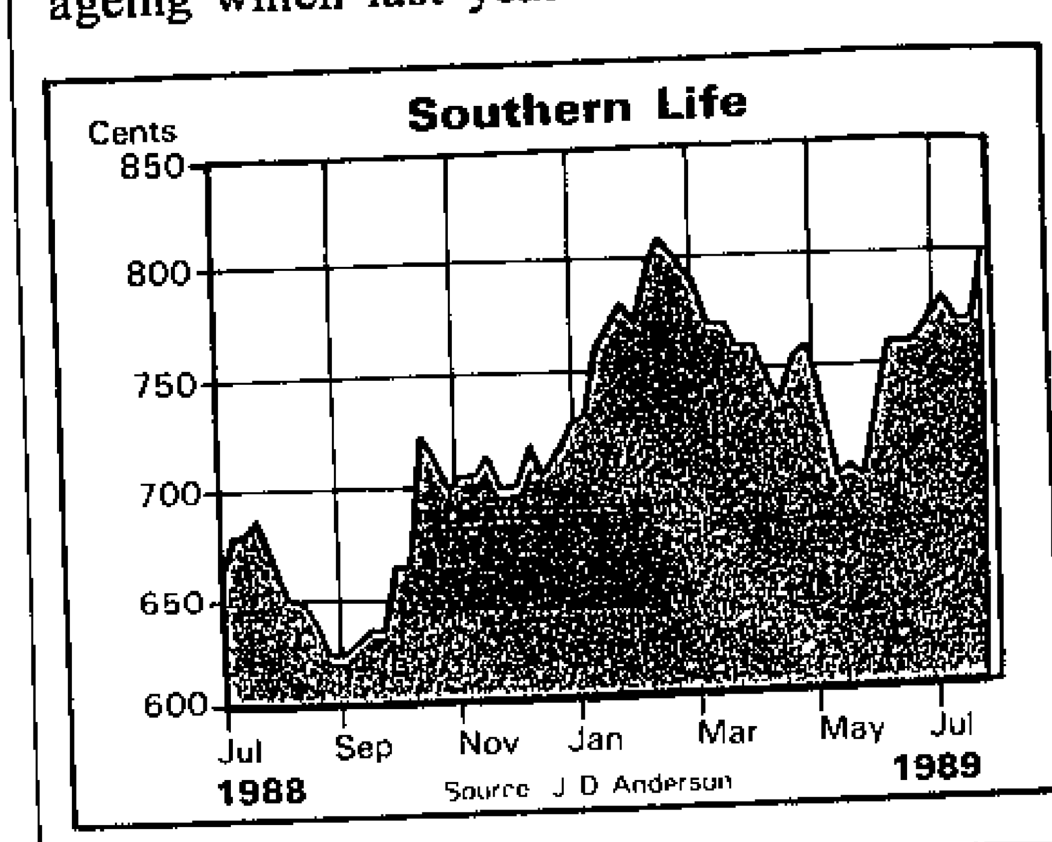
Activities: *SA's fourth largest life assurer.*
Control: *Anglo American has 40% of the equity and First National Bank 30%.*
Chairman: *T N Chapman.*
Capital structure: *164,6m ords of 5c; 4,1m conv part non-voting prefs of 5c. Market capitalisation: R1,33bn.*
Share market: *Price: 810c. Yields: 4,6% on dividend; 7,0% on earnings; PE ratio, 14,4; cover, 1,5. 12-month high, 815c; low, 620c. Trading volume last quarter, 672 511 shares.*
Financial: *Year to March 31.*

	'86	'87	'88	'89
Total assets (Rbn)	5,5	7,7	7,8	10,7
Premium income (Rm)	649	859	1 214	1 388
Investment income (Rm)	425	488	553	676
Taxed profit (Rm)	50,5	64,0	78,8	94,9
Earnings (c)	30,8	39,0	48,0	56,3
Dividends (c)	20,5	26	31,5	37,6

At the start of the last financial year Southern appeared reluctant to commit itself to the equity market, preferring to increase its cash resources. That changed as the year progressed, presumably in part because share prices had shrugged off the risk of further falls, but also because the company's investment managers took the view that quality equities offered particularly good value.

The net result was that the value of equity investments increased to R5,03bn at the end of June from R2,95bn a year earlier. Investment was also directed towards gilts as rising interest rates cut prices and, by year's end, the gilt portfolio was worth R2,09bn against R1,30bn a year earlier. Those two advances were the principal contributors to the rise in year-end total assets to more than R10bn.

At this stage, and with greater clarity on government's privatisation plans, Southern can safely let its cash resources drop. This year's privatisation opportunities will be confined to Iscor and prospective investors will be limited in the percentages they can take up. At this stage of Southern's development its premium income and benefit payments are in sound balance, with none of the policy ageing which last year affected competitor



Southern Life's Chapman ... earnings will increase steadily

Liberty's operating ratios. As a result Southern can count on having adequate cash flow to follow the Iscor issue.

Premium income rose by a comparatively slow 14,3% last year against 1988's 41% and commissions rose to 8% of premium income from 7,4%. Sales of single premium policies dropped by 15%, chairman Neal Chapman reports, while new recurring premium business increased by 30%. Presumably the squeeze on household budgets has affected sales of new policies while the drop in sales of single premium policies seems to reflect investors' greater confidence in equities.

In the previous year the stock market's collapse persuaded many investors to favour the greater security offered by single premium insurance policies. In contrast to the largely white-orientated business of Southern itself, the small African Life subsidiary, which targets black business, increased its recurring premium business by 85%.

Non-life business — largely employee benefits — generated a 34% growth in premium income last year. Black industrial workers are turning increasingly away from conventional retirement benefit schemes towards provident funds.

Chapman is hopeful that earnings will increase steadily this year, but he does not quantify that optimism. Over the past five years earnings have grown at a compound rate of 23,2%, so presumably Chapman expects growth of 20% or so this year. That would put Southern in line with Liberty and indicates a total dividend in the region of 45c.

At 810c, the share is near its 12-month high and rated on a forward yield of 5,6%. That's not unattractive given that over the next few years the past five years' average earnings growth rates should be maintained comparatively easily.

Jim Jones

(49)(58) [illegible] 11/8/81

that, he'll have us all in the workhouse."

By the time De Kock became Senior Deputy Governor of the Reserve Bank, he had masterminded two major revisions of the Banks Act.

His important contribution was the mechanism whereby liquid asset ratios could be used instead of quantitative lending ceilings to regulate bank credit and the money supply. Technical though it may now sound, it was the first step towards market-orientated economic policies.

Seconded to the Finance Ministry as adviser to Finance Minister Horwood, De Kock began the reforms that culminated in his chairing the Commission into the Monetary System & Monetary Policy. It was a novel commission in that many of its key reforms — which centred on monetary restraint and competition — had been implemented by De Kock, then recently appointed governor, before its final report was published.

De Kock took over from Governor De Jongh at the beginning of the Eighties after the latter had defied the minister over the relaxation of exchange controls. The outcome was a tidal wave of bottled-up liquidity hitting the financial system — though for a time obscured by intermediation — and the entrenchment of inflationary pressures.

De Jongh resigned midway through his third term and the De Kock era began. The rapidity and ease with which some officials of the Bank and some departments reporting to the ministry changed economic allegiance was startling. From telling the *FM* one week that its criticism of De Jongh was not in SA's best interests, they became equally enthusiastic free marketers the next.

The worrying thing is, what will they do now?

Be that as it may, they got on with breathing new life into markets in official securities, which for years had seen little trade — and that not on the JSE. The Treasury bill was revived as a means of monetary control and the central bank became an active participant in the money market.

Creation of a foreign exchange market followed, and a major reduction in exchange controls on non-residents. Some advantages of this liberalisation were to be lost in the 1985 foreign loan crisis, which reversed some key De Kock reforms and set back others.

Steadying influence

Banking laws were reformed to encourage competition and the conversion of building societies into banking institutions. The commercial banking cartel was outlawed. Competition for custom came with a vengeance.

The steadying influence of De Kock on Finance Minister Barend du Plessis, who said some remarkably silly things about business and businessmen soon after his appointment, has been noticeable.

For some time, too, De Kock was an influential and beneficial confidant of State President P W Botha, the first Nat leader to address the Transvaal NP Congress on economic matters, to deregulate significantly and openly declare that the Nats stood for capitalism.

Those were the presidential virtues. Unfortunately his failings included the 1985 retraction on reform which within weeks sent the rand into a tailspin and precipitated the foreign debt crisis. In more recent years, De Kock warned constantly how politics was impinging on the wellbeing of the economy, and urged reform.

More recently, the refusal of the Cabinet for political reasons to allow interest rates to rise to market-determined levels was a great weight that De Kock (and probably also Du Plessis) had to bear. It frustrated his control of the money supply — which shot out of its target range, boosted by the provision of too cheap forward cover.

It undermined the currency, misallocated resources, fuelled inflation, cut savings and choked off investment. In technical language it fostered stagflation — low growth and high inflation — which hits hardest those living on fixed incomes.

De Kock faced this major setback just as his health was failing. He was unable to attend the AGM of the IMF last September, but remained actively in office and hoped to be back in Washington this year.

However, while a number of functions had been arranged to mark his forthcoming retirement, it was clear a few weeks ago that he was unlikely to attend any of them. His offical farewell banquet was to have been tonight.

De Kock's legacy is substantial: an economy that has survived the most appalling fiscal abuse and maladministration as well as unprecedented onslaught from abroad. Without his reforms, SA would be in the Latin American/Central African league. That part of his commission's final report yet to be implemented contains his vision of the future. There will be important and unfortunate economic and political consequences if it is abandoned.

De Kock leaves behind able, talented men. Those in key positions are known to be pragmatic. We don't know yet whether his views will survive or how pragmatism will manifest itself. What we do know is that genius does what it must, talent does what it can. ■

(58) Fmail 11/8/89.

HOW SECTORAL PERFORMANCES VARIED

	April 14 1986			†Mkt Cap	October 19 1987			‡Mkt Cap	August 2 1989			•Mkt Cap	% change in index vs.	
	Index	P.E.	D.Y.	(Rbn)	Index	P.E.	D.Y.	(Rbn)	Index	P.E.	D.Y.	(Rbn)	Ap 86	Oc 87
Overall	1 385	9,6	5,0	176,74	2 804	15,2	3,0	257,11	2 745	10,5	3,7	383,33	98	(2,1)
Coal	1 649	4,7	6,7	2,64	1 286	5,2	7,4	1,90	2 237	13,3	3,4	3,08	36	74
Diamonds	4 190	8,1	2,4	11,10	10 362	15,6	1,5	20,75	10 939	7,8	3,3	26,28	161	6
All Gold	1 156	8,2	7,1	42,70	2 429	14,3	3,8	81,24	1 657	10,9	4,8	51,69	43	(32)
Met & Min	953	11,2	4,6	9,40	1 650	14,7	3,9	17,35	2 060	11,6	4,7	23,15	116	25
Min Houses	1 632	9,8	3,8	30,21	3 734	15,6	2,3	62,38	3 781	10,4	2,9	68,0	132	1,3
Banks & Fin Serv	1 272	8,5	5,1	5,36	1 548	11,4	3,6	10,30	1 215	6,1	5,7	9,38	(4,5)	(22)
Insurance	689	24,4	2,9	5,17	919	23,3	3,0	7,68	1 062	14,7	3,7	9,23	54	16
Industrial	1 112	11,2	4,0	53,12	2 265	15,4	2,5	121,29	2 729	10,6	3,2	141,3	145	20
Ind Holding	1 385	11,0	4,5	14,59	2 315	12,5	3,1	30,65	2 895	11,6	2,4	50,27	109	25
Bev & Hotels	1 824	13,5	3,9	4,73	4 467	23,3	2,0	11,98	4 370	13,9	3,5	11,83	140	(2,2)
Building & Cons	999	9,5	4,5	1,57	2 044	16,4	2,7	3,65	1 974	9,1	4,4	3,88	98	(3,4)
Chemicals & Oils	515	8,3	5,8	6,65	962	14,7	3,5	11,83	962	13,5	3,9	11,66	87	—
Clothing, Foot	577	10,8	3,3	0,99	1 105	14,1	2,8	2,97	902	6,9	5,4	2,67	56	(18)
Electronics	520	14,7	2,4	2,03	1 744	31,3	0,9	8,72	1 033	10,8	3,3	6,61	99	(41)
Engineering	577	13,7	3,5	2,22	833	11,8	3,3	4,19	879	8,3	4,6	4,16	52	6
Fishing	490	7,6	7,6	0,17	834	10,6	5,1	0,24	1 337	8,7	6,3	0,34	173	60
Food	898	11,8	3,8	4,48	2 178	15,9	2,1	8,52	2 855	13,2	2,4	11,70	218	31
Furniture	261	43,4	1,2	0,73	443	13,3	2,3	1,71	254	3,7	9,0	0,89	(3)	(43)
Motor	959	26,3	1,8	0,90	2 494	11,0	2,3	1,69	2 013	5,0	5,5	1,58	110	(19)
Paper & Pack	1 503	13,2	3,1	2,82	2 644	13,5	3,0	5,52	4 466	9,6	3,4	8,47	197	69
Pharm & Med	283	12,1	3,1	0,13	615	23,8	1,7	2,06	591	11,4	3,3	2,28	109	(4)
Print & Pub	662	29,4	3,4	0,16	2 550	13,9	2,4	0,55	2 433	4,8	6,1	0,54	268	(6)
Steel & Allied	421	9,1	4,4	0,53	612	9,0	4,9	0,91	1 482	9,9	4,1	2,54	252	142
Retail & Wholes.	1 142	18,2	2,9	4,31	1 897	20,8	2,2	9,68	1 835	10,4	3,8	8,72	61	3
Sugar	1 196	32,3	2,4	0,73	2 354	18,9	2,2	1,24	2 615	8,2	4,1	1,51	119	11
Tobacco & M	1 659	8,2	2,0	5,23	4 859	13,7	1,0	14,62	12 900	11,0	1,6	10,73	678	166
Transport	1 585	7,6	2,9	0,15	4 966	13,9	2,0	0,58	6 976	9,0	2,9	0,92	340	41

† At end-March 1986; ‡ At end-September 1987; * At end-June 1989. Source: JSE

table are those of Banks & Financial Services and the Furniture & Household sectors. While the market capitalisation of the banking sector was expanded by new listings, particularly the building societies, competition and a new business environment has turned the entire sector into a laggard. And, with investors now more concerned about fundamental operational results than acquisitions and listings, interest in a financial services group such as Columbia became limited.

As manufacturers and distributors of durable goods, groups in the Furniture & Household sector enjoyed sharp appreciation during the upward phase of the cycle. These companies are seen as being in the front line against government's austerity measures, and are now languishing. Though there may be good value in some of their shares based on historical p:es, investors who buy now will need patience.

On the mining board, the Metals & Minerals index has stayed on its upward trend, driven by commodity prices and the expansion of the platinum sector. The All Gold index, thanks to the recovery in the gold price during the second half of 1986, is well above the levels of early that year but has yet to recover ground lost since the Crash. The shares need a higher gold price.

Mining houses were another favourite during the boom, in some cases ostensibly on the strength of new projects that could arise out of their extensive mineral rights. The houses, with their diversity and currency attractions, shrugged off poorly performing divisions and have done well since 1986.

On the whole, analysts think that this year's trends will continue. Major indices will thus remain strong, especially those propelled by currency stocks. Sectors will increasingly diverge, reflecting a slowing economy and new uncertainties. The more resilient groups will offer investment opportunities ahead of an upturn. Meanwhile, many still wonder when the next big "correction" will occur. *Andrew McNulty*

Finrand

and deal off

Govt. stops

s foreigners' property spree

Cpt Times 11/8/89 (58)

for

Govt. Times 11/8/89 25, 38

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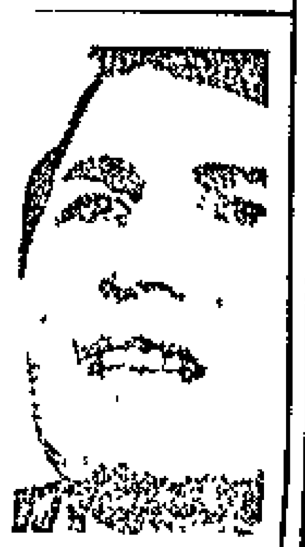

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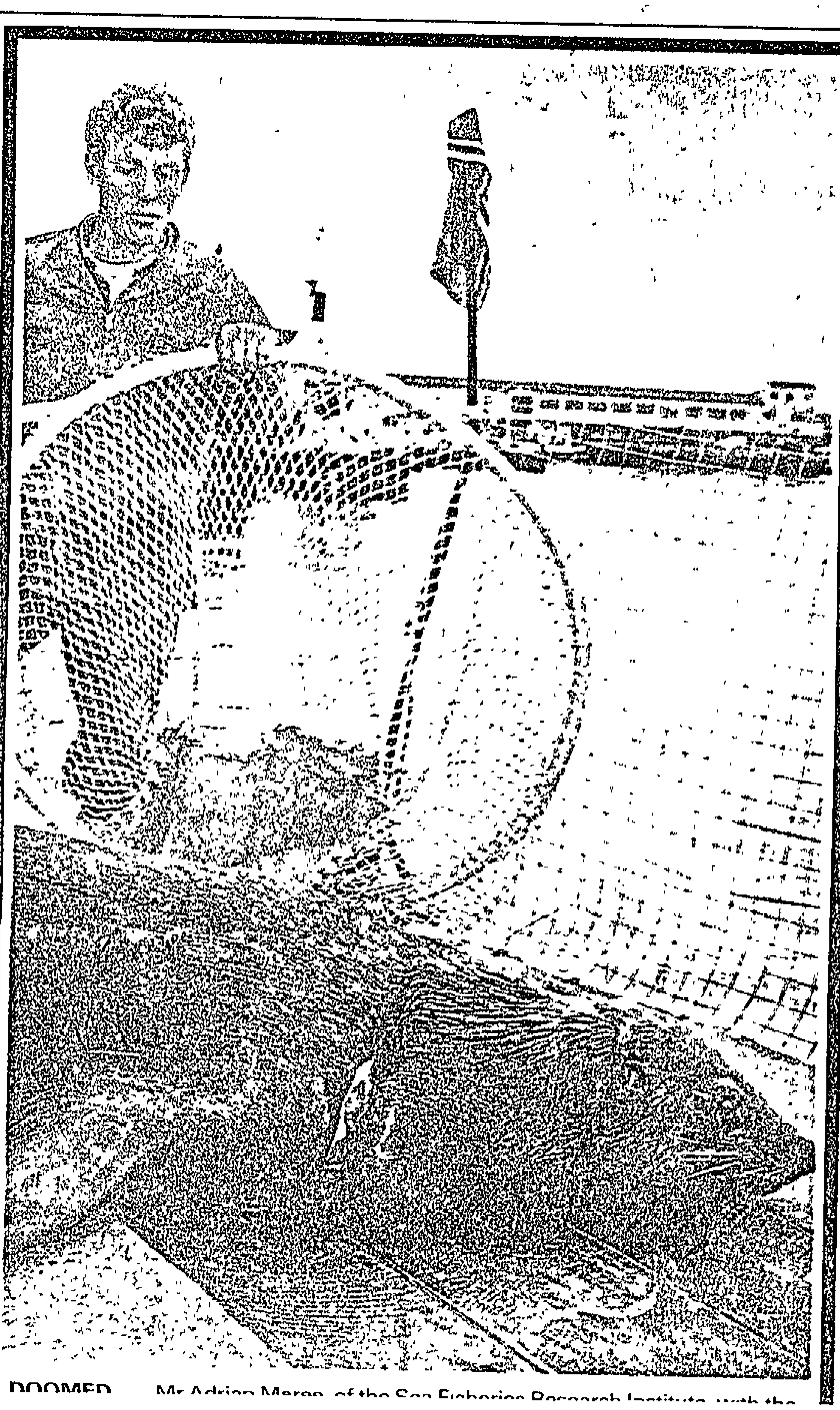


DOOMED Mr Adrian Moron of the Sea Fisheries Research Institute with the

By AUDREY D'ANGELO

THE government yesterday scrapped financial rand deals by overseas buyers of South African farms and residential property.

The Minister of Finance, Mr Barend du Plessis, made the announcement yesterday and a spokesman for his department said the action was taken after pressure from people, mainly in the Western Cape, who complained that foreigners were buying up historic farms and pushing up property prices in areas like Clifton

The system has been strongly criticised for giving foreign buyers an edge over South African buyers

Prime residential properties on the Atlantic seaboard and some of the country's most prestigious wine farms have been the targets of foreign investors since the scheme was introduced in 1986

Last night Mr Du Plessis said overseas buyers would no longer be able to pay half the cost of purchases at the finrand rate of exchange.

Under pressure

"The demand from abroad for these properties may therefore be discouraged to some extent"

The minister has been under pressure for months to withdraw the concession, which gave foreign buyers an effective discount of between 15 and 20%, depending on the going rate of the finrand

Mr Du Plessis told Parliament in April that since 1985 a total of R1,275 billion had been invested in property in South Africa through financial rands.

However, of this, R52 million had been invested in agricultural property and R306.6 million in residential property About R917 million was spent on commercial property

But estate agents specialising in such sales — some of whom have opened offices in London and sent teams with multi-million property portfolios to Britain, Europe and the US — were not disheartened last night They said the rand is so weak against the British pound and other currencies that local properties will still be cheap to overseas buyers

The executive director of the SA Property Owners' Association (Sapoa), Mr Peter Erasmus, said the change would hardly affect the property market

Psychological effect

"As long as the rand remains a cheap currency, South African properties will continue to remain cheap for foreign buyers Investors are more concerned with finding good investments than going bargain-hunting round the world"

Mr Lawrence Seeff, managing director of the Seeff Property Organisation, said the loss of the finrand concession meant that residential property would cost overseas buyers about 20% more and this might have a psychological effect on them "But with £100 000 they will still be able to buy a property costing nearly R500 000"

Mr Carl Scheppening, managing director of the Board of Executors Properties, said that finrand transactions were only a small percentage of total property sales and the withdrawal of this concession "will hardly dent the property market"

Most home-owners ignore new bond scheme

By HILARY JOFFE

FEW home-owners have so far taken advantage of the new scheme designed to help bond-holders struggling with high interest rates, building society sources say.

The scheme, which is to run until April 1992, allows borrowers to make monthly payments based on a 17 percent bond rate rather than the 19,75 or 20 percent currently charged by most institutions. But they will continue paying at 17 percent when bond rates drop below this level, until they have made up the amount they defer now.

The scheme was first announced at the time of the May interest rate increase, but details were finalised only last week, when an agreement was signed between the financial institutions and the Department of Public Works and Land Affairs. The department is guaranteeing the financial institutions against any losses they may suffer as a result of the scheme.

The scheme is intended to help needy borrowers who find they cannot maintain their monthly payments at current rates and are in danger of losing their houses.

But building society people this week stressed that payments would be deferred rather than subsidised.

"People are not getting anything for nothing and they must understand they will be paying in the end," said Olivier.

The scheme is open to any borrower but the limits are:

- The bond-holder must be occupying the property (rather than renting to tenants, for example);
- The loan must have been obtained prior to May 1 this year;
- The property's current value must not exceed R120 000;
- The balance on the bond must not exceed R90 000.

The bank or building society involved uses its discretion to decide whether a bond-holder may take advantage of the scheme.

Natal Building Society assistant general manager (loans) Trevor Olivier says it is unlikely borrowers will try to manipulate the scheme because they realise they will have pay in the end. NBS has been approaching bond-holders who are already in arrears with their payments and asking them whether they would like to apply for the new scheme, but otherwise has so far not had many applicants, he said.

The Perm's Peter van Broembsen said this week there had not been great demand for the scheme because people recognised it was a deferment and not a subsidy.

"Bondholders would rather try to meet the current rate," he said.

The difference between the 17 percent and the current 20 percent rate will be added to the capital amount of the bond on a monthly basis.

As a result, bond-holders who defer their payments under the scheme will in fact end up paying more than they would have otherwise, says the latest issue of *Multiple Listing Service News*, newsletter of the estate agents network, MLS.

"The lending institution will actually earn more than 20 percent since the interest on the new capital sum will be higher in rand terms than it would have been had the capital sum been maintained at its original value," the newsletter points out.

It's not clear to what extent the bond deferment scheme will benefit black home-owners, the majority of whom are subsidised.

According to Van Broembsen,the scheme applies to subsidised bondholders only if it does not affect the subsidy arrangement.

"Our experience is the vast majority of the accounts we are handling for black clients are subsidised in some way, whether by the government or by private companies."

He pointed out many subsidised homeowners were in effect making bond repayments at less than the current rate.

58 W/mail 11-17/8/89.

Property trusts are all the rage

Star 12/9/89.

58

LIKE Cinderella, property trusts have become a sparkling overnight success.

They are currently the hottest stocks on the Johannesburg Stock Exchange, with institutional buyers clamouring for a limited supply of stock.

This week the surge in property trust shares reached fever pitch with the index rising very close to peaks reached just before the market crash in October 1987.

For years property trusts have underperformed virtually all other sectors on the JSE, due to their poor earnings performance.

Since the property trust index reached its post-crash low of 107 in November last year, the index has soared by close on 70 percent, with some property trusts doubling in value during this time.

Like all other sectors on the market, property trusts recorded strong growth during the first quarter of this year. But after a period of consolidation, which lasted until the beginning of May, the index soared from 130 and now stands at around 170.

This surge is directly related

MAGNUS HEYSTEK
Finance editor

to the changes in Prescribed Asset Requirements (PAR's) announced during this year's Budget which allows institutional investors greater investment flexibility.

Institutions, like life insurance companies and pension funds, now have the discretion to put up to 65 percent of their investable funds in equities, 30 percent in property and the rest in gilts and cash.

But property trusts really only entered the spotlight as a result of a decision by the Registrar of Financial Institutions to classify property trusts as property and not shares. Due to its rather pedestrian performance the sector has been neglected by investors.

Property trusts are widespread investments in prime commercial, industrial and in some cases residential properties. These trusts are managed by management companies who, after allowing for operating expenses and management fees, pass on all earnings to shareholders.

Property index surges on the JSE.
SOURCE: Stock Market Solutions.

What makes property trusts particularly appealing, especially to pension funds and charitable institutions, is that the earnings are not taxed at source, but only in the hands of the ultimate holders.

Property trusts receive their income from rentals of the buildings under their control, a factor which is obviously influenced by the state of the general economy.

Rentals tend to rise, albeit with some time-lag, in response to improved economic conditions, while rentals might decline in real terms in an economic downturn.

Currently, property analysts still remain bullish about the immediate prospect for property trusts.

Mr Nikki Vontas from JH Isaacs Real Estate has recently completed an in-depth study on the property trust sector for stockbroking firm Frankel, Kruger, Vinderine and predicts that it could outperform the financial and industrial sector in the next six months.

Mr Vontas feels that the index could reach 200 before the end of the year as a result of a fundamental re-rating of property in the country.

Prime commercial property is still in great demand, reflecting optimism about the expected performance of the econony next year.

This will result in significant adjustment to rental levels when rentals come up for renegotiation, says Mr Vontas.

Fears as SA's $8,5bn debt repayment looms

B/t M News 12/8/89 (S8)

From CLAIRE GEBHARDT

JOHANNESBURG. — Fears are increasing that South Africa will be forced to repay its foreign debt in a single crippling instalment in June 1990.

Consternation mounted this week as the sanctions noose tightened in the wake of the Commonwealth Ministers' decision to call for more stringent repayment conditions for South Africa's $8,5-billion (about R23-billion) debt "inside the standstill net".

If the call is successful, it could force South Africa to do the unthinkable — renege on its debt, say economists.

The big question now is how far lending institutions will go towards accommodating the politicians — and thus put their own money at risk. Foreign bankers cannot easily be seen to defy the anti-apartheid lobby — but they are well aware that every new squeeze increases the risk of default.

Economists counsel, however, that there is still a wide gap between the posturing of politicians at this week's Commonwealth meeting in Canberra and the actual implementation of a radical new policy to annihilate the South African economy.

The current rescheduling agreement, concluded in 1987, requires full repayment on long-term loans, but only token payments on short-term debt frozen under a 1985 moratorium.

The Foreign Ministers will urge larger capital repayments, higher interest charges and rejection of any attempt by the country to extend repayment over 10 years.

This would be a grievous blow to an economy already reeling under the pressure of being an unwilling net exporter of capital since 1985. It would mean further restrictions on economic growth, a weak rand, high inflation and more unemployment.

Achieving a large surplus year after year implies the transfer of real resources to the rest of the world, which in turn means fewer goods available for public and private investment and consumption.

South Africa's total debt is roughly $20,5-billion, of which $8,5-billion is inside the net. This is the element on which anti-apartheid activists and church organisations are focusing.

On top of this, South Africa is faced with repayments on $12-billion of loans which lie outside the net — a figure that includes two bearer bonds of R1-billion each which are due to mature in 1990 and 1991.

To default on these, issued to hundreds of pension funds and wealthy widows, could see South Africa denied access to international financial markets for decades to come. In the interim, the country could be embroiled in a spate of court cases for trifling amounts.

In this catch 22 situation, South Africa can try to negotiate its way out of a more stringent rescheduling agreement but cannot reject it out of hand. If it did, we could be seen as defaulting, say economists.

The implications could be the seizure of the nation's foreign assets and possible interference with our gold sales receipts. Economists contend that South Africa's options are limited.

Southern Life's Mike Daly says if the US banks withdrew overnight, no-one would be willing or able to lend South Africa the money to repay the debt.

"We would have to declare a default, which would give us a once-off financial bonanza of R4-billion. More stringent repayment conditions will make things very difficult but bankers are aware that the more they squeeze the economy the less likely they are to get their debt serviced."

Old Mutual economist, Dave Mohr, points out that even if the country were to sell off all the gold it owns, it would not be in a position to repay the debt should it be called upon to do so in 1990.

"We physically cannot repay — we've only R2-billion in the kitty. Effectively our assets could be attached but South African assets abroad are peanuts compared to foreign debt — unless private sector assets are attached too."

Nedbank's Edward Osborne says, in extremis, to default is not only legitimate but inevitable if the country is denied the means to redeem its debt.

"We have all the First World needs to grow and find employment. And yet the world is asking for us to be a net capital exporter at the same time.

"One must acknowledge the dangers of having assets in America, but for America to attach any assets would create awful precedents — with very unfortunate consequences."

Property dealers up in arms over dumped finrand

CAPE TIMES 12/8/89

(58)

By MALCOLM FRIED

CITY property dealers are at odds with politicians and financial analysts over the significance of the government's scrapping of financial rand deals for foreigners buying South African property.

Minister of Finance Mr Barend du Plessis announced on Wednesday that local pressure — mainly from the Western Cape — had led to the move.

Overseas buyers now have to spend commercial rands on farm and residential property — costing them about 20% more and putting them on a par with local buyers.

The move was yesterday welcomed by Democratic Party finance spokesman Mr Harry Schwarz, but property brokers said it was an "emotional" step and would have little significance.

"We're talking about a fraction of one percent of property deals," said Pam Golding Properties managing director Mr Cecil Golding.

Seeff Property Organisation managing director Mr Lawrence Seeff said the overseas demand for financial rands for residential property was less than three percent of the total demand for other investments.

Mr Schwarz said, however, that despite the government's "politically convenient timing", an "extremely unfair situation" had been resolved.

"To claim that less than one percent of property is involved or to give other across-the-board statistics is not the point.

"Overseas deals had been confined to only a small section of the expensive property market, where foreigners have been allowed to compete to their own advantage for too long — since 1986."

The low value of the rand and relatively cheap prices for South African property made local buys attractive enough without the "added and unnecessary incentive of an artificial monetary unit".

Mr Schwarz's view was echoed by business consultant Dr Craig Stein.

"There's no doubt that locals are now better able to compete with foreigners," said Dr Stein.

The "terrible abnormality of the 'property' rand" was also criticised by the managing director of Transvaal-based property firm Camdon's Nationwide, Mr Scott McRae.

"We shouldn't be giving away the family silver."

Chinese tunny boat towed to Table Bay

Don't be caught short on your car insurance

Star 12/8/89

AT a time when the replacement costs of motor vehicles, both new and second hand, are escalating at a rapid rate, motorists are being warned to be especially careful to see that their cars are adequately insured.

The warning comes from Mr Bruce Lipton, a member of the fire and accident sub-committee of the South African Insurance Brokers' Association (SAIBA) and a director of the commercial division of Glenvaal Transvaal insurance brokers.

"In the past the tendency was to look at the middle-market values of second-hand vehicles and then insure them for a lesser amount as values were always decreasing," he said. "Today it is wiser to take the retail price, plus GST, as the more realistic figure and then still probably over-insure slightly."

Mr Lipton quoted the example of a Mercedes Benz 380SE bought new in 1984 for R50 000. The market price quoted in the Auto Dealers Digest, the "bible" of the motor trade, was recently given as R65 000.

"However, the owner established that the vehicle commanded a price of R90 000 from the agents on a trade-in," he added. "Thus, to have insured the vehicle for R65 000 would have meant a shortfall of R25 000 if one wanted to replace the same vintage of car in the event of loss."

Mr Lipton said that these descrepancies did not only apply to so-called luxury cars but across the board.

58

"A Ford Sierra, bought for R22 000 couldn't be replaced three months later for R26 000," he said.

Although the Auto Dealers' Digest has proved a reliable guide to second-hand car prices in the past and while its publishers, Mead and McGrouther, go to considerable lengths to verify prices, the market is so fluid at the moment that considerable distortions are not uncommon.

"Moreover," said Mr Lipton, "it must be remembered that insurance brokers are not experts on car prices. We will do everything to assist vehicle owners but the onus is ultimately in the insured to determine the price at which he wishes to insure his vehicle."

While he believes the market could one day reassert itself, it is showing no signs of doing so at present, with the rand declining and inflation rising.

Exploit tax-free investments while they last

Star 2/8/87

58

Money Matters

MAGNUS HEYSTEK

THE Government has postponed its decision to phase out the tax-free benefit on certain types of investments, notably building society, Post Office and Treasury investments.

The orginal decision to phase out these tax-free benefits was announced during last year's Budget speech and the phase-out period should have started on March 1 this year.

For some reason, still unclear to many people in the savings industry, this decision has been postponed to March 1 next year, which provides hard-pressed investors with some relief until these concessions are finally withdrawn.

According to an informed source, pressure might have been brought to bear upon the authorities by the Post Office which stands to lose most of its attraction to savers and investors. However, this could not be confirmed.

But there is no doubt that the Post Office as a financial services institution will have to undergo a drastic change in terms of the products offered if it wishes to survive. It will have to offer the same products and services offered by other insititutions.

But, to my mind, the Post Office and the Treasury are currently offering excellent returns on their indefinite-period tax-free investments.

Six months

The Post Office is paying 9,5 percent tax free on its savings certificates up to a maximum of R70 000 per taxpayer. Not only is this maximum higher than investments at banks and building societies but the minimum investment period is only six months.

Treasury Bonds, also offering a tax-free 9,5 percent, are available on amounts up to R60 000 per taxpayer.

To beat the net return, an investor in the highest marginal tax bracket of 45 percent will have to earn at least 17,3 percent elsewhere. As far as I know, this rate is not available, even for large sums of money.

So until March next year, investors can still earn tax-free returns on certain types of investments. Savers and investors, especially in the higher marginal tax brackets, should use this avenue for as long as possible.

The sad fact is that even without the added burden of tax, the saver will still be less well off if the effect of inflation is taken into account. And with interest rates set to start coming down towards the end of the year, coupled with an expected upturn in the inflation rate, savers will have no choice but to watch the real values of their savings slowly being undermined by inflation. That is why it so important to invest in real assets.

For people in lower marginal tax brackets, it really does not make sense to invest large sums of money in tax-free and partially tax-free savings instruments. They would do far better investing in other higher-yielding instruments available to them.

Above is a schedule of tax-free investments still available to investors:

NBS creates new broking division

Star 12/8/89. (58)

MIKE PEIRSON

THE NBS has formed a new broking division which will place them as one of the major players in this sector. This is seen as a move by the group to further diversify its range of services.

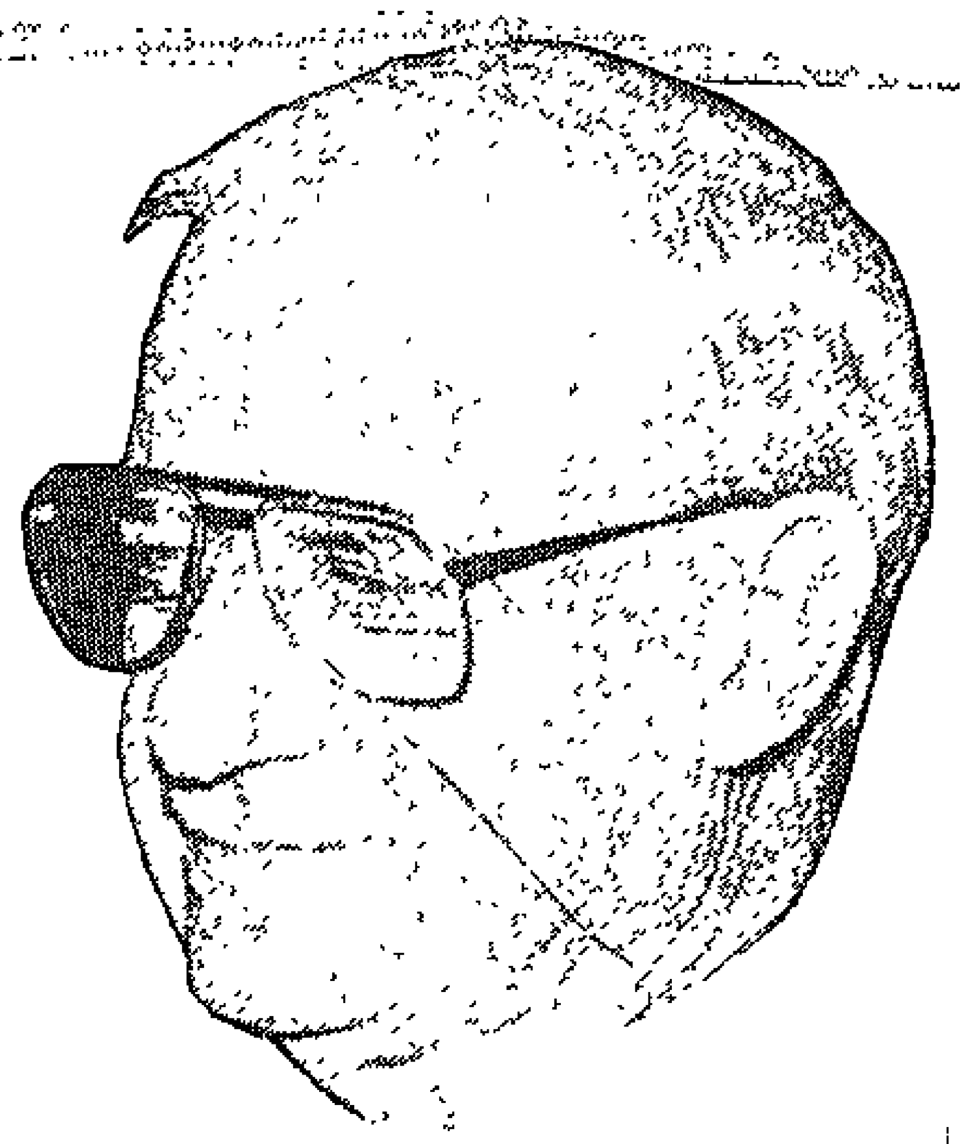
Public affairs general manager Brian Short said that by utilising existing structures and the network of branches throughout the country the NBS had been able to create a powerful force in corporate broking.

"We have identified a need to offer our clients balanced investment options and, through our new broking division in addition to our existing products, we can provide them with access to a wide variety of assurance products," he said.

"This has been achieved without having to add significantly to an existing staff base of 92 financial planners. We have always been involved in this sector but have in the past used the services of a third party for the assurance side of the business.

"It is expected that as a result of this move our commission earnings will more than double. But more importantly our clients will have at their disposal investment and assurance options ranging from saving schemes and unit trusts to life assurance and pension schemes.

Heading up the new operation is Hilton Damain-Harris. He said that the corporate broking division would build upon the systems already in place whereby financial planners were in a position to provide both internal and external consultations.



De Kock leaves SA a legacy for the future

58

St Times 13/8/89

by Harry Schwarz

chief Democratic Party spokesman on finance

A GIANT tree in the financial forest has fallen. This tree towered over almost all others. We will miss its shade and fruit but its timber will be used for the foundations of the future.

This is how I view the passing of Gerhard de Kock, Governor of the Reserve Bank. I do not contend he was always right in everything he said and did, but nor did he.

He had the greatness of intellect to admit when he had erred and to concede that he was gaining more knowledge every day. This added to his qualities.

It was a privilege to discuss financial matters with him, as his depth of knowledge and vast experience made it necessary for those who held discussions with him to be alert if they were even to try to keep up with him.

So many men of intellect, status and power become arrogant. This was not a failing of this man. He had both charm and tolerance. He had a great ability to communicate. People who had much less knowledge of his subject, or perhaps were even ignorant, were able to understand him and his message.

The combination of pleasant manners, high intellect and eloquence made him convincing to the public, businessmen and politicians alike. Perhaps it was this strength which sometimes made him dangerous when he was wrong — because no man is infallible and he was so persuasive.

Excellent

There was a high degree of humility about him. His many speeches, reports and papers are punctuated with admissions that, with hindsight, he could have done better.

Perhaps his greatest disappointment was the international banking community's turning against South Africa. He had excellent personal relationships with the leaders of the banking community abroad. He thought they were not only his friends but South Africa's allies.

Almost until it happened he could hardly believe that the bankers would refuse to roll over existing loans or grant new ones. However, even in a hostile environment for South Africa, his own relationships remained, as did the esteem for him as a central banker.

I have spoken to him when he was elated and when he was depressed or frustrated. One does not break confidences: I will not do so, and I knew that he never did. Suffice it to say, he was a man who cared for his country and its people, and who showed loyalty, sometimes in difficult circumstances.

He was human like us all, but he was a leader who earned respect from his peers, followers and opponents.

Feared

His advocacy of market forces has left an indelible mark on the South African economic scene. He would have been a good governor of the Federal Reserve Bank or the Bundesbank.

Perhaps a matter that occasionally worried me was a feeling that he thought on so broad a basis that he feared he might be overlooking the fact that we are a relatively small country in Western economic terms, and our currency is a relatively minor factor in world markets and is vulnerable.

South Africa is a different place economically from what it was when he became governor. Many controls have disappeared; others have become less restrictive. In his later years, he appreciated more and more the link between politics and economics and, equally important, he said so.

He presided over the Reserve Bank at one of the most difficult times in our economic history. He had to walk many tightropes. His skills were of immense use to us at a time when cool heads and courage were needed.

While we will miss Gerhard de Kock, we are grateful that he was with us when we needed him.

SUNDAY TIMES, Business Times,

WALKER

Manserv, Merhold tie it up

S[unday] Times 13/8/89

58

THE corporate services divisions of Manserv and Merhold have been merged under the name Colfin.

Colfin, which provides corporate finance consultancy services, was wholly owned by Management Services Corporation, formerly Don Gray. Manserv was to have been renamed Colfin, but the right to do so has been lost in the latest move.

Merhold is involved in trade finance, confirming and allied services. The corporate services division's complement of qualified people is four.

The new Colfin will be active in management consulting as well as corporate and project advisory services, but will have greater access to sources of funding for investment banking.

Plenty of work is available, and Colfin expects opportunities to present themselves as high interest rates take their toll on companies.

Merhold's Christopher Seabrooke will be executive chairman of Colfin, and Harry Spain of Manserv the deputy. Some non-executive directors will bolster the board.

Mr Spain says the prospect of getting together has arisen several times in the past.

After the changes Manserv will be made up of four divisions, including 50% of Colfin, and R3-million cash.

EARNINGS PER SHARE (cents)

SUI

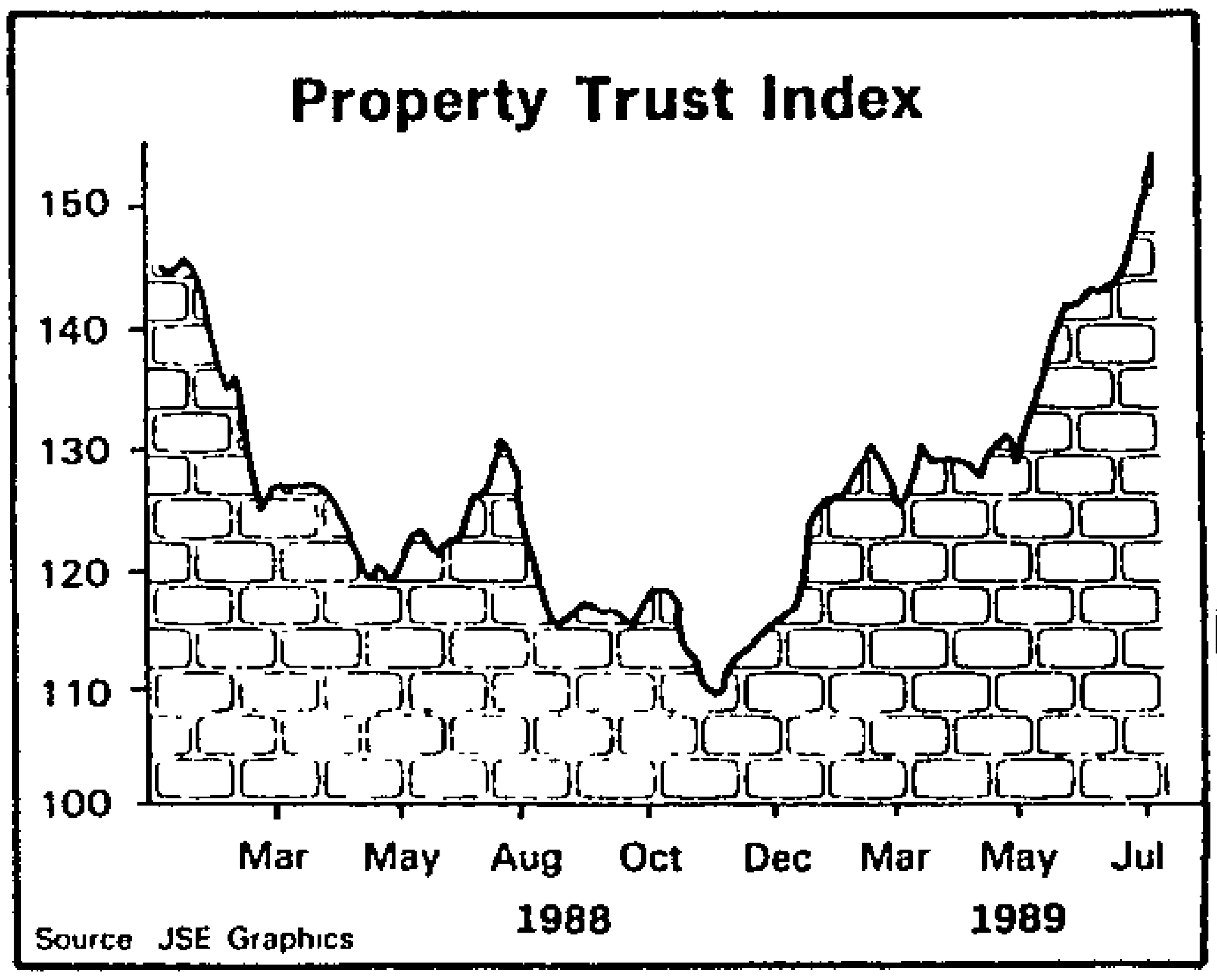
JULIE

S/Times 13/8/89

Property loan stocks in the sun

58

PROPERTY loan stocks are in great demand because investors expect a change in their classification.



Loan stocks are listed in the property sector of the JSE, but they are more closely allied to the property trust sector.

They differ from true property trusts in that they can borrow within limits, and pay for acquisitions by the issue of units.

A property trust is restricted from borrowing, and from issuing units, whereas property companies can be managed as the directors see fit, and as such are associated with higher risk.

Property-share analyst John Rayner of stockbroker Max Pollak & Freemantle describes the JSE's property sector as schizophrenic.

He refers to the inclusion of companies whose operations range from mine dump retreatment to construction and broad investment trusts.

The misunderstood loan stocks got together and formed an association of which Retprop's Howard Schachat is chairman.

Mr Schachat says loan stocks were specifically designed to get around the restrictions placed on property unit trusts, but in such a way that investors gained a spread in prime property.

On Monday, the association warned that the Registrar of Financial Institutions had favourably received representations that loan stocks be classified as fixed property for the purposes of prudential investment guidelines regarding the new prescribed asset requirements.

AVERAGE

Under the new requirements, insurance companies may have up to 65% of their funds in equities and up to 30% in physical property.

But the average insurer has only 12,5% in property, and pension and provident funds average only 9%.

Mr Rayner explains the significance.

"When property trusts were reclassified as physical property it allowed institutions more cash for direct investment in equities. The property trust index has boomed by 50% since November last year."

It reached a high of 169 last week when all the counters were well bid.

Loan stocks are going the same way.

Since March, Retprop debentures are up 95c at 525c and Pangbourne at 510c is up from 360c last September. Higate has climbed from 400c to 550c since December.

Mr Rayner believes that yields on property trusts and loan stocks will look even more attractive when interest rates start to fall. This is because rental income growth is built in. Rents have accelerated rapidly in the past three years.

Mr Schachat says the association is lobbying the JSE to consider a separate property sub-sector to house loan stocks in order to overcome their identity crisis.

Autogen calls off rate war

By Robyn Chalmers

SHORT-TERM insurer Auto & General has taken the first step to end the rate war by increasing premiums by up to 30%.

The war has lasted 18 months. SA Insurance Association chairman Ron Carter describes it as the most intense he has seen.

Insurers slashed premiums to gain a greater share of the soft market, but the recently released results of SA Eagle, Commercial Union (CU) and Fedgen show how badly the rates war dented underwriting profits.

In the six months to June, SA Eagle reported a 71% slide in its underwriting surplus to R4,1-million from R14,3-million in the comparable time the previous year.

CU's surplus dropped by 20% from R10-million last year to R8-million for the six months to June. Fedgen turned its 1988 interim underwriting profit of R1,3-million to a R1,2-million loss for the same time this year.

Managing director Steve Klinkert says most of Auto & General's motor premiums will be increased by between 15% and 30% from September 1, but household policies will not be affected.

"We monitored our claims and found marked upward pressure on claims. We do most of our business in the summer rainfall areas, and claims soar in the wet season.

"Inflation and an increase in crime have forced us to charge more."

Mr Klinkert says many companies have been trying to expand their business in a market which is not growing much.

58

Corporate

Standard Bank Insurance Brokers (SBIB) marketing director Gavin Almanza says many other factors contributed to the rate war.

"Some insurers have focused their marketing drive on low premiums, making the public price conscious. The ordinary person's disposable income has been falling.

"Insurers have paid increasing attention to the personal insurance market. Many previously concentrated on the commercial and corporate markets."

Mr Almanza says increased market share has been made attractive by high interest rates. The so-called cash-flow underwriting approach has been adopted by many underwriters.

This form of underwriting means high interest rates are used to make up the difference where premiums do not relate to risk. Mr Almanza says this is both a short-term and dangerous ploy. If interest rates fall, premiums are inadequate to cover risk.

Tall order

MUST Overseas Investments is contsructing one of the tallest buildings in Windhoek. Sanlam's R30-million project is 13 storeys high and will contain a 15 000m² office block and shopping area of 6 000m².

Nurses: Govt probe set up

Cape Times 14/8/89

JOHANNESBURG. — The government has set up a working group to address complaints made by the nursing fraternity on their working conditions.

The issue of salaries, a main grievance, is receiving attention from the Commission for Administration.

A Department of National Health statement said the working group of the Health Matters' Advisory Committee (HMAC) under the chairmanship of Dr C F Slabber, the department's director-general, will also have representation from the SA Nursing Association and the SA Nursing Council.

Their findings will be submitted to the HMAC and the minister.

Up to 80% of state-trained nurses left the public sector for the private sector within three years of completing their training, said nursing association president Ms Odelia Muller.

This was due to poor salaries, poor overtime payment and inflexible hours.

She said the association had attempted for some time to solve the problem in a responsible manner through existing channels but the members were becoming impatient at the lack of progress.

Time considering separate listing for Time Housing

ST 14/8/89.

58

Finance Staff

Time Holdings reported another good set of profits in the six months to end-June and is considering a separate listing for its Time Housing subsidiary.

Attributable profits in the interim period rose by 62 percent to R3,4 million (R2,1 million), while earnings per share were up by 21 percent to 9,2c (7,6c), despite a substantial increase in the number of shares in issue, and assisted by a reduced tax burden.

Turnover rose from R70 million to R86,3 million.

Commenting on the results executive chairman Colin Hibbert said that all operating divisions had performed well under difficult trading conditions.

"Time housing, in particular, has traded successfully in a generally depressed housing sector and as a part of a general restructuring of the group, the board is currently examining the merits of separately listing Time Housing on the JSE."

He added that the decentralised operating philosophy had paid off with good growth being achieved in many of the outlying branches.

"Time Life Assurance is attracting significant new premium income in niche markets and is expected to contribute again to group earnings this year.

"Time Properties will consolidate the group's property management, financing and development activities in the commercial and industrial sectors," Mr Hibbert said.

On prospects he said that the current slowdown in the economy was expected to impact adversely on profitability in the second half. "However, we expect to target a real earnings growth in the year to December."

Higher pensions force borrowing

Cit Tuss 15/8/89

58

By AUDREY D'ANGELO
Financial Editor

THE increasing amount of "forced" saving through larger payments to pension and provident funds as salaries rise has caused consumers to borrow to keep up their standard of living, Senbank chief economist Johann du Pisanie suggests in his economic review.

He bases this on detailed figures in the Reserve Bank's flow of funds account, which show that pension and provident fund contributions by employees and employers are included in statistics of employees' remuneration although "these contributions are not actually received by the employee in the relevant year".

If this is taken into account, he says, households had R88bn available for consumption last year and not the R114bn calculated by the Reserve Bank.

Du Pisanie says that total credit extended to the domestic private sector increased by R26,6bn last year. Personal and corporate saving was R11,6bn and net investment by the private sector R5,7bn.

"The question arises why the private sector should have needed additional credit.

"Part of the answer is to be found in the fine print below the tables in question in the Reserve Bank's Quarterly Bulletin.

"Pension, provident and long-term insurance funds are included in the personal sector while the saving of the banks themselves, other monetary institutions and public corporations are included in corporate saving."

Du Pisanie continues: "If the Reserve Bank were to distinguish in its national accounts between financial intermediaries and other institutions, it would throw more light on the position of households."

He says the increase in the assets of the funds or "contractual saving" by households was almost R26bn in 1988.

If this were deducted from the personal disposable income of R114bn as calculated by the Reserve Bank "it is revealed that the current income households actually had available for consumption was only R88bn".

But private consumption expenditure totalled R112bn.

"It may therefore be deduced that households had to incur additional debt of nearly R24bn to finance their consumption and saving.

"The net saving of R1 907m which is indicated in the Reserve Bank Quarterly Bulletin is equal to personal disposable income minus private consumption expenditure and transfers made. It is also equal to the difference between the "contractual saving" of R25 836m and the additional credit of R23 610m."

This information, says Du Pisanie, can be interpreted in several different ways. One is that consumers lived above their means — incurring debt to finance part of their consumption expenditure.

"An alternative interpretation arises from the fact that many employees have to pay compulsory contributions to pension, provident and insurance funds which are supplemented by employers. It is possible that many employees accept this commitment as part of their conditions of service but in fact choose to save much less.

"Thus they obtain credit to reduce their net saving. In other words, the credit is in fact being used to finance their contractual saving, not their consumption."

Du Pisanie concludes that "if employees were to make only voluntary but not compulsory contributions to pension, provident and insurance funds, the flow of money to these funds, as well as the consumer's need for credit, would have been much smaller in 1988."

This interpretation, he says, is supported by figures showing that the total percentage of personal disposable income going into contractual saving has increased from 8,2% in 1974 to 22,6% in 1988.

However, he continues, since 1981 credit has been used to reduce net saving as a percentage of income and therefore "households use credit for both consumption expenditure and contractual saving".

Financial rand cut-off: Envoys pay up in SWA

SWT 15/5/85 Own Correspondent (58)

WINDHOEK. — Withdrawal of a financial rand facility has overnight doubled the cost of acquiring property for latecomers in the booming diplomatic sector.

Foreign government missions — one of the biggest recent influences on Windhoek's real-estate market — have bought up dozens of residential properties at a 50% discount on hard currency by using the financial rand as a conduit.

Finance department officials said yesterday the facility available to non-residents since 1986 had been withdrawn from last Thursday, in line with a similar cut-off in South Africa.

Fedsure turns in solid performance

Star 11/8/89

(58)

By Magnus Heystek
Finance Editor

Despite underwriting losses at its short-term insurance arm, Fedsure still managed to record solid profit figures for the half year to end—June with attributable earnings rising 25 percent to R9 million.

Earnings per share amounted to 13,4c compared with 10,8c the previous financial year.

The interim dividend has been increased from 6,75c to 8,25c a share.

Group chief executive Arnold Bassarabie says he is satisfied with Fedsure's performance, which was recorded in an increasingly tough economic climate and competitive insurance environment.

Total group assets increased by 15 percent over the corresponding figure at June 1988 and now stands at almost R3 billion.

The long-term insurance arm of the group, Fedlife, continued to show encouraging growth in both recurring premiums, which rose 31 percent, as well as investment income, which rose 25 percent.

Fedlife contributes the major part of the group's profits and represents 97 percent of the group's assets. For the period under review, attributable profits at Fedlife increased 26 percent to R8,7 million while total assets rose 15 percent to R2,833 billion.

A decision to reduce Fedlife's exposure to single premium business resulted in a drop of 38 percent in income from this source, which nevertheless amounted to R51 million.

In respect of claims and benefit payments, the amount of pensions and annuities payable by Fedlife rose 28 percent.

This was because of a substantial increase in pension and annuity business written over the past few years as well as "inflation" bonuses paid to certain pensioners.

SHORT-TERM

On the short-term side, Fedgen experienced difficult underwriting conditions. This is a general feature of the market where the rate war is eating into profit margins of insurers across the board.

However, Fedgen's investment income rose 37 percent to R5,9 million, helping to offset the higher claims experience.

The greater reserve requirements in terms of the insurance act, required the company to set aside R3,3 million. After making this provision and providing for the underwriting loss of R1,2 million, profit for the first six months of 1989 amounted to R1,4 million.

Financial rand stands up well to Hanson payout

STAR 17/8/89

By Neil Behrmann

LONDON — Rembrandt has already negotiated a massive transfer to Hanson of £120 million (800 million financial rands).

The money flowed through the financial rand market and the deal was carried out by RND International, a company partially owned by Richemont, Rembrandt's international corporation.

Mr Geoff De Jager, managing director of RND International, said that the transaction was carried out over three weeks. It was concluded before the GFSA sale was announced on Monday.

"It was a very difficult transaction, particularly since the market knew that we needed to sell rands," said Mr De Jager.

"We were selling and buying to confuse other dealers." Despite this frenetic activity, the financial rand rate held at 23,75 to 24,50 US cents, despite the continuing sale of rands and a gold price which dipped from $378 an ounce.

Around 24 US cents, the financial rand is presently at a discount of 33 percent to a commercial rand of 36 US cents.

Since daily volume in the financial rand market is estimated to range between R50 million and R80 million, the transaction was huge.

Dealers thus believe that the financial rand has performed exceedingly well.

Highly developed

London dealers say that the market has developed considerably since the SA Treasury agreed to immediately repay international banking creditors if they transferred the proceeds via the financial rand.

Dealers estimate that around 3 to 8 percent of the outstanding debt or around $1 billion has gone through the financial rand market. That money has been absorbed by international investors who were particularly attracted to the high yields on gilts.

The current yield on long term Escom stock is 16,4 per cent in South Africa. Via financial rands, however, the yield rises to around 25 percent. Assuming that there is no change in the commercial rand, a compound rate of 25 percent enables foreign investors to double their money in just over three years.

"If an international investor had invested $100 000 in SA long bonds in January 1986 and reinvested his coupons, the value of his investment would have been $210 000 in January this year," says James Capel. The same $100 000 invested in South African gold shares would have been worth $110 000 as at January 1989.

The dividend yield on leading SA gold shares — which is then subject to a 15 percent withholding tax — is only around 7 percent. Since the gold price is depressed and prospects are cloudy, bonds are far more attractive for the international investor. There is an indirect hedge in gold as well. If gold rises, the capital value and dividend payment rises in line with the rand.

West German and Swiss investors who receive less than seven percent on Deutschemark and Swiss franc bonds have been big investors in SA bonds. And since their currencies have also been buffeted by the strong dollar, they have not incurred any foreign exchange loss on rands.

"SA gilts and semi-gilts have attracted unexpectedly large sums of money," a dealer says, although money has also shifted into property.

With the market so confident, the financial rand is expected to stabilise and possibly rise in coming weeks. Dealers no longer need to fear the consequences of a massive deal which raised the supplies of the currency.

Yet for the financial rand to remain firm, the dollar should slacken and the gold price must stay above a crucial support level of $360 an ounce.The key number to watch is the rand gold price per ounce.

During the past year, the Reserve Bank appeared to keep that price around R1000. If the dollar surges and gold tumbles, the rand will fall to a range which lifts the rand gold price to R1000.

Ahead of trade figures, the US unit has been firm against all currencies. In fact in the face of sharply falling US interest rates, the dollar has been remarkably firm.

Squeeze brings wave of debt judgments

58

Star 17/8/'89

By Derek Tommey

The ugly side of the Government's squeeze is starting to emerge, with thousands of individuals and hundreds of undercapitalised companies finding they can no longer pay their debts.

Debt judgments against private persons reached a record 79 183 in May — almost 20 000 more than in May last year.

In the first five months of this year judgments were made against 352 000 people — 31 percent more than a year ago.

At the same time, some businesses report that up to 45 percent of their outstanding debts are overdue.

However, there has as yet been no increase in the number of businesses being sued for debt.

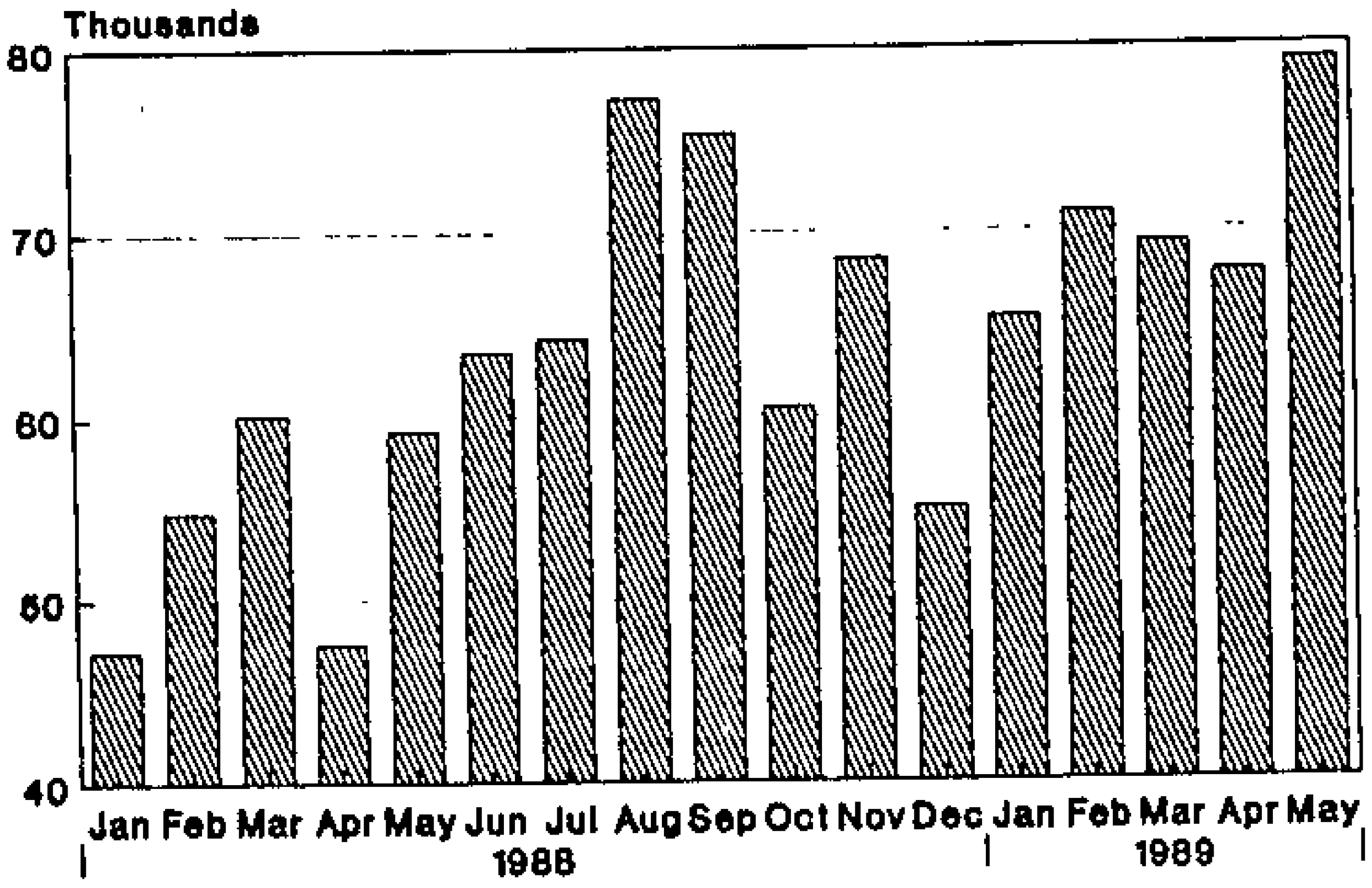
But bankers say this is just the start of a period of hardship for many firms and individuals and that the figures are likely to worsen in the months ahead.

Individual debt

The jump in individual debt judgments is blamed to a great extent on the steep increases in interest rates over the past 20 months.

At the start of last year it was still possible for people to buy a house with a 100 percent bond at 13 percent.

By the end of last year mortgage rates had reached 17 percent and are now 19,75 percent to 20 percent.



Debt judgments against individuals rise steeply.

Last year's homebuyers are having to make much bigger repayments than they ever expected and, in a great many cases, were able to afford.

Building society officials say the last increase in mortgage rates tipped the scales for many buyers and resulted in a jump in arrears payments.

These figures are not yet reflected in the official statistics for debt issued by Central Statistical Services, but are likely to show up in the next month or so.

KreditInform, a leading financial information services company, is finding similar hardship among businesses.

Managing director Ivor Jones says figures abstracted from its information sharing system show that of the R884 million owed by 65 000 debtors to more than 70 subscriber companies, some R300 million is overdue.

If this amount remains overdue for a year, it could cost the subscriber companies R60 million in lost interest — almost R1 million each.

"This highlights the fact that companies often lose more revenue to slow payers than to bad debts."

Mr Jones says the building material suppliers are among the worst hit, with 45 percent of their accounts overdue.

Many small builders are running into difficulties.

While the suppliers have an excellent level of credit management, the building industry is vulnerable to high interest rates and inflationary price increases.

A large number of small contractors belong to the pick-and-bakkie brigade. They are undercapitalised and when making quotes often fail to take into account price escalations.

Mr Jones says he expects many problems in the industry in the months to come as the effects of high interest rates filter through and as the downturn in takes its toll.

Other areas where overdue payments account for more than 40 percent of outstanding debts are the textile and clothing manufacturing sectors.

Slow-paying retailers are hurting both the clothing and textile industries.

"If a clothing manufacturer is being paid slowly there is no way he can afford to pay his creditors any faster," says Mr Jones.

The problems faced by retailers is highlighted by the fact that 27,1 percent of companies under compulsory liquidation in May were from the wholesale and retail trades.

Radio and TV suppliers and financial services companies report overdue payments comprise more than 30 percent of their outstanding debts.

Mr Jones says whenever interest rates start to rise, there is an upsurge in under-capitalised companies running into trouble.

Bankorp could de-list TrustBank

58

Star 17/8/89.

Diagonal Street

ANN CROTTY

Yesterday's cautionary statement from Bankorp and its subsidiary TrustBank has sparked off rumours of a possible de-listing of TrustBank at a price of around 200c a share.

Rumours of a de-listing have been floating around the market for almost two years and the recent heavy trading in TrustBank indicates that the announcements haven't surprised everybody.

Both announcements referred to "restructures that have occurred recently in certain South African financial institutions" and stated that they had decided to investigate the possibility of restructuring their affairs.

Although there has been considerable restructuring activity in the industry over the past year or so, the particular restructuring that immediately comes to mind is that at First National Bank.

Holding company

Last month FNB announced that the listed company would be named First National Bank Holdings (FNBH) and would become the holding company for First National Bank (the commercial bank), First Corp and Wesbank in addition to holding First Persam, First Namib, its 30 percent stake in Southern and its property company.

The move to create FNBH not only cleans up the organisation structure but also enables the group to use its debentures far more efficiently to meet capital requirements. This is because debentures can make up 10 percent of the capital base of each of the operating subsidiaries.

Bankorp may be planning to make use of this regulation to help resolve its capital squeeze. According to revised legislation, the required capital for banks is equivalent to around 5,5 percent of the asset base — the banks have until 1992 to phase in this requirement. For financial 1988 Bankorp was looking at only 3,9 percent.

The de-listing of TrustBank would also bring Bankorp's structure into line with the other major banking groups where there is one listed entity and a number of unlisted operating subsidiaries.

Listed Stanbic has Standard Bank — the commercial arm; Stannic — the industrial arm and; Standard Merchant — the merchant bank. None of the three divisions is listed.

Likewise with Nedcor, Volkskas and now First National.

At present Bankorp has an unlisted industrial finance arm — Santambank; and an unlisted merchant bank — Senbank; but its commercial banking division — TrustBank — is listed.

Another very good reason for de-listing TrustBank is the share's poor rating. Ahead of recent speculation, which has pushed the share to a high of 195c, it was trading on an historic price/earnings rating of below 4 times. This is significantly weaker than the sector average of almost 7 times.

The poor rating could be attributed to a number of factors including the bad publicity that has rubbed off from a number of forex scams; the expected continued squeeze on margins as the bank chases market share and; the perception that TrustBank will soon have to come to the market to lift its capital base.

Controlling share

But if the controlling shareholder (Bankorp has 77,5 percent of the shares) believes that the share is under-rated then a price of around 200c might appear an attractive buy. The more so if management has plans to implement efficiencies on the operational front as well as on the capital front.

Given the significant turnaround that has been achieved by Sanlam's other major investments — mining and industrial — there must be some pressure on Bankorp to shake off its image as the laggard. A de-listing of TrustBank could be a first step towards this objective.

Star 17/8/89 (58)

Liblife's off-shore interests perform well

By Ann Crotty

Liberty Life Association has reported a 43,3 percent increase in attributable earnings to R74,1 million (R51,7 million) for the six months to end-June.

After the conversion of 1,6 million preference shares this was equivalent to a 23,8 percent advance to 365,1c (294,9c) a share from which a dividend of 265c (220c) has been declared.

The balance sheet shows total assets at end-June of R17,3 billion which was 17,3 percent ahead of the end-December figure. Investments accounted for R16,5 billion — 16,8 percent up on the end-December figure of R14,2 billion.

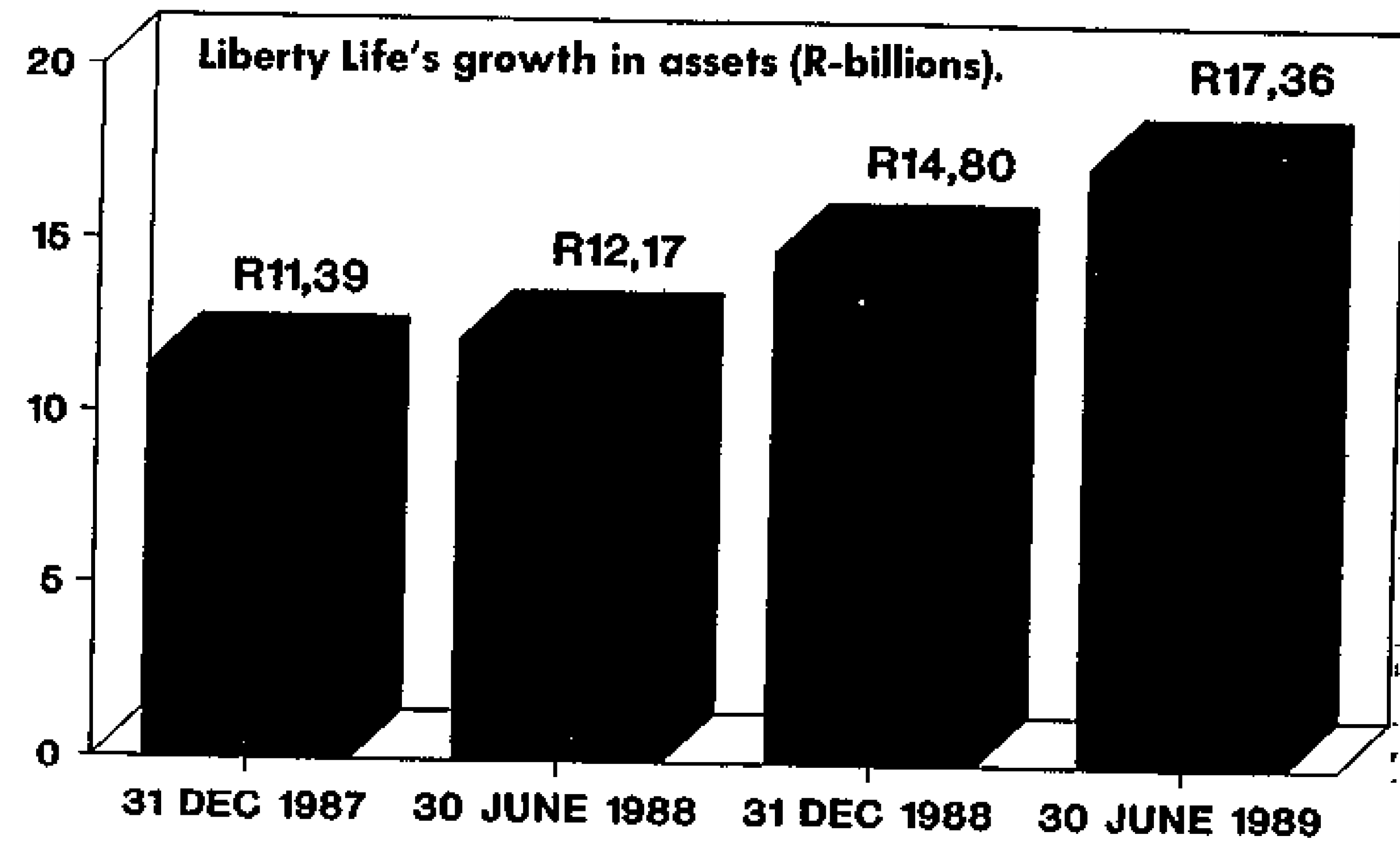
Liberty Life's total income was up 24,8 percent to R1,4 billion during the period with net premium income accounting for R815,4 million — an increase of 20,2 percent on the previous interim's R678,2 million.

The directors note that during the review period, new annualised premiums (which exclude single premiums and annuity considerations) rose by 35,4 percent to R149,7 million (R110,6 million).

Net income from investments rose 31,9 percent to R575,6 million (R436,4 million).

As usual the earnings figure at the interim stage is estimated as half the level achieved for the previous full financial year.

Liberty Holdings reported earnings per share up 33,1 percent to



110,1c (82,7c) for the six months to end-June from which it is has declared a dividend of 58c — 20,8 percent ahead of the previous interim's 48c.

First International Trust (FIT) — which holds the Liberty Group's offshore interests — has reported income of R50,4 million for the six months to end-June. After the deduction of an interest bill of almost R19 million and tax of R7,6 million, attributable earnings were R23,7 million — equivalent to 17,1c a share from which a dividend of 6c has been declared.

FIT owns 49,3 percent of UK-based TransAtlantic which in turn has a 67,4 percent stake in UK property group, Capital and Counties and a 29,8 percent holding in Sun Life Assurance. FIT also owns 29 percent of UK-based Continental and Industrial Trust.

According to the directors "substantial progress was achieved by TransAtlantic in the half year under review". Pre-tax profit was up 27,5 percent to £33,8 million (£26,5 million) while earnings per share were up 15 percent to 8,17p (7,07p). Net assets per share increased from 381p to 403p.

Capital and Counties has incurred further capex on its UK real estate development programme: "Construction is now well under way on all three of the major retail developments at Thurrock, Watford and Bramley and overall costs are being well contained within budget. These three outstanding projects are continuing to let well with the anchor tenants for each scheme now firmly committed."

AAE lifts

GROUP LIFE ASSURANCE

Finweek 58 18/8/89

Selling out

A technique used by marketing organisation Set for Life, to sell group life assurance policies underwritten by Standard General, is "under discussion" between the two organisations. Speculation is that either the scheme will be discontinued or the marketing agreement terminated.

Stangen MD Roberto Grandi tells the *FM*: "Early this year Stangen agreed to underwrite a group life assurance scheme (cover designed for a group of individuals). Such schemes used to be limited to employers providing a service to employees. But the concept has evolved to cover free-standing groups who wish to save on premiums. Premiums are based on actuarial calculations; the more people involved, the more likely the group will conform to actuarial expectations.

"The product is in line with statutory requirements and accepted practices."

58 Finweek 18/8/89

However, there are reservations about the marketing technique. Set for Life has used what MD John Drinkwater describes as multi-level marketing. Anyone taking out life cover can earn a form of remuneration by introducing others to the group scheme.

Says Grandi: "The scheme was brought to our attention by people in the market. We are not happy about it. A product and marketing technique are two aspects of the same thing."

Drinkwater, however, tells the *FM* he is surprised to hear the scheme or the agreement may be terminated. He claims Stangen "knew of the marketing plan from the start.

"This type of marketing plan is contrary to what the industry has been accustomed to for the last 50 years. We anticipated this kind of response from the life companies."

Drinkwater concedes he was previously involved in a pyramid selling scheme "in 1970," of an entirely different product. But he denies a similarity between his method of marketing and pyramid selling. "Pyramid selling requires a substantial financial investment from participants, who have to pay for their positions, which certainly does not apply to Set for Life."

Pyramid selling was illegal under the Trade Practices Act No 76 of 1976. Though this was repealed, the clause relating to pyramid selling remained on the statute books "in terms of a notice in *Government Gazette* No 6880 of March 14 1980," according to a spokesman for the Department of Trade & Industry. "If this marketing scheme continues, anyone involved will expose themselves to an investigation by the Harmful Business Practices Committee." ■

FRAUD

58 Fmail 18/8/89

US probes SA dealers

US authorities are investigating an SA-based company and two Johannesburg residents. The US Commodity Futures Trading Commission (CFTC) filed a two-count complaint in June against SA Controlled Investments (Pty) (SACI) and Steven Kelp and Brian King. The authorities say these names are aliases but will not reveal the real names.

SACI was registered in late 1987. Its last base was in Sandton.

Until it stopped operating a month ago, it dealt on behalf of clients in gold, platinum, silver and palladium.

The charge is that Kelp and King sold off-exchange futures contracts to US customers, "committing fraud in connection with the offer and sale of those contracts," according to a CFTC press release.

CFTC charges the sales, in violation of the Commodity Exchange Act, took place from July 1988 to June 30. Kelp and King are not registered with the commission, the release says.

On June 20, Maryland's Judge Edward S Northrop granted CFTC's request for a restraining order, freezing King and Kelp's US assets and granting CFTC access to the firm's books and records. The case was "continued for further action," the release says.

SACI is also under scrutiny in SA. A Reserve Bank spokesman confirms the Bank is investigating certain exchange control implications regarding SACI's activities in SA and has handed this over to the police.

"We have looked into the matter with the Commercial Branch and it seems to be related to fraudulent transactions not necessarily involving exchange control."

But Colonel Neels Taljaard of the Commercial Crime Unit confirms: "Investigations (are taking place) into contraventions of the currency control regulations alleged to have been committed by SACI and/or NBI." NBI acted as commodity broker for SACI.

Taljaard won't say what sort of fraud is being investigated or whether local investigations are the result of the US probe.

SACI and NBI are not listed at Kreditinform, a Johannesburg credit information company — possibly because they operated offshore. ■

INSURANCE

Bankers' umbrella

Bankers are using their own umbrellas to cover themselves against high-risk incidents including bank robbery. Most say the amounts involved in recent robberies will not make a significant impact on their self-insurance funds — because these are so large.

"These smaller claims are self-insured to avoid paying uneconomic premiums which insurers would charge for such high-risk, high-incidence losses," says Mibsa (formerly Minet) director Rod Copestake. "However, larger losses can be covered by the Bankers' Blanket Bond (BBB), an all-embracing policy underwritten by Lloyd's."

The policy covers crime losses — mostly incurred through fraud, theft, computer crime and even professional indemnity.

Losses which aggregate over a specified period can be covered by the BBB as soon as they reach an "aggregate protection level." The premium is determined by the level of cover the insured wants to buy and the level of deductible premiums he can bear.

The self-insurance fund is funded annually from trading profits. "Some banks identify this on the balance sheet, others hide it in reserves," a banker says. This is the trend worldwide, except for banks with limited ability to fund their own insurance.

Most major SA banks have self-insurance funds with high excess levels. Because details of losses incurred in recent robberies have been withheld by police and the banks, exact amounts are not known. Trust Bank and Standard Bank seem to have come off relatively lightly. Volkskas has lost about R1,5m this year, still below its excess level of around R5m. Nedbank is thought to have incurred losses in the region of R2m since January.

First National, which has borne the brunt of recent robberies, believed to be over R3m, insures through a captive in Europe which provides cover up to R100m. Above that, the captive buys reinsurance.

"Our captive covers the entire spectrum of crime risk," says FNB MD Barry Swart. "Based on valuation of operating risks, we determine the level of loss to be carried by it and reinsure the balance."

The FNB captive was formed in 1987, following the imposition of punitive renewal terms by underwriters in the wake of heavy losses in the US market. "The facility allows us to spread losses chronologically and so protect our balance sheet," Swart says.

Captives, which are being investigated by the Melamet Inquiry into the loss of premiums to overseas insurers, are able to operate in tax havens, where they have tax advantages. Money sent to the offshore captive can be taken from pre-tax funds with dividends returned tax-free. However some captives aren't allowed tax deductible premiums — depending on instructions from the Department of Inland Revenue. ■

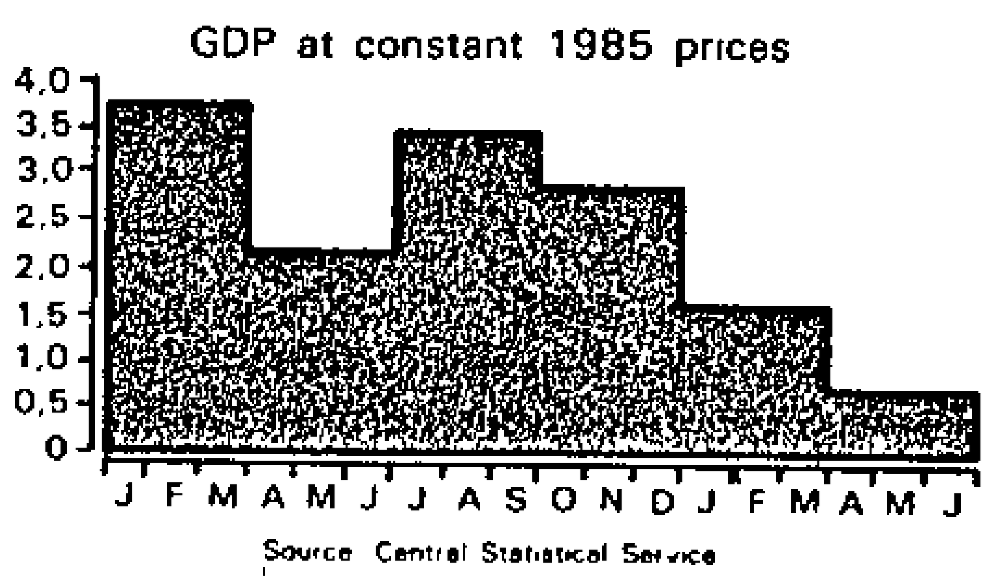
GDP GO-SLOW

It seems that measures introduced last year and early this year to slow the rate of economic growth have been effective.

Growth in seasonally adjusted real GDP fell between end-March and end-June, for the third consecutive quarter. Central Statistical Service (CSS) reports that seasonally adjusted annualised GDP grew only 0,7% in the first quarter. This compares with growth of 2,8% and 1,6% in the two previous quarters.

While agriculture grew by 17% (seasonally adjusted and annualised), the non-agricultural sector fell 0,4%. CSS attributes this to "further declines (-7,8%) in real production of mining (especially gold) and manufacturing (-2,1%)."

Tapering off



GROUP LIFE ASSURANCE

Fmail 18/8/89

Selling out

A technique used by marketing organisation Set for Life, to sell group life assurance policies underwritten by Standard General, is "under discussion" between the two organisations. Speculation is that either the scheme will be discontinued or the marketing agreement terminated.

Stangen MD Roberto Grandi tells the *FM*: "Early this year Stangen agreed to underwrite a group life assurance scheme (cover designed for a group of individuals). Such schemes used to be limited to employers providing a service to employees. But the concept has evolved to cover free-standing groups who wish to save on premiums. Premiums are based on actuarial calculations; the more people involved, the more likely the group will conform to actuarial expectations.

"The product is in line with statutory requirements and accepted practices."

Bond business undergoes a revolution

Star 19/8/89

58

Money Matters

MAGNUS HEYSTEK

IN recent years the home mortgage finance business has undergone a radical restructuring. Today prospective home-owners are faced with a bewildering array of options.

This, together with high rates of inflation, has also led to a fundamental change in the approach of most home owners. In years gone by, most people would have expressed the desire to pay off their bond as soon as possible. Today people realise that it makes sense to utilise their capital elsewhere.

Financial institutions have also recognised this trend and are increasingly offering home finance schemes which would have been considered revolutionary only a decade ago. Such is the speed at which the financial world is changing.

Long gone are the days when building societies and banks offered one type of home mortgage bond.

Today prospective clients can shop around for the best interest rate or have it pegged at a certain level for a set period to safeguard themselves against volatile interest rates.

Recently UAL, part of the Nedperm Group, offered an innovative option to homeowners. Instead of paying off the outstanding capital amount of the bond, the owner buys unit trusts which, if the historical performance of unit trusts is anything to go by, will ensure sufficient capital growth to not only repay the outstanding bond in 20 years' time, but also leave the bondholder with a substantial tax-free lump sum. This scheme, I have been told, is finding widespread acceptance among homeowners.

This week two major players in the field of home financing, the United and Standard Bank, announced similar home mortgage schemes.

Standard Bank now offers customers the option of paying off only the interest on their Access bonds and using the capital repayments portion to fund an endowment policy.

This product, called the Lifestyle Endowment Option, is offered in conjunction with Liberty Life and also guarantees repayment of the bond on the expiry of the home loan term or on the death of the borrower. This life insurance cover, I am told, is at highly preferential rates.

According to a Standard Bank spokesman, monthly repayments will be roughly the same as on a conventional bond with mortgage protection cover. Loans already with the Standard Bank can be converted to the Lifestyle option.

Coincidentally the United announced a similar package on the same day. While it was not possible to obtain further details from the United, the scheme is bound to operate on the same principles.

With three major institutions already offering these variations on home financing, it is bound to become the norm rather that the exception. In the United Kingdom more than two-thirds of home mortgages are granted on a similar basis.

Standard's product differs in two important aspects from the scheme offered by UAL. Standard offers the guarantee that the endowment policy will repay the outstanding capital sum when the bond expires. It also provides automatic life cover, which UAL does not. However, life cover can be added to UAL's scheme.

With UAL investing in unit trusts on a monthly basis rather than in an endowment policy, it is quite possible that the eventual lump-sum available to the mortgagee will be greater when the bond term expires. This statement is based on the superior performance of unit trusts when compared with endowment policies over the last 20 years or so. However, their is no guarantee that this will remain so.

These schemes will greatly increase the attraction of residential property as an investment for the average person. Not only will he be acquiring a hedge against inflation, but he will gain a substantial tax-free capital amount which can also be used to supplement a private pension fund.

58

Now meet the real Goldfingers

Star 19/8/89.

CENTRAL banks are starting to manage their massive holdings of gold more actively. The impact on the gold market could be dramatic.

WITHOUT news, the gold market is a dull place. Gold pundits reckon they can forecast mine production and jewellery fabrication accurately enough for the next year or two, and their fears about inflation and dollar volatility have subsided since the early 1980s.

What the market likes in order to perk it up is either a good war, or news that central banks are in the market, either buying or selling.

There are an estimated 100 000 tons of already-mined gold lying around. Over one-third of it is locked away with the world's central banks and the International Monetary Fund.

More adventurious central bankers (they do exist) have often asked whether such a large holding of an asset that is expensive to store and earns no interest are justified.

In the late 1970s, the Carter administration and the IMF sold over 3 000 tons of gold in an attempt to wean central bankers off the metal and on to SDRs (Special Drawing Rights). But old habits die hard. The inflationary surge of 1979-81 made central bankers seek refuge in the traditional haven of gold

Even though inflation and gold prices have since fallen, the buying goes on. In seven of the past nine years central banks have been net buyers of gold, adding 983 tons to their holdings at a time when mine production expanded from 959 tons in 1980 to 1 538 tons in 1988.

These aggregate figures hide a more interesting pattern, which Mr Andrew Smith, at London's UBS Phillips & Drew, has had a go at uncovering

He divides central banks with significant holdings of gold into four groups (See chart). The median share of gold in the banks' total reserves was 28 percent at the end of last year. Any bank with less is deemed to be underweight in gold and hence a potential buyer. And vice versa.

The vertical axis is set at a debt-service ratio (ie, the proportion of a country's export earnings needed to service its external debt) of 70 percent. Above that figure, reckons Mr Smith, a country is in acute difficulties and may be forced to sell gold

These crude yardsticks highlight one thing potential sales of gold by central banks are huge. But many of the countries in the top-left of the chart are perfectly happy to be overweight in gold.

The Swiss National Bank, for example, knows that if it were to reduce its holdings of 2 590 tons of gold (or 57 percent of its total foreign reserves) the effect on the country's reputation as a safe haven for gold deposits would be severe Others might like to sell, but do not know how to without depressing the gold price.

Different tactics

Canada and Belgium have tried two different tactics. In 1980 four-fifths of Canada's reserves were held in gold.

Through sales in the open market Canada has now reduced this proportion to under a third. Traders complain about the damage to confidence caused by a gold producer and marketer of gold coins selling off its own reserves.

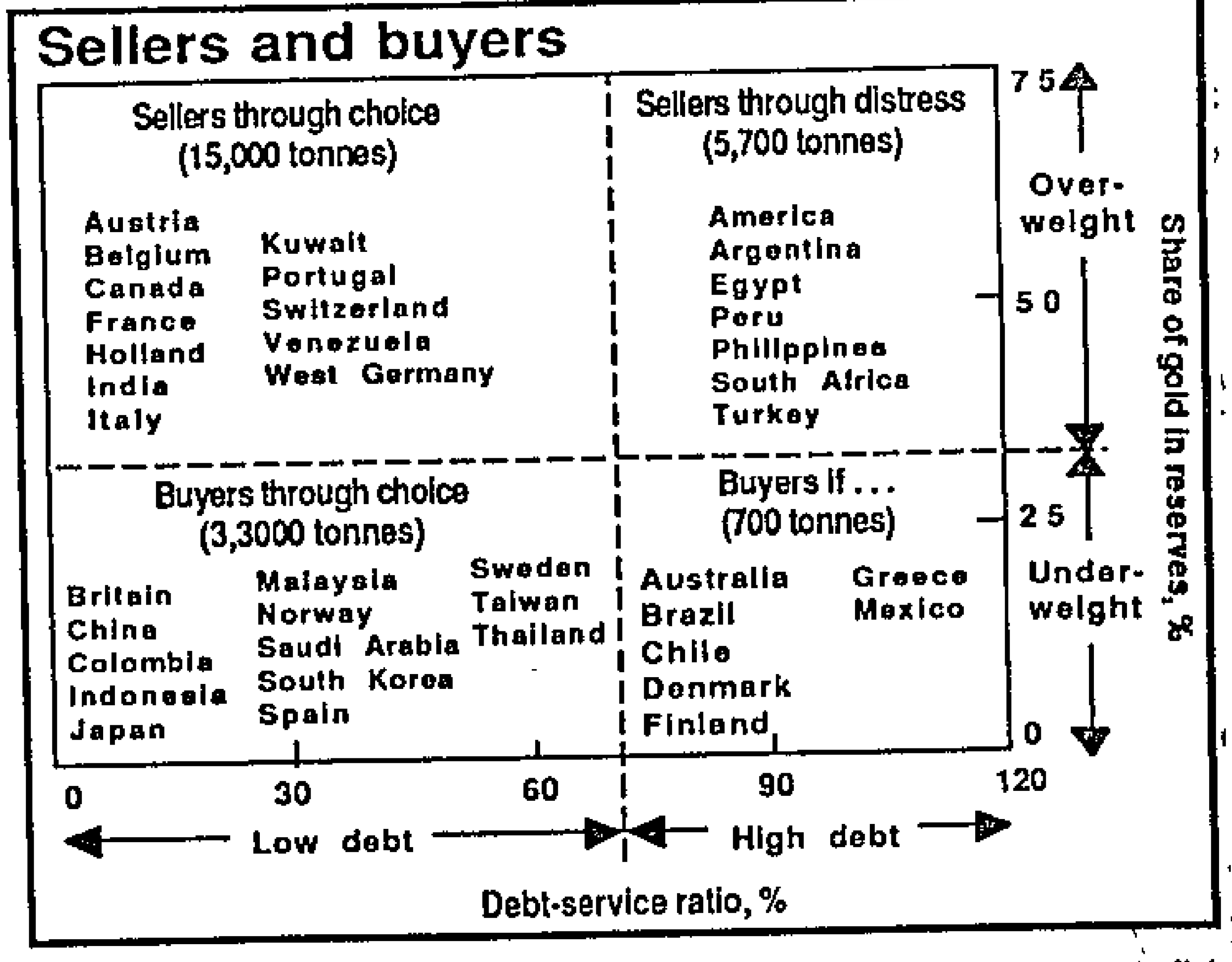
Belgium chose a subtler route. At the beginning of this year it owned 1 047 tons of gold, accounting for 58 percent of its reserves It admits to having sold 127 tons between December 1988 and last March

At around the same time, Spain's gold holdings rose by 65 tons What odds that the Bank for International Settlements in Basle arranged for Spain to buy the gold from Belgium?

It would take the nose of Hercule Poirot to discover what happened to the other 62 tons Some dealers reckon that a portion of it ended up on the open market If so, prices were remarkably stable during the sales

The problem for debtors has been how to make use of their gold without selling it. Most keep their gold at home so that it cannot be seized if the country defaults on its debts

But this has its disadvantages Each time trucks leave the central bank, the rumour starts that the asset-of-last-resort is being sold. And banks are not happy to accept gold stored in Lima or Buenos Aires as colateral. They prefer the Bank of England or the New York Fed.



Earlier this year, Venezuela moved a portion of its 356 tons from Caracas to the Bank of England to serve as collateral for a $600 million loan. As yet, this has not affected the price of gold in the market, but will Venezuela be able to pay back the loan at maturity or will it be forced to sell the gold to do so?

A more tantalising question is whether America, the world's biggest debtor, will start to use the 8 145 tons of gold it has tucked away in Fort Knox to help finance its current-account deficit.

Japan and Taiwan both have less than 10 percent of their reserves in gold and most of the rest in dollars Both are keen to cut their massive exposure to the dollar and now would be a good time to do so — the dollar is strong, the gold price weak Wouldn't offering sovereign investors in Treasury bonds convertibility into gold soothe Asian nerves?

Certainly, but it would also cause panic among private investors not eligible for such treatment. And it would require the American government to do an embarrassing U-turn

Between September 1987 and June 1988 Taiwan bought 246 tons of gold, mostly through the New York market. The Americans saw this as an artificial means of cutting the trade imbalance between the two, they told the Taiwanese to stop buying gold and to start buying American food and goods.

In May the Taiwanese central bank came back to the gold market for the first time since then and bought a measly (for it) 1.5 tons. It is said to be scouting Europe for a central bank keen to do a deal like the one between Belgium and Spain

This could depress the price of gold, since a shuffling of gold from one central bank to another does not take any gold off the open market.

Taiwan will therefore have to keep any off-market deal secret, for otherwise it will be buying against itself. At least bored traders will have something to speculate about over lunch. — The Economist

ST Times 20/8/89

Third-party tokens scrapped by new law

(58)

By Robyn Chalmers

THIRD-party insurance tokens need no longer be displayed on any vehicle in South Africa, Namibia and the TBVC territories.

Insurance broker Price-forbes Federale Volkskas (PFV) has instructed its clients to remove tokens from vehicles because of publication of the Multilateral Motor Vehicle Accidents Fund Act in the Government Gazette.

Until recently, 3,6c of every litre of petrol was taken by the Motor Vehicle Assurance (MVA) fund to finance third-party insurance.

PFV Group Broking Services director Brian Gillespie says the MVA Act of SA and Transkei, Bophuthatswana, Venda and Ciskei has been replaced by an agreement to establish the Multilateral Motor Vehicle Accidents Fund (MMF), which has been legislated for by the MMF Act.

Botswana already operates a no-token system and Swaziland and Lesotho are legislating to do so.

Mr Gillespie says: "No tokens are required for any vehicle, not even trailers or caravans. The new system will make life much easier for both the public and the authorities.

"Because details of the new system are not widely understood, motorists may find that some traffic officers will try to ticket them for not displaying a token. If this happens, the ticket will be referred to the MMF, which will arrange to have it quashed."

Delay

Mr Gillespie says motorists involved in an accident must obtain an MMF report form (called the MV5) from a police station or insurance broker.

It folds into a self-addressed envelope and when completed can be sent to the MMF, which has drawn up a roster dictating which insurer is to handle a particular claim. Forms may not be handed in at police stations.

Mr Gillespie says claims should not be reported to insurers detailed on tokens. If this is done, the claims will probably have to be rerouted, delaying their processing.

"This is why it is important to immediately remove tokens from windscreens — they now serve no purpose and could merely cause inconvenience."

He stresses that it is advisable to complete an MMF accident report form even if there are no apparent injuries to anyone.

"Problems, such as whiplash, may become apparent later and if these result in a claim, it is in the best interests of all the parties involved to have reported the accident to the MMF.

"If late notification of an accident causes material prejudice to the MMF, it can recover its outlay from the driver or owner."

South Africans travelling in Botswana, Lesotho, Namibia and the TBVC territories are covered. Reciprocal agreements are in force between the countries and territories which allow third-party claims to be paid and recovered from the individual funds.

Reciprocal

Mr Gillespie says the new Act will also cover members of the police and defence forces of all the countries and territories concerned provided they are being conveyed in official vehicles.

An important point for commerce and industry is that gas-powered vehicles, such as forklift trucks, are not covered by the Act.

"Liability for injury caused by these vehicles should be provided for under public liability or general motor insurance policies."

S/Times 20/8/87.

Capco a jewel in Liberty crown

58

By David Carte

LIBERTY Life has been carried to exceptional heights by the rise of the UK economy and the pound, the rand's plunge, a buoyant JSE and well-timed infusions of capital at several levels of the empire.

An important source of growth in the next five years is likely to be London-based Capital & Counties, says chairman Donald Gordon.

Speaking after the release of outstanding interim results, Mr Gordon enthused about prospects for Capco, 75% owned by TransAtlantic, in turn 49% owned by First Investment Trust. Liberty Life has 61,4% of FIT.

Capco is building three Sandton-City-type shopping complexes on the outskirts of London at a cost of £500-million. Together they will be 2,25-million square feet — about 225 000m² — in extent. Funding is in place.

Mr Gordon is confident that rents will more than cover interest and other costs from the day that the developments come on Capco's balance sheet. The contracts are all within budget so far.

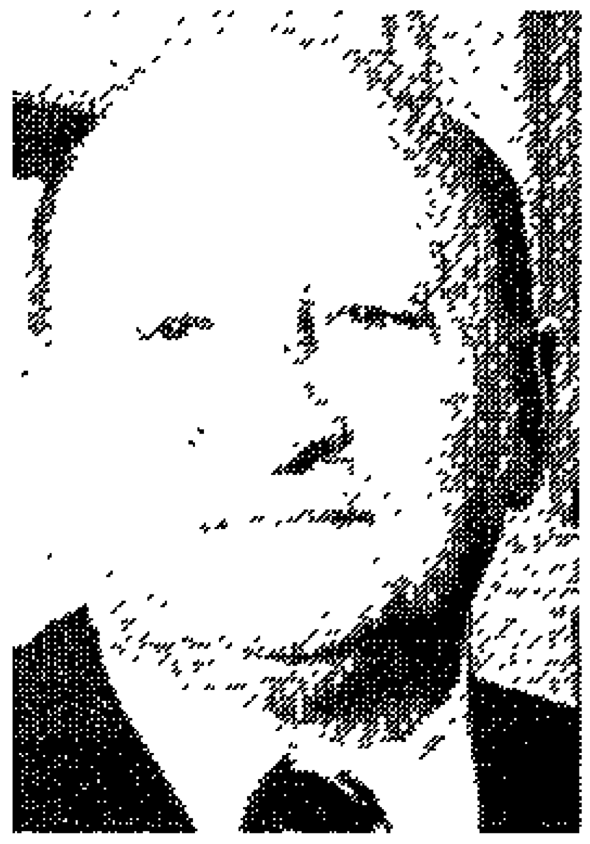
Two developments, the Thurrock, Lakeside, and the Harlequin, Watford, are on the M25 ring road around London, and the third is in the heavily developed area of Bromley.

Affluent

General Accident and the Borough of Bromley are partners in the Glades and Sun Alliance and the Borough of Watford in Harlequin. Rents will be linked to turnover, so should grow strongly in the longer term.

Thurrock Lakeside, standing on 150 acres, including a lake and parking for 9 000 cars, will be 100% owned. There are 3,7-million affluent people within 30 minutes' drive of the centre. With Marks & Spencer, Debenhams, House of Fraser and Lewis's signed up as major tenants, 60% of the 240-store development has been let. It opens in September.

Capco will own 42% of the Glades in Bromley. It will also manage the development. Marks & Spencers, Littlewoods and Lewis's have taken large shops and negotiations are in progress with a tenant for 80 000m². The Glades will be within 30 minutes of 3,2-million people.



DONNY GORDON ... a record many dream about

Harlequin, opening in the autumn of 1990, will be 24% owned by Capco. There will be 70 000m² of retail space. The four anchor tenants are John Lewis, Marks & Spencer, BHS and Littlewoods.

Academic

Capco's interim profit growth was 21%, but that perforance is academic. The London Stock Exchange is excited about Capco's prospects — the share at 380p is 18,7 times earnings. The company is capitalised at £501-million.

Liberty's attributable stake is worth £113-million, which is R488-million in commercial rands and R745,8-million in finrands. The stake in Continental & Industrial trust is worth £39,2-million (R258-million in finrand and R169-million in commercial rands).

So Capco, rather than Sun Life, has emerged as the growth spur to TransAtlantic and thus FIT and Liberty.

In fact, Mr Gordon refers rather slightingly to Sun Life in his interim review of TransAtlantic.

He writes: "Growth in TransAtlantic's property interests has been such that, related to the rather pedestrian performance in the Sun Life share price, the latter investment amounts to a modest 13,4% of ... capital employed, compared with almost 60% at the end of 1984.

"Whilst the Sun Life holding is clearly of strategic significance, it can no longer be regarded as the dominant factor in the totality of the business of TransAtlantic."

FIT equity accounts and does not consolidate TransAtlantic. If it acquired another fifth of a percentage point of TA, billions of rands would be added to the total assets of FIT and Liberty.

Liberty also values its foreign investments in commercial rands, even though it could repatriate the proceeds in the event of a sale through the finrand.

The R17-billion of stated assets would exceed R20-billion by far were it not for this conservatism.

At the half-year, Liberty Life undertakes no actuarial valuation. Its life profits are stated as being equal to those of the second half of last year. So stated earnings and even interim dividend trends are of academic interest.

But the group can be seen to be in ruddy health, domestically as well as in the UK, through new annualised premium growth of 35%, total new business growth of 46% — and shareholders' funds that have leapt by R500-million to R3,5-billion in six months.

Mr Gordon says Liberty is the best capitalised life company in the world.

Strategic

Investment income — up 32% to R575,6-million — reflects dividends and interest received plus profits taken on shares and gilts. It does not reflect growth in the value of the portfolios, which must have been large, given the JSE's spurt of the past year.

Shareholders in Liberty, as well as policyholders, will have benefited by the JSE's rise, because shareholders own large strategic stakes in Premier, Standard Bank and SA Breweries.

Liberty's progress is reflected in Liberty Holdings, whose earnings growth of 33% outstripped Liberty's own (traditional) 20,8%. Guardian National's first-half contribution is also based on the second half of last year — so Holdings' big leap came from management of Guardbank and a bit of pref gearing.

Liberty, its subsidiaries, associates and even its pyramids, sit happily in a virtuous circle. They do well. They earn good ratings and can issue paper at fat premiums, thus acquiring new capital cheaply. The new capital earns more than it costs, boosting earnings and the rating.

It is every chief executive's dream and it goes on and on and on.

Restraints doing the job, says Sanlam

(58)

The renewed revival earlier this year in some sectors of the economy was relatively short-lived, Sanlam says in its latest economic survey.

Stricter measures instituted in May point to a further slowdown in general economic activity and no additional restrictive measures have been needed.

This was confirmed over the weekend by the latest retail figures released by the Central Statistical Services.

Provisional sales figures for August indicate a year-on-year rise of 2,3 percent rise over August 1988, while on a monthly basis sales were up by 0,3 percent compared with July this year.

The estimated growth rate of the real gross domestic product in 1989 will be about two percent, but may drop further in 1990.

GROWTH RATE

This compares with a growth rate of 3,2 percent in 1988.

"To prevent further severe imbalances in the economy — and consequently, more restrictive measures — it is vital that not only the private sector, but also the public sector, keep its total expenditure within limits," Sanlam says.

"It is clear that no relaxation of the existing monetary and fiscal measures can be considered soon."

Turning to the inflation rate, the survey reports this had risen further in June from 14,9 percent to 15,7 percent — the highest in almost two years.

More expensive food and furniture and the higher cost of housing and medical and personal care made the largest contributions to the increase in June.

The year-on-year increase in the total price index will gradually rise further in the next few months.

ADJUSTMENT

Important increases include the recent upward adjustment in fuel prices, more expensive cars and higher housing costs.

"At this stage we estimate that the inflation rate will be about 17 percent at the end of 1989, but will begin to drop moderately from the second quarter of next year.

"We foresee the average rate of increase being 15,5 percent this year and in 1990."

As far as the current account of the balance of payments is concerned, this will depend largely on a continued drop in import volumes, increased exports of agricultural products and a firmer performance by gold.

Sanlam expects that the the current account of the balance of payments could yield a surplus of about R4 billion this year, compared with R2,94 billion last year.

Bank's 'inside man' guilty of fraud

JOHANNESBURG. — An emotional Gotz Gutenhoner was found guilty in the Rand Supreme Court yesterday for the role he played in defrauding Trust Bank of more than R47 million earlier this year.

Gutenhoner, 36, of Roodepoort, a chief clerk at the Eloff Street branch of Trust Bank at the time, pleaded guilty to four charges of fraud, one of theft, three of forgery and three charges of uttering false documents between January and March this year.

Gutenhoner allegedly committed the crimes with Nico Shefer and others. The court was told Shefer was at present in jail in Geneva awaiting extradition. Five others are mentioned as co-conspirators.

He told the court the role he played in the fraud was getting the money out of Trust Bank. He played no role in converting the money into Krugerrands or emeralds or getting it out of the country.

For his part in the fraud, he told the court, he was to have received R10 million from Nico Shefer. He, his wife and three daughters were all flown out the country to England as organised by Shefer. But the R10 million never materialised.

Attorney-general Mr Klaus von Lieres, who appeared for the state, described the crime as very carefully planned and thought out. He described Gutenhoner as the key player in getting the money out of the bank — the inside man on the job.

Gutenhoner admitted he and Shefer discussed at a later stage how to transfer financial rands out the country and bring them back as commercial rands.

Under Shefer's instructions, he stole nine clearance vouchers and made photostats of the signatures of other people in the bank who, apart from himself, were able to sign these forms. The forms had to be signed by more than one person.

The first fraud charge involved an amount of R26 million to buy an aircraft overseas. The second involved an amount of R19 million to be converted immediately into Krugerrands. The last fraud involved an amount of R1 million which was intended to be used to buy emeralds. — Sapa

CAPE TIMES 23/8/89

58

Sponsorship defended

Staff Reporter

FIRST NATIONAL BANK has defended its sponsorship of the Internatioal rugby team.

The sponsorship was criticised by the Mass Democratic Movement.

The public affairs general manager of the bank, Mr Jimmy McKenzie, said the MDM has chosen an "unfair target" for their protest.

Mr McKenzie was responding to confirmation by MDM spokesman Mr Bulelani Ngcuka that the MDM has discussed proposals to protest against the bank.

MDM chose 'unfair target'

Mr McKenzie said 30% of the bank's 27 000 workers were black, with "several hundred black managers already".

"We are an equal opportunity bank. I have a R7,5-million budget and 54% of that goes towards educational projects nationwide — most to black educational projects of all kinds," he said.

He added that the bank supported sport in its drive to get more business.

Mr Ngcuka denied that the MDM has issued a pamphlet detailing disruption of bank business. However, he said the organisation was discussing "similar" proposals.

Mr McKenzie, who has agreed to meet the Western Cape Traders' Association tomorrow to discuss their opposition to the tour, said the bank needed to "encourage people to come to this country".

FNB says it's an unfair target

23/8/89

Own Correspondent

CAPE TOWN — First National Bank (FNB) was prepared to talk to anyone objecting to its sponsorship of the International XV rugby tour.

It said the mass democratic movement (MDM) had made it an "unfair target" for planned protest action.

This was said by FNB public affairs general-manager Jimmy McKenzie yesterday, in response to confirmation by MDM spokesman Bulelani Ngcuka that proposals to disrupt the bank's operations were being discussed in MDM ranks.

McKenzie said 30% of FNB's 27 000 workforce was black with "several hundred black managers already".

He said FNB supported sport in its drive to get more business.

Ngcuka denied that a pamphlet detailing major disruption of FNB banking halls, automatic teller machines and switchboards had been issued by the MDM.

However, he said the organisation was discussing "similar" proposals.

"We are opposed to the tour which will celebrate 100 years of racial sport and will support all aspects of the non-racial sports organisations' campaign against the tour. I cannot say that we will not take action," Ngcuka said.

McKenzie, who has agreed to meet the Western Cape Traders Association tomorrow, to discuss their opposition to the tour, said FNB needed to "encourage people to come to this country".

He confirmed FNB "took advantage" of a government tax exemption for sports tour sponsorships but said he felt it was "not in the national interest" to quantify how much this was.

His bank had "no problem" with sponsoring an officially approved sports tour but would have nothing to do with "rebel" tours.

Joint chairman for De Beers, Anglo, Minorco

Capt Times 24/8/87

58

Own Correspondent

LONDON — Mr Julian Ogilvie-Thompson has indicated that he will retain chairmanship of De Beers Consolidated Mines and Minorco when he replaces Mr Gavin Relly at the helm of the Anglo American Corporation in 18 months.

This emerged in an interview with the Financial Times, in which Mr Ogilvie-Thompson said that it is only since 1982 that Anglo and De Beers have had separate chairmen.

Mr Ogilvie-Thompson is currently deputy chairman of Anglo America, but it was recently disclosed that he will succeed Mr Relly when he retires next year.

The newspaper commented that Mr Ogilvie-Thompson "looked genuinely embarrassed" when pressed on whether he would retain the other two chairmanships, but "gives a clear indication that he will".

Mr Ogilvie-Thompson suggested that the system of separate chairmen worked only because he and Mr Relly had been able to get on on very well together. But he added that "there would be advantages if we (the Anglo-De Beers group) went back to a period of having one chairman for all three companies (including Minorco)".

The newspaper notes: "Those advantages spring from the very close relationship and complex corporate linkages between the companies, which move many observers to conclude that far from being three separate entities, they are indivisibly one.

"Furthermore, there is more than a suggestion that the real power lies with a private company ... E Oppenheimer and Son. This company pays Ogilvie-Thompson's salary in an offshore tax haven."

Tight security for Bok test as protests mount

CNT 7/1/5 24/8/89 58

STRICT security measures will be enforced both outside and inside the Newlands rugby ground for Saturday's clash between the Springboks and the FNB International XV.

The Boks will set foot in the international rugby arena for the first time in three years on Saturday when they take on a team drawn from six countries for the first of two tests.

According to the Western Province Rugby Union, no spectators will be allowed on to the field before or after the game, certain roads will be closed off, no parking will be allowed close to the ground and the customary stalls set up in Boundary Road will be banned.

WPRFU secretary Mr Dawie Schoonraad said these measures had been taken to ensure the safety of both spectators and players.

Yesterday a police presence was evident at the Boks' Constantia hotel, and a spokesman for the MDM said a planned demonstration against the arrival of the International XV at DF Malan Airport had been stopped by police.

Buses carrying protesters to the airport from UWC were turned back.

In Johannesburg the Black Consciousness Movement said yesterday that it was organising a campaign aimed at causing a slowdown in business at First National Bank, which was sponsoring the tour.

Mr Haroon Patel, the campaign coordinator, said individuals and businesses would be called upon to close their accounts, demonstrations would be held at selected FNB branches and "tactics to cause a slow down at FNB branches throughout the country" would be employed.

In a statement yesterday, FNB said the tour was officially sanctioned by the International Rugby Board, and that FNB had, "as a matter of courtesy, informed a wide range of SA sporting bodies of its intentions".

"FNB has repeatedly stated that it will not become involved in rebel tours of any sport. Not only does the bank regard these tours as detrimental to sport in general, but it is sensitive to their far-reaching political implications," the statement said.

NO LOANS FOR THE POOR

FINANCIAL institutions do not give loans to poor people because they believe they would not make a profit, the managing director of Job Creation, Mr I J Hetherington, said yesterday.

He was addressing about 200 people at a consumer conference held in Johannesburg to discuss, among other things, the acute shortage of housing in the black townships.

The conference, which ends today, will also talk about inflation, monopoly of businesses, transport and health services.

The theme of the conference held at the Sandton Holiday Inn is "Consumer Power in a Free Market".

The Black Housewives' League of South Africa and the National Black Consumer Union are some of the organisations that have organised the conference.

Hethering said: "The problem is not peculiar to South Africa, nor is it a new problem.

He said this has resulted in groups of friends coming together and forming "societies and stokvels" to raise funds.

"There are also money lenders known in the townships as mashonisas who turn over hundreds of millions of rands a year," said Hethering.

He said the formation of organisations like Get-Up Fund, the National Stokvels Association and Get Ahead Foundation had come to the rescue of the destitute by providing them with unsecured loans from R25 to R3 000.

"They have done a good job by investing in black business activities," said Hetherington.

Dubious deals under scrutiny

Reserve Bank purging big credit leak

58

B Day 24/8/89

GRETA STEYN

THE Reserve Bank, in a crackdown on banks' off-balance-sheet activities, wants a written undertaking from chief executives they will observe the spirit of the Banks Act and not just the letter of the law.

The size of the off-balance-sheet market, not reflected in official credit figures, is about R10bn — this is 8% of the total money supply.

Analysts expect the Bank's purge to put upward pressure on money market interest rates as banks' cost of funding will increase. This will be the result of finance moving back on balance sheets and requiring costly liquid assets and cash reserves.

Money supply and credit figures will also increase and a clearer picture of the actual level of credit extension emerge.

Bankers were tight-lipped about the issue yesterday. They said it was sensitive and they were still seeking full clarification on the Reserve Bank's intentions.

Registrar of Banks Chris de Swardt could not be reached for comment.

Banks go off-balance-sheet to avoid costly cash and liquid asset requirements. It is not illegal is strictly regulated.

The Bank's swoop on off-balance-sheet financing is in line with the international trend away from these activities.

Analysts believe the Banks Act, now being re-written, will eventually reflect the international banking practice.

The movement towards clamping down on off-balance-sheet finance now is being seen as the first step towards tightening up the Banks Act.

One of the potential problems caused by these activities is that the true level of credit extension, and money supply, is understated. Another problem is that some banks are not holding the correct amount of cash and liquid assets against their liabilities to the public.

The main concern appears to be the widespread use of repurchase agreements to reduce the size of a balance sheet.

A bank can sell an asset or a liability under agreement to buy it back. Such a sale automatically reduces the balance sheet. The bank benefits through a lower cash and liquid asset reserve requirement.

FNB faces protests over tour

4/8/89

SIPHO NGCOBO

FIRST National Bank (FNB) faces country-wide protest action by the Black Conciousness Movement (BCM) and the mass democratic movement (MDM) over its sponsorship of the international rugby tour.

The two movements said FNB showed insensitivity to the plight of SA's "oppressed and exploited peoples by breaking the sports isolation of racist South Africa".

MDM spokesman Krish Naidoo and the National Sports Congress (NSC) called on FNB to state whether it was part of SA's "decaying apartheid regime" or if it wished to align itself with the "new emerging democratic SA".

At a media conference in Johannesburg, BCM spokesmen said the BCM would launch a national and international campaign against FNB and its associates, and would employ tactics that would cause a slowdown at its branches unless it withdrew its sponsorship before Saturday.

It would also press for individuals and organisations to withdraw their accounts, and demonstrations would take place at selected FNB branches.

FNB communications head Brent Chalmers said the tour had been officially sanctioned by the International Rugby Board and it was not a rebel tour.

Prior to the tour, FNB informed a wide range of sporting bodies in SA of its intentions, he said. He said FNB would not become involved in rebel tours.

Blast at city auto-teller; staff on alert

Argus 24/8/89

58

Staff Reporters

A BOB machine at a branch of the First National Bank was damaged by a mini limpet mine blast early today.

The explosion took place at the bank on the corner of Vineyard Road and Draper Street in Claremont.

The machine was badly damaged. No one was injured in the blast about 12.20am.

First National Bank's employees have been put on the alert for possible actions against the bank because of its sponsorship of the International XV rugby tour.

This was confirmed by the general manager of First National Bank, Mr Jimmy McKenzie, who last night said the bank expected demonstrations by groups opposing the bank's sponsorship.

BLOCKING CUSTOMERS

It is believed the Mass Democratic Movement's strategy against the bank includes groups of people blocking customers from using the bank's automatic tellers in Johannesburg, Cape Town and Durban.

Mr McKenzie said First National Bank opposed rebel tours. The tour was officially sanctioned by the International Rugby Board and First National Bank had consulted the widest possible range of sporting organisations — including black sporting bodies — before the tour.

The bank played no part in any negotiations with the players and the bank was not aware — or involved — with the issue of payment the players might be receiving.

"The visit of the International XV is not a rebel tour and that is why we found it acceptable to sponsor it."

● Representatives of the South African Council on Sport (Sacos), the National Sports Congress (NSC) and community organisations have demanded that First National Bank withdraw its sponsorship of the Centurions rugby tour.

In a statement released after talks yesterday, an NSC spokesman said the FNB delegation would consult other senior management on the issue and had promised to reply by this afternoon.

● **Springbok cocktail party pictures, page 5.**

BOND BOYCOTT

South 30/8/91

HOMEOWNERS in three sections of the greater Blue Downs area have embarked on a bond boycott amid allegations of "fraudulent activity" by some developers.

Residents in the R2-billion Blue Downs housing scheme are accusing developers of "unscrupulous actions" and of selling newly-built houses to homebuyers who do not qualify for bonds.

TO PAGE TWO

P.T.O.

(53) FMail 25/8/89

ENDOWMENT MORTGAGES

Linked loans

After the recent launch by Nedbank and UAL of Nedgrowth Home Loan — a combined mortgage bond and unit trust — it was only a matter of time before a similar combination, featuring endowment policies, was put on the market. While unit trusts will provide more rapid capital accumulation during bull markets in shares, endowments have the merit of providing guaranteed capital value, so avoid the risk of outright loss.

Endowment mortgage combinations are now being offered by Standard Bank and United Building Society. Standard's product is called AccessBond Lifestyle Endowment Option; United's United InvestorBond.

Essentially, an endowment mortgage involves coupling a level term mortgage bond and an endowment policy taken out by the borrower. Part of each instalment goes to servicing the policy. By the expiry of the term, the value of the policy should comfortably exceed the debt.

In terms of the Sixth Schedule of the Income Tax Act, a life assurance product cannot be cashed within 10 years without forfeiting tax-free status of the proceeds. There are also certain "structural" requirements, notably a minimum proportion of life cover.

As no lump sum is paid in on a back-to-back basis, endowment mortgages need full backing by life cover to protect the lender's interest until investment values build up in the endowment. This has implications for prospective borrowers.

As United's upper age-ceiling at termination of a bond is 70, the Sixth Schedule requirements imply maximum age for eligibility of 60. But various considerations would reduce this in practice to 55, says United GM Mike de Blanche. The Standard has an upper age limit of 60.

Insurability is also evidently a requirement. Both United and Standard require applicants to fill in a questionnaire and will insist on a medical where necessary.

Though endowment policies exclude the risk of outright loss, there remains another real risk: the possibility that capital growth over time might not equal or — preferably — exceed the inflation rate. On the whole, life portfolios have comfortably outperformed inflation. Standard divisional GM home loans Terry Power says returns over the past 12 years have averaged around 20% annually.

InvestorBond has no minimum period, but a 30-year maximum, in line with legislation governing the life of a bond. If the borrower buys another property, the endowment could be tied to the new bond, with an adjustment in premium if required.

De Blanche illustrates relative costs on the basis of a 20-year R75 000 bond, at an interest rate of 19,75%. The cost of a conventional bond would be R1 259,25 a month, while an Investorbond would cost R1 318,88, about R84 more.

Of this amount, R1 234,38 would reflect interest and the balance the premium on the endowment.

Standard's Option requires 15% annual escalation in premiums "to preserve capital value in real terms."

Power says that for the first eight years, there is little difference in monthly instalments between Option and a conventional bond with mortgage protection cover. The premium on InvestorBond would escalate too, at 12% annually.

Both Standard and United will allow holders of existing loans to convert, while an Option may be transferred to any future bond, or used as collateral security. Power says value should build up rapidly enough to permit early repayment of a bond.

The *FM* considers this type of scheme absolutely sound in principle. But the same caution should be observed as with a conventional mortgage.

The traditional ceiling on repayments of 25% of the borrower's income should not be disregarded lightly.

Double-digit inflation implies alarming volatility in interest rates, as has recently been shown.

Too many borrowers who plunged in happily at 12% are now caught short — and this could happen again. ■

BANKERS ON INVESTMENT IN 1990

De Vries

Bankers are in a unique position to judge the investment climate for the year ahead. At the *FM* Investment in 1990 Conference delegates will hear from a top international banker, Rimmer de Vries, and a top SA one — Chris van Wyk.

De Vries, who comes from Utrecht in the Netherlands, will be no stranger to regular visitors to the *FM* conference.

He is a senior vice-president and chief economist of Morgan Guaranty in New York and editor of *World Financial Markets*, the bank's main economic publication.

He also has experience of the US public sector, having served as an economist with the Federal Reserve Board and on the Council on Foreign Relations. He achieved international fame as a member of the *Time* Board of Economists.

Van Wyk

His analysis of the world economy promises to be one of the highlights of this year's conference.

No less important will be Van Wyk's probe of the local banking scene. Van Wyk is CE of the Bankorp group and, until April this year, was MD of Trust Bank, the main bank in the group. Like De Vries he is an economist. In the increasingly competitive world of SA banking he is acknowledged by his peers as an exponent of the new breed of hands-on bankers.

He is one of the key players in the new Sanlam and will shape the policy of the group into the next century.

☐ The conference will be held as usual at the Carlton Hotel. The fee is R900 per delegate, reducing to R800 for each additional delegate per company. It is wise to book early through conference manager Brigitte Petty on (011) 710-2135.

(58) Fmail 25/8/89

Wife weeps as Guntenhoner gets 14 years

CAPE TIMES 25/1/89 58

JOHANNESBURG. — Gotz Guntenhoner's wife Marianne buried her head in her hands and wept uncontrollably as her husband was sentenced yesterday to an effective 14 years for his role in the R47-million Trust Bank swindle.

Guntenhoner was given 12 years for fraudulently using control vouchers, one year, running concurrently with the 12 years, for stealing the vouchers, and three years, one year running concurrently, for illegally using an account.

Rand Supreme Court judge Mr Justice G Gordon said Guntenhoner's sentence should serve as a warning to other corrupt bank officials who might be exposed to temptation.

Guntenhoner misused the trust placed in him by the bank, and caused a loss of R33,5 million to the bank as well as damaging its image and the reputation of the branch manager.

He stole control vouchers, a form of guaranteed bank cheque, from the Eloff Street Trust Bank branch, and used them to swindle the bank out of R47 million.

There was still a "reasonable" chance the R19 million currently frozen in a Luxembourg bank would be recovered, which meant the amount lost would total R14,3 million.

Guntenhoner was promised R10 million for his part in the deal, but was left in the lurch by his accomplices and found himself and his family penniless in Britain after fleeing South Africa. — Sapa

(SB) Fmail 25/8/89.

OLD MUTUAL (SB)

Another leap

Listed companies often complain that it becomes increasingly difficult to maintain growth as they get larger. That such a pace is possible even for a giant is shown by the results of Old Mutual for the year to end-June.

Total assets leapt 48% or R13,5bn and the climb in the market value of share portfolios leapt from R12bn to R21bn, mainly due to the rise in share prices, says MD Mike Levett. Operating expenses accounted for R838m, but this was only 9,9% of total income, an improvement over the 10,4% of 1988.

Premium income has reached R5,6bn, having recorded average annual growth of 28% since 1980, and benefits paid have grown at 31% a year compound.

Levett says there is an average of R20m to invest each day, apart from maturing investments. "We have never had a problem investing our cash flow," he comments, "there are always more borrowers than lenders." He also notes that Mutual's size is an advantage: it is offered participation in most large ventures and is often the first investor to be approached, which enables it to influence terms of the offer.

The group has certain investment policies. Though it does not insist on having only a minority stake, it does believe its business is to run a life company and it should not get involved in other people's businesses. The stated policy is that it tends to be a silent partner in most cases, even where it is the major shareholder.

While Mutual does tend to concentrate on listed equities, it has some unlisted investments, three of which are substantial: Richards Bay Minerals, and two companies which are holding companies for listed subsidiaries. "Our unlisted investments are only about 1% of our portfolio," says Levett, "though this does amount to about R300m."

Mutual's cash holding increased to R6,9bn from R5,5bn last year. Levett points out that this means that other investments took R3,46bn of cash flow and that the growth in cash partly reflects a decision to stay in the short-term money market.

MORE FOR MUTUAL

Year to June	**1988**	**1989**
Investment income (Rb)	1,80	2,79
Premiums & annuities (Rb)...	4,94	5,63
Total assets (Rb)	28,5	42,1
Investments (Rb)	27,9	41,1

Levett suggests the changes in prescribed assets for life assurers and pension funds is likely to result in pension funds investing a greater percentage in equities. This, however, would be achieved by investing cash flow rather than selling other investments, especially with high interest rates depressing prices of fixed interest stock. He does not foresee rates falling before the end of the year, but thinks they will be lower than current levels in a year's time.

The latest tax proposals for life companies proposed in the Budget meet with some approval. Levett is pleased that the "trusteeship principle" has been adopted, but would prefer to see the tax rate set at the average tax rate of about 30% rather than the marginal rate of 45%. This would bring it into line with the rate paid by taxpayers if the funds were in their own hands.

Listed companies

But there is a big difference between the Mutuals and the listed life companies. "We are owned by our policyholders, while the listed companies are owned by their shareholders," says Levett. "If you want to invest in a life company, buy shares in a listed company, but if you want an insurance policy, go to a mutual, as the listed companies take a portion of their profits for shareholders."

Pat Kenney

The PIGS 'will self-destruct'

Cape Times 25/8/89

58

OWN CORRESPONDENT

JOHANNESBURG:— The new prudential investment guidelines for life offices which are to replace the old part one asset reguirements to invest in government stock, could eventually self destruct.

Old Mutual assistant GM (employee benefits) Reg Munro told a Life Offices' Association (LOA) seminar in Johannesburg yesterday that he believed the way the guidelines were drawn up meant they had to self destruct.

This was because the guidelines, unlike the present prescribeds, were based on market value. If a fund invested the maximum allowable in equities of 65% any increase in market prices could easily bolster this percentage above the limit without any new monies being put in the fund.

However, although the prudential guidelines would become a self destructive cycle, they were useful as a first step in reducing holdings in gilts.

As equities had traditionally performed better than gilts, it was likely more money would be channelled into this area than others.

The new prudential investment guidelines, which have come to be known in the industry as "PIGs" are expected to come into effect before the end of the year.

They require not more than 65% of assets to be held in shares, up to 30% of assets can be in property, yet together equity and property holdings can't exceed 85%. A minimum of 10% must still be held in government stock.

Munro said it was likely that because these assets were valued at market prices, there would be times when funds would exceed these guidelines, purely through market movements. In such instances the life offices would have to advise the Registrar of Financial Institutions.

Any holdings above the percentages given in the guidelines, would therefore become discretionary.

AA Life MD Brian Benfield who chaired the meeting said care had to be taken that the guidelines did not become just a more sophisticated way for government to interfere in the industry's investment decisions.

Under present prescribed asset requirements 33% of assets in life business have to be held in government stock or cash and 53% of pension business.

However, Southern Life chief actuary Jeff Goy said in actual fact holdings in prescribed assets were less than 53% of life assurers assets when taken at market value and when the actuarial surplus was taken into account.

Of the four big insurers, excluding Sanlam which gives asset holding at book value, only about 36% of assets were in prescribed assets. Of this about 22% was in gilts and the balance of 14% in cash.

CAPE TIMES 25/8/89

58

Tour sponsor meets anti-tour organisations

By CHRIS BATEMAN

INTERNATIONAL rugby tour sponsors First National Bank, under pressure from anti-apartheid organisations to withdraw their sponsorship, met local Mass Democratic Movement representatives this week.

The bank's public affairs general manager, Mr Jimmy McKenzie, said yesterday that he had "learnt a great deal" from the meeting which would influence what his bank did in the future.

"Obviously we can't cancel the tour now but I will be reporting back to senior management tonight — the meeting was extremely constructive and useful to me," Mr McKenzie said.

He and regional general manager Mr Bob Wood met representatives of the Western Cape Traders' Association, the South African Council on Sport, the National Sports Council and a "representative of the UDF" on Wednesday.

Mr Wood said he had empathy with his opponents' position. He had told the meeting, chaired by Sacos, that the bank's policy of being an "equal opportunity bank" had resulted in about half of his Peninsula workers of 1 600 being "non-white", many in "very senior" positions.

A joint statement by the organisations present at Wednesday's meeting said the tour was regarded as "rebel" and in contravention of the international moratorium on sports tours to and from South Africa. It was also against the wishes of the majority of South Africans and ensured "the perpetuation of the apartheid system".

Business Report

The PIGS 'will self-destruct'

Cit. Times 25/8/89 58

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WORLD XV RUGBY DEMO SHUTS BANK

ik/k Argus 26/8/89

AS thousands of rugby fans converged on Newlands for the showdown between an isolated Springbok team and the World XV, hundreds of First National Bank (FNB) clients were turned away from the main Adderley Street branch which had to close its doors against protesters.

By HENRIE DU PLESSIS, VIVIEN HORLER and EDWARD MOLOINYANE
Weekend Argus Reporters

First National Bank, which is said to have sponsored the World XV team to the tune of R8-million, later made efforts to get two arrested protesters released.

And in Sea Point, banner-waving protesters gathered outside the President Hotel where the touring players and members of their families were staying.

Banners read. "First National is the last bank" and "No to playing with apartheid".

Journalists confirmed that 20 protesters, including National Sports Congress committee member Mr Ncgonde Balfour and attorney Mr Alexander Abercrombie, were arrested.

Tight security

Mr Balfour had briefly spoken to tour manager Mr Willie John McBride in the hotel foyer.

After the arrests police remained outside the hotel in a van while a helicopter circled the area.

Tight security measures were in force at other branches of FNB and heavy policing was reported at Newlands rugby ground.

In town Mr Eddie Kriel, FNB's Adderley Street branch manager, accompanied members of the bank protest group to Church House to ask Colonel Du Preez of the security police to order the release of Mr Dawood Kahn of the Western Cape Traders Associaton and restricted UDF member Mr Willie Hofmeyr who had been arrested outside the bank.

Mr Kriel said the bank had asked the police not to become involved, because the protest was "very peaceful" and the bank did not want the arrested men to be prosecuted

He said the doors of the bank were closed after they had received a bomb threat early today.

A spokesman for the Mass Democratic Movement said protests would be held nationwide at every branch of the bank and that "this was only the beginning".

Disrupt business

Pamphlets giving details of how to disrupt bank business throughout the country have been widely distributed on the Cape Flats The campaign against the bank is in retaliation for the bank's decision to ignore the MDM's opposition to the World XV's presence in South Africa.

"The MDM has through various forums made known its opposition to the tour," says the pamphlet. "First National Bank has chosen to defy such opinion."

It continues: "The purpose is to fill the banking halls with so many people that other clients are unable to conduct their normal business People should be orderly, but talkative and painstakingly slow."

The protesters who gathered outside the Adderley Street branch today said they had come to close their accounts at the bank.

The bank's doors were closed. Police told watching journalists to leave the area, and cordoned off Adderley Street in front of the bank.

Mr Kriel said later only one account at his branch — that of a trade union — had been closed because of the rugby tour

Last night police undertook not to interfere with a rally to be held in protest against the rugby tour after urgent court action overturned a ban on an earlier rally.

The original meeting was due to be held at the University of Cape Town, but the Western Cape commissioner of police, Major-General Flip Fourie, said he had prohibited all meetings held under the banner of the Sports Persons' Rally in all magisterial districts in the Western Cape.

The meeting was later transferred to St George's Catholic Church in Athlone, where it was addressed by University of the Western Cape lecturer and former rugby player Julien Smith.

He told the 900 audience that it was only through lies, conspiracies and posturing that such a tour could be given some "semblance of decency". The touring players were falsely being labelled the world's best while there were better players who had chosen not to come.

This week FNB general manager Jimmy McKenzie met MDM representatives to discuss the tour. He said afterwards he had "learnt a great deal" and the meeting had been "extremely constructive". At this stage the tour would not be cancelled, he said, but he intended to report back to senior FNB management.

A statement issued by MDM organisations after the meeting said they believed the tour was regarded as "rebel" and therefore taking place in spite of the international sports boycott of South Africa.

Mr McKenzie was not available for comment today.

Earlier this week a mini-limpet mine exploded at a BoB automatic teller machine in Claremont No one was hurt.

Activists didn't bank on manager

By VIVIAN REDDIAR

C.News 27/8/89

TWO anti-apartheid activists were arrested in Cape Town yesterday when they tried to close their accounts with First National Bank, sponsors of the SA Rugby Board's Centenary World XV tour.

And 20 others were arrested by riot police after they confronted Willie John McBride, the manager of the touring team.

The two activists, Willy Hofmeyer and Dawood Khan, and about 25 demonstrators went to the bank's head office in Cape Town where they were confronted by police armed with batons and teargas.

After Hofmeyer and Khan were arrested, the bank's manager, Eddy Kriel, closed the bank and phoned police to ask them to release the two.

He said the demonstrators had behaved peacefully. "The people wanted to make a point to us."

Meanwhile, amid reports from Cape Town that sportspeople and the Western Cape Traders Association decided to withdraw their accounts from FNB, the bank said it would not withdraw its sponsorship "at this late stage".

It rejected the view that the tour was a "rebel" tour, and and pointed to its sponsorship of a National Soccer League competition and its funding of the FNB Stadium as evidence of its support for the community.

Hunger strike by detainee

CAPE TIMES 28/8/89

58

Staff Reporter

EMERGENCY detainee Mr Willie Hofmeyr, who was arrested outside First National Bank in St George's Street on Saturday morning, has embarked on a hunger strike inside the Sea Point police station cells, according to his lawyer, Mr Mike Evans.

Mr Hofmeyr, whose detention has been confirmed by his father, Mr Arend Hofmeyr, was one of two people detained outside the bank under the emergency regulations about 9.30am on Saturday. The other, Mr Dawood Khan, was subsequently released, according to Pretoria police liaison officer Colonel Jac de Vries.

A protest against the bank's role in sponsoring the World XV rugby tour was underway at the entrance to the city's largest branch of the bank about the time of the arrests.

Customers were turned away from the bank and told that there had been a bomb scare. Soon afterwards all bank staff had to evacuate the building and wait on a corner of Greenmarket Square.

Bank manager Mr Eddie Kriel accompanied a National Sports Congress delegation back to Church House, next to St George's Cathedral, where he telephoned the security police and asked for the release of both detained men, according to an NSC statement issued later.

Mr Kriel was asked to confirm this last night but his wife said he was reluctant to comment.

According to the NSC statement, Mr Kriel said the bank did not wish to prosecute either of the men.

Later the same morning, 25 protesters were arrested outside the President Hotel in Sea Point where the rugby visitors were staying. Colonel De Vries confirmed that 25 people were arrested, later released and warned to appear in the Cape Town Magistrate's Court this morning.

He said police would not say whether or not Mr Hofmeyr was on a hunger strike.

THIRTYSOMETHING . . . Reflecting back on past glories, members of Bok sides from the 1930s march past the grandstand.
Picture: ALAN TAYLOR

GOING TO THE BANK . . . Mr Ngconde Balfour, centre, with a handful of silver coins in packets, outside the Adderley Street branch of First National Bank on Saturday morning. Mr Dawood Khan, who was later detained and then released, is on the left.
Picture: Richard Bell

CAPE TIMES 28/8/89

58

Tutu attacks World XV rugby tour

DUBLIN. — Anglican Archbishop Desmond Tutu yesterday sharply attacked Irish players and officials for taking part in the World XV rugby tour.

"It has given very great joy and encouragement to the perpetrators of apartheid. They have been in the seventh heaven of delight that this tour has taken place," Archbishop Tutu told Irish Radio in a telephone interview.

"We thought you were four-square behind us. We have received a blow in the solar plexus," he said.

Archbishop Tutu said he was deeply distressed that players of the calibre of Willie-John McBride, the former Irish captain who is the tour manager, had decided to take part.

"Their bank balances are going to be considerably improved by their excursion to South Africa," he said.

In an interview with the BBC, Archbishop Tutu called for the 10 Welsh players and six officials on the tour to be ostracised on their return. — Sapa-Reuter

Interest rates to stay high

Cape Times 30/8/89

Own Correspondent

JOHANNESBURG. — Interest rates are going to stay high, according to economists interpreting yesterday's major policy statement by the new Reserve Bank governor, Dr Chris Stals.

He said he would aim to keep interest rates above the rate of inflation.

"Positive real rates of interest are essential," he told the bank's annual meeting.

Any pressure for interest rates to decline at this stage had to be resisted, he said, because "the rising rate of inflation is now eroding the level of real rates of interest in South Africa".

Economists interpreted his address as a signal that interest rates would remain at current levels at least until next year.

He also declared war on inflation, saying it was now opportune to launch a serious attack spearheaded by restrictive monetary and fiscal policies.

He emphasised the need for sustained financial discipline and the maintenance of positive real rates of interest. The bank would avoid abusing "the modern money printing presses" — the central bank's accommodation of the banks' credit needs.

Dr Stals said: "An anti-inflationary monetary policy requires strict financial discipline."

●Serious attack on inflation needed — Page 13

53

Exchequer the No 1 weapon (98) B'day

Barend gives his blessing to Stals's war

31/8/89.

BARRY SERGEANT

FINANCE Minister Barend du Plessis has "fully endorsed" Reserve Bank Governor Chris Stals's war on inflation, and the tough monetary and fiscal policies to be used.

Du Plessis said yesterday he would put the full weight of the Finance Department behind Stals, who said yesterday bringing down the inflation rate would be achieved "by taking as much money as possible out of the system, and putting as little as possible back".

Treasury's bank account, the Exchequer, has emerged as the primary weapon to synchronise monetary and fiscal policy. Exchequer balances with the Bank now reflect a record R9bn-plus surplus, although about R3bn of this is in transit to allocated accounts.

● Comment: Page 10

This has been amassed by substantial mopping-up operations since March 1. The draining of liquidity has exerted upward pressure on interest rates, and given Stals a great platform to start an all-out attack on inflation.

"On the monetary front we will continue with a very restrictive policy," Stals said.

Naming inflation as the No 1 economic problem in his maiden speech on Tuesday, Stals said it was not possible to spell out the details of the attack in fine print. "There is no magic formula or equation ... to cut inflation rapidly. But we are watching key economic indicators on an hourly basis. The battle will be managed in a proactive, day-to-day manner."

This "live" approach to curtail inflation would be accompanied by recommendations to Du Plessis to synchronise action by the Bank and the Finance Ministry.

As Stals said, the causes of the high inflation rate are complicated. But in a nutshell, aggregate demand for goods and services has outstripped the flow of goods and services produced in the economy. Prices have been bid up by consumers, corporations and government.

The situation has been aggravated by excess money creation, administered prices and the depreciating rand. Stals has set a three-year timeframe to contain the inflation rate, now running at an average of three times the average Western industrial country.

In order of priority, Stals said the key economic indicators to be watched would be money supply and bank credit creation.

Other indicators included changes in gold and foreign exchange reserves, and trends in interest rates — implying a more managed approach to stabilising the value of the rand.

By following the recommendations of the De Kock Commission, which stress working within the principles of a free economy, there will nevertheless be a pre-

☐ To Page 2

Barend's blessing

(98) B'day 31/8/89

☐ From Page 1

paredness to make adjustments.

While Stals says the Bank will be persuing a "very" restrictive monetary policy, this does not imply interest rates will necessarily increase further

Some private sector economists argue that with gross domestic expenditure running at a real 1%, added to other fundamentals, the scope for a cut in interest rates cannot be ruled out.

On the fiscal front, the need to "take as much money out of the system as possible" has ruled out a cut in tax, or any other impost, for the meantime.

The insistence on a restrictive policy, and the need to exercise military-type discipline, has not been lost on the Finance Department. The significance is that Stals will be exerting further pressure on government to curtail spending

"We are aware of applications for additional expenditures since the start of the fiscal year. Along with the Minister, we will be doing all we can to stem such flows of extra money into the economy."

This implies that government spending, which was spot on estimates on a pro rata basis for the first four months of the fiscal year, could be contained for the year as a whole — putting radical downward pressure on the inflation rate.

Barend backs Stals' war on inflation

CM-Times 3/8/89 (58/89)

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'Very tough' fiscal policies

This "live" approach to curtail inflation would be accompanied by recommendations to Du Plessis to synchronise action by the Bank and the Finance Ministry.

As Stals said, the causes of the high inflation rate are complicated. But in a nutshell, aggregate demand for goods and services has outstripped the flow of goods and services produced in the economy. Prices have been bid up by consumers, corporations and government.

The situation has been aggravated by excess money creation, administered prices and the depreciating rand. Stals has set a three-year timeframe to contain the inflation rate, now running at an average of three times the average Western industrial country.

In order of priority, Stals said the key economic indicators to be watched would be money supply and bank credit creation.

Other indicators included changes in gold and foreign exchange reserves, and trends in interest rates — implying a more managed approach to stabilising the value of the rand.

By following the recommendations of the De Kock Commission, which stress working within the principles of a free economy, there will nevertheless be a preparedness to make adjustments.

While Stals says the Bank will be persuing a "very" restrictive monetary policy, this does not imply interest rates will necessarily increase further.

Some private sector economists argue that with gross domestic expenditure running at a real 1%, added to other fundamentals, the scope for a cut in interest rates cannot be ruled out.

On the fiscal front, the need to "take as much money out of the system as possible" has ruled out a cut in tax, or any other impost, for the meantime.

The insistence on a restrictive policy, and the need to exercise military-type discipline, has not been lost on the Finance Department. The significance is that Stals will be exerting further pressure on government to curtail spending.

"We are aware of applications for additional expenditures since the start of the fiscal year. Along with the Minister, we will be doing all we can to stem such flows of extra money into the economy."

This implies that government spending, which was spot on estimates on a pro rata basis for the first four months of the fiscal year, could be contained for the year as a whole — putting radical downward pressure on the inflation rate.

Bank's foreign debt 'a secret'

CAPE TIMES 25/8/89 58

JOHANNESBURG. — The Reserve Bank is keeping its foreign debt secret — to head off political pressure on overseas banks lending to the SA central bank.

The Bank's annual financial statements no longer distinguish between foreign loans and "other liabilities" — and it is not shown how much is borrowed. The Bank is understood to have made substantial use of bridging finance in the second quarter.

According to the Bank's balance sheet of March 31 1989, other liabilities stand at R5,6bn — R3,3bn higher than the previous year. Part of the increase must be due to increased foreign debt, but the Bank's senior deputy governor Japie Jacobs commented it would be "ridiculous" to assume the rise was due mainly to foreign loans.

The BoP statistics show foreign short-term liabilities of the Reserve Bank and other SA banks rose by R904m in the first quarter. — Own Correspondent.

Namibian jitters boost SA insurers

Bday (58) 31/8/89

KEVIN JACOBS

WINDHOEK — Namibian civil service jitters over pension security under a Swapo-dominated government are boosting business for three SA insurance giants by at least R600m.

Old Mutual, Sanlam and Southern life — chosen because of their investment in Namibia — between them will probably get up to two thirds of a billion-rand government pension fund in individual retirement annuity contracts.

Sanlam has also been chosen by tender to take over the nine-year-old government pension fund administration.

Legislation to be implemented by October 1 will switch management of the R1 080m pension fund to the insurance company and give 49 000 fund members the option of withdrawing accumulated benefits for reinvestment, Finance Secretary Johan Jones said yesterday.

Members opting to take out contributions, multiplied four-fold with government contributions, will be required to place the accumulated benefits in retirement annuities with one of the three insurers.

Civil pensions commissioner Hugo Truter said he estimated at least 60% of the fund's members were likely to take up the payout option.

Jones said a decision to privatise administration of the fund was efficiency-motivated.

"It was mainly for the reason of efficiency. We looked at what happened in SA and we did not want that to happen here."

Eight trustees will control the new fund, four appointed by government and four by members.

The lump sum payout option was prompted by widening concern at security of pensions, and fears among government servants of retiring destitute, Jones said.

Reported and rumoured statements by Swapo officials — among them Sam Nujoma and Anton Lubowski — that the movement would not honour pension or debt obligations triggered concern that valuable government staff would resign.

"We in the service got worried that there would be an outflow of government officials from Namibia. We wanted to prevent that and this decision has had that effect," Jones said.

Sapa reports Namibia's Government Staff Association (GSSA) yesterday urged all members, who converted their current pension benefits into private retirement annuities, to insist that the annuities should mature inside the country.

A statement from the GSSA warned: "It may prove extremely difficult to withdraw pension funds from a foreign country for those staying on in Namibia after retirement."

Debt secret

□ From Page 1

March 31 1989, other liabilities stand at R5,6bn — R3,3bn higher than the previous year. Part of the increase must be due to a higher level of foreign debt

Clues are to be found in the Bank's Quarterly Bulletin. The BoP statistics show foreign short-term liabilities of the Reserve Bank and other SA banks rose by R904m in the first quarter of this year.

Reserve Bank senior deputy governor Japie Jacobs said it would be "ridiculous" to assume the R3,3bn rise in "other liabilities" was due mainly to foreign loans "It is impossible to ascertain our foreign loans from the accounts. Right now, SA's foreign debt situation is receiving too much attention and it is not prudent to disclose our commitments to foreign banks."

He likened the Bank's decision to stop disclosing the level of its foreign debt to Customs and Excise's move about two years ago to stop providing a breakdown of SA's trading partners.

The Bank's balance sheet also provides information on the extent to which forward cover losses inflated the money supply in the year to March 1989. The "gold and foreign exchange contingency reserve account" surged by R8,6bn — from R2,56bn in March 1988 to R11,16bn a year later.

Old Mutual buys three more JHB properties

By Frank Jeans 58

Old Mutual has increased its property stake in central Johannesburg by more than R11 million, with the purchase of three existing properties. Star 11/9/89

The Johannesburg properties are the New Plaza Centre, an 11-storey office block in Jeppe Street, Sales House in Bree Street and ACA House in Commissioner Street.

Old Mutual has also bought a 10 ha site in Pretoria for R9,5 million and the 14-storey Westgard House in Durban

New Plaza Centre has 7 780 sq m of office space and has been bought on the basis of a good yield investment for R5,2 million.

Sales House, built for the Edgars group in 1977 fetched R4,5 million.

ACA House, on a 446 sq m site represents a R1,7 million investment and this property is expected to be earmarked for redevelopment.

The Pretoria property was bought from Putco and is 5 km from the CBD.

BANKING (58) Fmail 1/9/89

Off balance

Banks' off-balance sheet activity has grown in recent years, among other reasons, because of the effect new prudential requirements have had on profitability.

For instance, risk profile of assets rather than size of liabilities now determines capital requirements. So banks try to avoid defining business as assets. They also attempt to reduce the amounts disclosed as deposits to reduce liquid asset requirement. The result is they tend to act as brokers between clients.

"This is perfectly legitimate," says Registrar of Banks & Building Societies Chris de Swardt. "Problems arise only when risk is not transferred to the client, or provided for in terms of liquidity and capital adequacy requirements. We are concerned that banks may expose themselves to residual risks if they don't have proper authorisation supported by legal documentation from clients."

Recent Reserve Bank reminders on off-balance sheet guidelines related mainly to growth in banks' repurchase and cash management agreements and agency business.

These are not traditional banking business. Many people believe that banks should not be involved — "The activities are part of a disintermediation process, directly opposed

De Swardt ... need for proper documentation (58)

to the function of banks as financial *intermediaries.* If transactions are not properly handled, banks may, for example, believe they acted as agents, whereas, in fact, they acted as principals, not only attracting risks but also liquid asset or capital requirements.

"The authorities are concerned because some banks are following the guidelines while others are ignoring them, causing an uneven playing field." ■

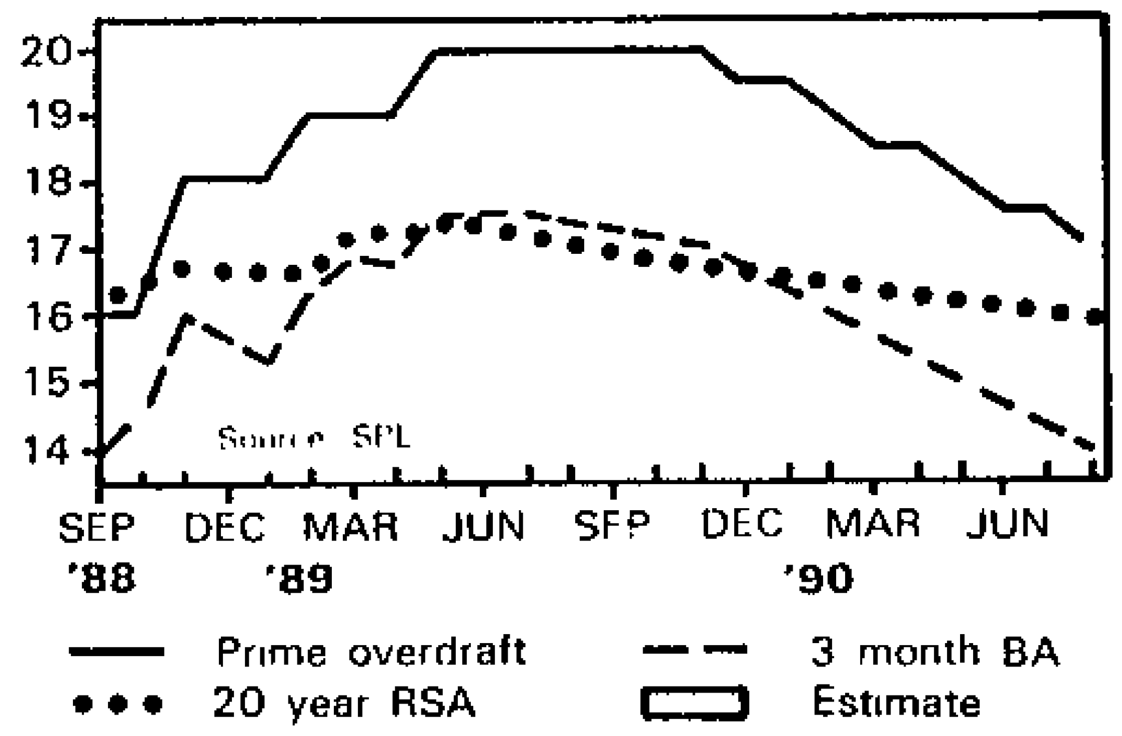
Fmail 1/9/89.

months, the historic trend indicated call rates would decline. This would distort the normal relationship between the two.

Implications are that either prime, which has been 20% since the beginning of May,

Crystal ball

Consensus forecast



will be kept unnecessarily high by Bank rate (which is set by the authorities) or that the market is artificially liquid at present, giving rise to unrealistic expectations of downward pressure on call in the future.

While many would prefer to believe that prime is being held unnecessarily high, other explanations seem more likely.

One reason for liquidity in recent months was the difficulty experienced by the Reserve Bank in selling government stock until mid-May. This ran counter to the normal sequence of sales, which are generally high at the start of the fiscal year.

Additionally, nearly R4bn government stock became liquid in July and August, pushing up banks' surplus of liquid assets. This trend will be reversed when about R3,7bn government stock matures between September and February.

The third and biggest input into recent liquidity has been Bank losses on forward cover operations. Reportedly about R14bn of the forex-related R16bn owed the Bank by Treasury is attributable to forward cover operations. Here again, however, future stability of the rand could reduce or end these losses for a while, removing the credit-creating impetus which builds liquidity.

And as these changes feed into the system, the distortion in the relationship of call and prime will be eliminated.

Economists taking part in the exercise were Ben Meyer of Corbank, Jos Gerson of stockbroker Mathison & Hollidge, Mike Brown of stockbroker Frankel Kruger Vinderine and Nick Barnardt of Trust Bank. Predictions were on five key rates — prime, now 20%; three-month BA, 17,4%; 12-month NCD, 18%; three-year RSA, 16,3%; and 20-year RSA, 17,10%.

The economists' average forecast is that:

☐ Within one month rates on the five instruments will be, respectively: 20%; 17,25%; 17,95%; 16,10%; 16,85%;

☐ In three months: 20%; 17,05%; 17,70%; 15,90%; 16,75%; and

☐ Within 12 months: 17%; 14,05%; 15,05%; 14,80%; 15,90%.

So all see little change in one month and little more in three. Most of the change is expected between January 1990 and August 1990.

At the end of September, November and next August, we will record how accurate the predictions were and ask participants to analyse deviations from their own predictions. ■

Estate agents look ahead with confidence

(58)

Star 29/9/89.

FRANK JEANS

THE country's estate agents meet next week in the Carlton Hotel, Johannesburg for their annual convention in a mood of confidence about future market trends.

In line with other big business sectors, the agents are putting a lot of faith on the outcome of the September 6 election.

While the residential property market remains generally buoyant in spite of the twin bogeys of rising building costs and high bond rate levels, there appears to be consensus within the industry that a "real take-off" in the homes business could follow the poll.

There is a definite "wait and see" attitude among potential buyers at present, and there is little doubt that the market could be heading for a further spurt in the wake of the election, particularly if present predictions of a fall in the bond rate in the next few months are on the mark.

"Double Up and Go One Better" is the theme of the Institute of Estate Agents convention, for agents are aware that they are operating in a much more sophisticated property market today and have to match it professionally in every aspect — especially in meeting the needs for discerning buyers.

Among the key speakers are Bob Tucker, managing director of the Perm, well-known forecaster Clem Sunter of Anglo American, who will expand on his theme of "Options for South Africa" and what they mean for estate agents, Keith Holt, advertisement director of The Star, and Dave Miller, president-elect of the IEA, whose topic will be time management.

An extensive programme of subjects and speakers, which will run alongside the main convention, is open to the public at a small charge.

Liblife gets in on GFSA deal

Star 2/9/89

58

SVEN LUNSCHE

DONALD GORDON's giant Liberty Life empire is likely to gain a major stake in Gold Fields of South Africa (GFSA).

This emerged yesterday after GFSA announced a R1 billion rights issue, the second largest in the history of the Johannesburg Stock Exchange.

Liberty Life will be a member of the consortium to underwrite the issue and could emerge with a 20 percent interest in GFSA Holdings, which in turn controls 40 percent of GFSA.

GFSA Holdings is currently owned jointly by the Rembrandt Group and Asteroid, a local company controlled by GFSA and its major gold mine Driefontein.

GFSA Holdings was formed when Consolidated Gold Fields last month sold a 30 percent holding in GFSA, after Consgold was taken over by UK industrial conglomerate Hanson Plc.

Rembrandt and Asteroid are likely to cede all of their rights or a major part of them to Liberty — the insurance giant will then have to pick up the bill of about R400 million, but in turn will gain an indirect stake of around eight percent in GFSA

This would push Liberty's interest to just over 10 percent, as it already holds 2,5 million ordinary shares and 2,7 million preference shares in GFSA.

Final terms awaited

Liberty Life director Farell Sher said yesterday that the group was awaiting the final terms of the rights offer, and if they were agreeable would join the underwriting consortium.

"It is likely thereafter that we could emerge with a 20 percent holding in GFSA Holdings," he said.

Analysts expect that Liberty will use the funds made available through last year's R475 million rights offer by the group's international investment arm, First Investment Trust, to finance the transaction

There was intense speculation at the time of the rights offer that Liberty would use the money to gain a major stake in a mining group, but this was denied at the time by Liberty executives.

Behind Liberty's involvement in the transaction is a very close and friendly relationship between Donald Gordon and Anton Rupert, the founder of the Rembrandt tobacco empire.

There has been continual speculation over the years that they would eventually embark on joint financial ventures and the GFSA deal could not have come at a more opportune time for Rembrandt.

Analysts point out that the group has been on a spending spree recently and that a partnership was essential in order to prevent borrowings from rising too steeply.

No problems

This is denied by sources close to Rembrandt, who argue that the group for a long time had absolutely no borrowings and that it would have no problems raising the required amount through a combination of internal funding and bank borrowings.

Analysts point out, however, that apart from the R800 million Rembrandt paid last month to Consgold for an additional 10 percent stake in GFSA, it also recently followed its rights in HLH, Gencor/Fedmyn and Sage to the tune of about R300 million.

A question mark hangs over Consgold's remaining eight percent stake in GFSA. Martin Taylor, a director of Hanson Plc, would not comment on the deal, but it is unlikely that Hanson would want to increase its interests in South Africa.

IfHanson decides to let the offer lapse, Liberty could further raise its holdings in GFSA.

GFSA director Alan Wright said proceeds of the offer would be used, in the main, to finance existing capital projects at Northam platinum mine and Ventersdorp gold mine.

But he added that the funds would also allow the group to further develop the new gold mining prospects in the Free State, as well as taking advantage of new base metal and coal opportunities.

Details of the offer will be announced towards the end of next week

DONALD GORDON — Another coup.

JSE the year's top performer

Star 2/9/89.

58

DEREK TOMMEY

IN a tough year some South Africans have one consolation. Those with investments in shares have done better than anyone else in the world.

Investors holding equity or units in mutual funds (or who belong to a pension fund or have with-profits insurance policies as indirectly they are also shareholders) scored.

Figures issued yesterday by the British journal "The Economist", show that the Johannesburg Stock Exchange has been the world's best performing share market this year.

In spite of many adverse factors, including extremely high interest rates and rising taxation, South African share prices rose 44,3 percent in the first eight months of this year.

The next best performers were Swiss shares which have achieved a 36,1 percent increase. Share prices in Britain showed a 32,8 percent gain and in Sweden 32,7 percent.

At the other end of the scale share prices in Hong Kong have fallen 7,4 percent this year, reflecting the growing apprehension about the colony's future under Red China.

However, the JSE has not only been the leading market in terms of local currencies, but has been top market in terms of dollars.

Measured in dollar terms, South African share prices rose 29,3 percent in the first eight months of this year. Runner up was Singapore with a 27,7 percent rise followed by Wall Street with a 25,7 percent increase.

Worst performance in dollar terms was Hong Kong, with a loss of 7,5 percent, but surprisingly the Japanese market was another poor performer in dollar terms with a gain of only 0,5 percent in the eight-month period.

Investment advisers put forward several reasons for the strength of the South African share market.

Mr John Clemmow of Mathieson and Hollidge attributes much of the growth in share prices to the "Third World-isation" of the share market.

South African investors were in a trap, he said. They were not allowed to invest their money overseas, and the high rate of inflation made most other investments such as deposits or loan stocks unattractive.

The result was that the institutions with large holdings of money were heavy investors in large companies with broad-based operations which they saw as inflation hedges.

Rand hedges

For the same reason they were also investing heavily in rand-hedges such as FIT and Richemont. The need to invest in inflation-hedges accounted for the high prices paid whenever South African subsidiaries of foreign companies were offered for sale.

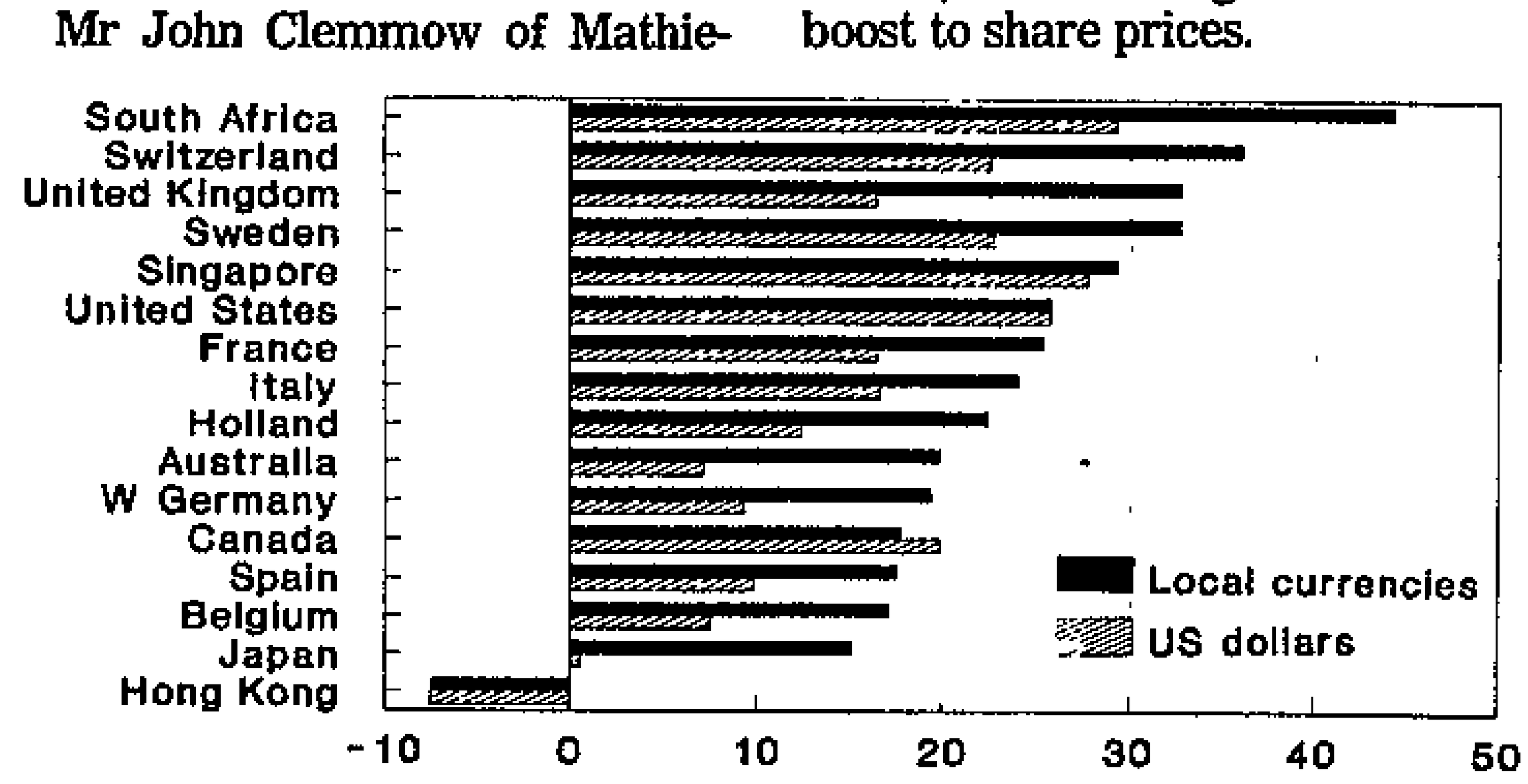
Mr Clemmow said a second reason was a belief overseas that there had been an improvement in the political environment

A third reason was that South Africans were the most euphoric people in the world — always expecting, for example, that the gold price will go up!

Mr Roy McAlpine, managing director of Liberty Asset Management, said much of the rise in share prices this year was the result of good results lifting share prices from a low base.

This has been a good year for earnings, he said, but believed share prices had reached a level where they were fully valued and he did not expect a further sharp increase in the months ahead.

Mr Marco Celotti of the Old Mutual Investors Fund also pointed to the news that the prescribed asset requirements were to be lifted, which would enable the institutions to invest more money in shares, could have given a further boost to share prices.



Comparative performance of the world stock markets this year.

Life offices brace for the slowdown

S/Times 3/9/89. (58)

By Anthea Duigan

FACTORS affecting the economy also affect the life-assurance industry.

The economy is heading down and will continue to slow until at least the middle of next year. Recovery is expected to be slow, and the life industry will suffer.

This is the view of Pierre Steyn, managing director of Sanlam and chairman of the Life Offices Association (LOA).

Mr Steyn says: "The slowdown will result in less disposable income being saved by individuals and invested in assurance. The ordinary person will have less money in his pocket to spend or to save.

"Marketing of life products will become more difficult and assurers will have to try to keep lapses and surrenders to a minimum. Business will be much tougher in the next year or so than in the past."

Competition

However, Mr Steyn says policyholders could benefit from stringent times.

"Competition among life offices is strong. Life assurance is perhaps the most competitive industry in this country. Life offices will go out of their way to make available the best possible products and increase the quality of service to the consumer."

Referrinig to new matters affecting the industry, Mr Steyn says: "Two major aspects were announced by the Minister of Finance in his Budget speech in March.

"The first relates to a new tax based on the trustee principle for life offices which has been accepted by the Government although it has yet to be fully implemented.

"This is the culmination of a long campaign by the LOA. The basis is the same as that of individual policyholders should they invest in property, shares or Government securities.

"It will mean less tax being paid by the life offices on behalf of policyholders and therefore the companies will be able to improve the benefits and declare higher bonuses.

PIERRE STEYN ... razor-sharp competition

"The other major Budget announcement was the abolition of prescribed assets in favour of prudent investment guidelines.

"The exact details have yet to be gazetted, but pressure is being exerted for the guidelines to be published soon. Traditionally, life offices have earned higher investment returns on ordinary shares and property than in Government securities. With greater investment freedom, better products and higher returns will benefit policyholders.

Pressure

"Another issue concerning the life industry is the anomaly of the taxation of provident funds. Private provident funds do not pay tax on investment income, but those underwritten by assurance companies do.

"Private funds often suffer from lack of investment expertise and the lack of security provided by the underwriting insurance company — not to mention separate administration costs — all of which ultimately affect the employees.

Both the industry and the Government agree that the situation is illogical and the discrepancy should be removed.

"In our competitive industry, hardly a month goes by without one of the life offices bringing out a new package, benefit or product.

"The introduction of dread diseases was a world first for South Africa. This can now be added to policies issued by all SA life offices.

"Many companies are now looking at the ever-increasing cost of medical care, investigating whether there are products which could be linked to a life-assurance policy.

"There are continuing improvements in disability benefits which form a major part of the insurance needs of policyholders.

Guarantee

"Insurability options enable a person to take out further insurance in the future, guaranteeing him that notwithstanding any deterioration in his health, he may take out more cover.

"I know of no other country which can claim to offer more sophisticated products than those available in SA," says Mr Steyn.

The "grey" market is becoming the fastest-growing section of the life industry.

Mr Steyn says: "The industry is developing saving products for those over 50 years of age. Many people in this age group find they have money to spare because their children are self-supporting. They use their extra cash to provide for their old age.

"Investment saving plans and retirement annuities are important for these people, which is why more and more life offices are concentrating on this sector.

"Another growth area is the development and sale of life products to women. Up to now this has been a neglected market.

"However, the ratio gap of men and women buying life cover is closing. More women are taking out life cover and companies are giving more attention to their needs."

The black population, with improved standards of living, is turning to sophisticated services, such as life assurance. Some life offices specialise in this market, but all offices regard it as the major growth area.

Mr Steyn sees the main growth areas as the middle- to lower-income bracket providing death, disability and funeral payments.

58

Setback for Set for Life scheme

By Julie Walker

MILITANT insurance brokers and agents chased Set For Life out of Australia, so promoter John Drinkwater moved to South Africa with his controversial life-assurance co-operative selling scheme.

He obtained a master policy for group life cover from the Standard General Insurance Co of SA (Stangen), but it has also given notice of cancellation.

Stangen — largely Italian owned — says the notice of cancellation was given because of lack of agreement on Set For Life's marketing methods. But Mr Drinkwater claims Stangen's action is invalid.

He says that before issuing the policy, Stangen was aware of the marketing plan. He secured a 12-month guarantee from Stangen because he expected opposition from other life offices. He blames them for pressuring Stangen into this "illegal act, which effectively deprives 2 000 Set For Life members of their family protection".

Stangen chairman Robero Grandi says all bona fide claims will be honoured, and notice of cancellation has been given so that people know it will not last forever.

Scanty

"When Set For Life described its marketing schemes to Stangen, the information was at best scanty. Mr Drinkwater's remark that Stangen was aware of the marketing plan does not reflect the true position. We tried to iron out the differences with Set For Life without success."

Mr Drinkwater, an Australian married to a South African, counters: "It provides much-needed life cover and a monthly income at the same time."

Mr Drinkwater owns Set for Life, which holds master policy 1257 issued by Stangen.

Set For Life involves a pyramid of generations of people who buy life cover under the banner "people helping people".

Let's say I sell a policy to four friends. For R100 a month, they buy life cover of R100 000 if they are under 35; R65 000 if they are under 45; and R30 000 if they are between 45 and 60. There is a 50% benefit in the event of dread disease.

Everyone pays three months' premium upfront.

Mr Drinkwater says: "This is to give them some time to build up their own generations."

After the three months, commission income is said to be enough to cover a premium of R100 a month and the balance is paid in commission. Tax deducted is 25%.

Monthly commission is R10 from each member. I have to try to help those four — my first generation — to sell four policies each to others. The phrase is "help them gain protection". These people become my second generation.

I get R9 each of their monthly premiums and my first generation members get R10

My second generation people then have to sell policies to four of their pals, who become my third generation and comprise 64 in number. I get R8 from each, my first generation receives R9 and my seconds R10.

So on, until the limit of six generations But every member is the nucleus of his own six generations. If my sixth generation members are to achieve their own sixth generation there will be more people than there are in SA paying Set For Life.

If 2 000 people took out Set For Life policies, and each paid three months' premium up front, that means R600 000 has already been gathered by the promoter. They all had to buy a training manual at R15 as well for another R30 000.

The glossy prospectus shows how the maximum monthly commission is a cool R29 112.

Maximum

Of the premium income paid by my 4 096-strong sixth generation, 45% goes on commissions every month That is my co-operative.

One independent broker says for group cover the maximum commission he takes under Life Offices Association rules is 7,5%. So 45% seems a lot. He says he could offer the same group-life cover at half the price or lower.

Mr Drinkwater says that out of every R100, Stan Gen gets about R30, and the balance goes in operating costs and Set For Life's profit.

Dr Grandi says Stangen is considering ways of assisting the 2 000 Set For Life members to obtain cover without their being left in the lurch.

Romens and Dior in rumpus over price

S/Times 3/9/89.

By Ian Smith

LISTED menswear retail chain Romens has clashed with one of the giants of the fashion world — Christian Dior.

Cape Town-based Romens has complained to the Competition Board that South African licensees of the French fashion house — manufacturing goods from umbrellas to men's suits and knitwear — are refusing to supply it with the designer range.

Competition Board chairman Pierre Brookes says: "We have asked Christian Dior licensees to repond to the allegation before we decide if a full investigation is needed."

An attorney for Christian Dior says: "We are aware of the nature of the complaint and we believe it is unjustified. We are preparing a full response for the Competition Board."

Romens, which has 12 stores and franchised shops in the Cape, the Free State and Namibia, is SA's biggest retailer of Dior suits, shirts and knitwear, says chairman Danny Kahn.

Pride

"The dispute has its roots in a complaint that our Port Elizabeth franchise was selling Dior merchandise at 'substantially lower' mark-ups — in other words, at a discount," says Mr Kahn.

"We pride ourselves that, across the board, we sell at prices well below other menswear retailers — but we are not discounters.

"We have built up this business over 30 years on the basis of a fair price to customers and fair profits to Romens and our suppliers."

Mr Kahn says that no Dior licensee was prepared to show Romens the Dior 1990 winter range — "although I specifically asked them to do so before the end of July".

He says: "Dior officials in Paris have told us that the question of supply does not lie in their hands, it is up to local suppliers But the licensees have told us they cannot supply us because of a directive from Paris ordering them not to do so."

A major licensee in SA is Mentone Clothing, which makes Christian Dior men's suits. Managing director Mike Siesel says: "We are preparing our reply to the Competition Board and it would not be right to comment at this stage."

The row could have repercussions for manufacturers of many other designer label clothes and accessories.

Mr Kahn says that imported linings and trim are widely used on designer lines, and the quality is monitored by the foreign principals.

Perils of owning a second house

58

PROPERTY is one of the mainstays of investment.

Property in South Africa has always been a good investment.

But as with any other investment, gaining the best returns from property demands sound selection. The acquisition of anything with four walls is not guaranteed to return a profit.

Most South Africans do not regard a home as an investment in the true sense. But home owners often have a certain intimacy with the residential property market by simply monitoring prices in their own area. So, for many people, buying a second house appears to be a natural extension of their property exposure.

Problems

Barry Kalkhoven, general manager of Metboard, says this route might be far from ideal.

"Many problems are associated with investing in a second house, not least of which is the that you are putting all your property eggs in one basket. It can also be difficult to sell the property in a hurry, and it might be hard to find good tenants.

"In addition, timing is critical. Those with the courage to buy second houses after political disturbances have done well. But in general, buying is done at the wrong time."

The interest part of bond repayments and maintenance costs of the property can be deducted for tax from rent received only if the property is not bought as a holiday home or if the intention is to move into the house.

When a second house is bought for investment, this does not apply. In times when interest rates are high, the investor could find himself having to put in extra cash without enjoying the benefit of a tax deduction.

Syndicates

Mr Kalkhoven suggests that those people who do want to invest in property consider the JSE or professionally managed syndicates.

"JSE-listed property trusts are governed by a special Act of Parliament ensuring their security. They may not borrow, and all the property in the trust is owned. There is usually a range of property in the portfolio and if one does not perform well, its impact on the whole trust is small."

An investment in property trusts on the JSE has the big advantage that it can be liquidated immediately.

A little homework is needed before investors select a property trust. Each has a different weighting between industrial, commercial and retail space, and the management teams vary.

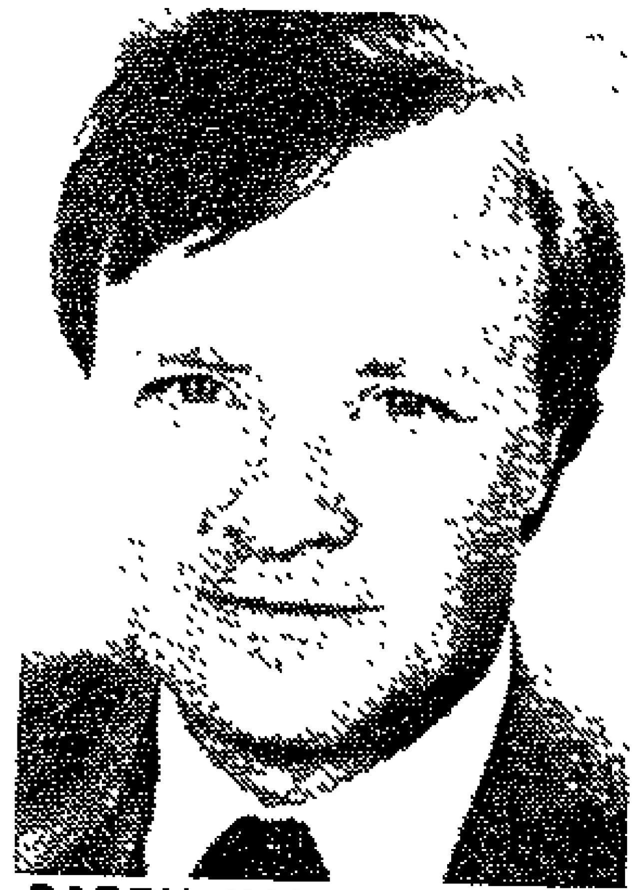
All the profit made by the trust is passed directly to unitholders, and is treated as fully taxable income in their hands in any one year.

investment — "free from the ravages of high interest rates and with good growth potential".

He recommends that investors stay aboard for at least five years to enjoy the benefits of property syndication.

"Our forecasts show that in that time, investors could receive a 72% return on capital growth and an 82% return on income growth. This amounts to a cumulative return of 154%."

Metboard offers share



BARRY KALKHOVEN ... property trusts an answer

blocks which an investor wants to sell to existing share block owners and to the open market.

"We find there is always a demand for existing blocks and our syndication client base is growing rapidly."

Mr Kalkhoven says this type of investment appeals to someone who needs a reasonable level of growing income and capital growth.

Different

Loan stocks which have listed over the last few years differ from property trusts in that they comprise variable rate debentures. The interest paid varies on how well the properties perform.

Mr Kalkhoven says that with JSE-listed property investments, the unitholder is at the mercy of the management teams, and recommends property syndicates for those who want to have a say in where their money goes.

Ravages

Metboard's latest syndicate is the Pick 'n Pay Centre in Worcester, where 4 000 share blocks of R10 000 are available.

Pick 'n Pay occupies 66% of the centre, and Wesbank and listed paint company Dekro are secure tenants.

Mr Kalkhoven says syndicate members buy a secure

What's best—at a glance

SYFRETS now offers advice to clients on the basis of a computerised Wealth Creator Plan.

In a single interview, the programme allows the investment planner and the client to explore the earnings, growth and tax implications of a variety of investment choices, based on the individual's requirements.

Wealth Creator takes into account the client's capital base, income needs and tax circumstances.

This makes it possible for the ramifications of a variety of objective investment decisions to be made instantly visible to the investor.

It is a big shift to the tailoring of investment advice to the individual, and could signal a major change in investment-house policy as far as attracting clients is concerned.

Syfrets chairman and chief executive Brian Robinson says research shows that the more products and choices an investor is faced with, the more bewildered he becomes.

Such packaged products are aimed at stereotypes, delineated by income, age or other factors. Although these products are often good, they might not offer the best for each individual.

Although the basic principles of sound investment do not change, inflation and tax considerations have altered the investment environment, says Syfrets.

Business Times Survey September 3, 1989

Safety in property

S/Times 3/9/89 58

THE best hedge against inflation in the past 20 to 30 years has unquestionably been quoted equities, says Tom Boardman, executive director of the Board of Executors.

"A balanced portfolio should also contain investments in property, which together with the quoted equities provide investors with security and an inflation-beating rate of return.

"Property investments, although generally underperforming equities, are less volatile and usually give a higher rate of return."

Mr Boardman says that although participation mortgage bonds do not provide a hedge against inflation, they give one of the highest income yields combined with excellent security. Partbonds require an investment of at least R1 000 and are fixed for a minimum of five years.

"The current yield on this type of investment is 18%. However, it fluctuates according to the overall interest-rate pattern, with a minimum of 12,5%."

The security of partbonds lies in their being secured over prime commercial or industrial property.

"Property syndicates are for investors who can afford a slightly lower initial return on their money than offered by partbonds and who seek capital growth and a higher total return.

"Property syndicates allow investors who might not normally have sufficient funds to invest in prime commercial and industrial properties to do so.

"The minimum amount needed is R20 000. Properties syndicated by the Board have an average value of about R5-million. The investor is allocated shares in proportion to his investment in a company registered to own the property.

"The yield on the investment depends on the property involved which is always prime retail, industrial or commercial. The yield usually begins at 11% and grows by about 10% a year. There is also the potential of capital appreciation of at least 10% a year."

Mr Boardman says property syndications offer all the benefits of owning property without the worry and problems of administration because this is undertaken on behalf of the syndicate.

"The most common route to invest in equities is either through unit trusts for the smaller investor, or a managed portfolio."

Mr Boardman recommends a longer-term approach to equity investments to counter the volatility of returns on equities from year to year. For example, the return in 1970 following the crash of 1969 was a negative 38%, and in 1979 it was a positive 75%.

Independents seek out the best of deals

S Times 3/9/89

By Anthea Duigan

58

OPPORTUNITIES for the creative development of products and services in financial planning and insurance are virtually limitless, but all too seldom explored.

One financial group with this aim is IPC, formed in 1986 to combine the strengths and knowledge of independent life-assurance brokers.

IPC now has 26 members, each offering services and products with a simple philosophy of tailoring products to suit the needs of clients.

Richard Wharton-Hood, a founder IPC member, says: "In the past, assurance companies tended to design policies which they thought would sell. IPC members, whose clients are mainly from the A income group, have found them to be lacking."

Picture

For a proper analysis of a client's portfolio, every detail of income, assets, tax, liabilities, insurances and investments must be disclosed.

The IPC financial planner gains a full picture of his client's finances and where and what protection is necessary.

IPC members designed a series of products, underwritten by life companies, to the envy of many companies and brokers who could not use them. Some were so novel that they have been copied.

A voluntary pension fund for independent clients has been set up, allowing member the choice of assurance company to handle the investment and the option of changing portfolio managers at will.

Mr Wharton-Hood says: "I do not believe we can take standard products and slot them into our clients' needs."

Neil de Munnik, another founder IPC member, says: "We provide benefits for clients not necessarily through single policies, but from a combination of group concepts and individual needs.

"It is possible to have voluntary participation in a group life and dread disease group scheme. Any client can avail himself of this group facility through IPC.

Commission

"The alternative would be to take out an individual contract with an assurance company and pay all the inherent expenses involved including commission.

"A self-administered scheme with group premium rates is much cheaper than an individual. We pass this benefit to our clients. Depending on the age and the amount, the saving could be two-thirds of an individual contract.

"This has proved to be a successful product and within a year of introduction has more 500 members."

Under conventional packages, members enjoy group life cover throughout their working lives — but on the day they retire, it ceases.

"Why should a life be worth R100 000 one day and nothing the next? For years the insurance company has accepted premiums and when the man reaches age 65, the liability stops.

"For many people it is essential to maintain life cover into retirement, but to take out that cover at the age of 65 is expensive."

IPC has other group schemes in which individuals may take part at the best rates available in the industry.

S/Times 3/9/89. 58

Packages cut costs

INSURANCE packages for groups of individuals are proving successful.

Fedlife has set up a department and designed computer programmes for the administration of schemes.

Jed Jedlinski, senior manager in charge of Fedlife voluntary schemes, says: "We normally use the direct approach, but we can go through a broker and in all cases we tailor the product to suit the requirements of each group.

"For example, the South African Nursing Association with 160 000 members called for tenders for assurance companies to design a package for it.

"Instead of designing what we estimated might be the long-term needs of nurses, we asked the association what its members needed. The association asked for group life, funeral benefits and retirement annuities. We matched a scheme to these primary needs.

"This group, predominantly white in the past, now increasingly represents women from the upper-class black communities who understand the benefits of assurance.

Category

"The scheme allows each individual to take the amount of cover in any particular category to suit the family and their lifestyle. It is also possible to increase or decrease the cover when circumstances change.

"In schemes of this nature, the options are extensive. Personal accident, normally regarded as a short-term product, can be added to a group scheme.

"People want to be treated as individuals."

In many cases the premiums charged are well below assurance companies' minimum levels which average about R75 a month. The average collected for these schemes is R40 a month. Some are as low as R2 a month for only funeral benefits.

The schemes make it possible to obtain disability insurance for as little as R10 a month — unobtainable elsewhere.

Payment may be made by a bank debit order, stop orders against salary, credit card or even direct by the paymaster who deducts the amount from the policyholder's salary. Because the schemes are voluntary, the lapse rate is very low.

In many instances the schemes are a person's introduction to life products.

Policyholders derive satisfaction by knowing they are making provision for themselves and their families.

UBS merits as good a rating as any bank

58

Sharespot star 4/9/89
LYNNE PEACH

UBS Holdings, listed in 1986, can no longer be thought of as the holding company of only a building society.

Although the United Building Society remains important to the group, dependence on this division has declined, and will probably retreat further.

The group has expanded its insurance division and a spokesman confirms that United Bank is growing up fast, with clients being offered an increasing number of services.

While the fading of the once clear distinction between the businesses of banks and building societies has intensified competition, it has also led to new and improved services being offered.

A competitive edge is more important than ever, and the field of service is the only way to differentiate between competitors in the industry.

UBS concentrates on providing one-stop financial services, including insurance and property services, to the man-in-the-street.

The group controls United Building Society and United Bank and has a 30 percent interest in listed insurance company Cusaf and an effective 55 percent of the Volkskas Group.

During financial 1989, a trust company, which was renamed UBS Trust, was acquired along with a third of Combined Participation Bond Managers.

The most important contributor to group results remains the building society division, which accounted for half of group attributable income in the year to March.

Banking accounted for 20 percent, insurance for 19 percent, property for one percent and other interests contributed 11 percent.

The fastest growth area was insurance, and a UBS spokeman says this division will probably be a strong performer again this year.

Another division expected to do well is banking.

United Bank, in which the group has a 50 percent stake, suffered a loss of R0,6 million last year, but is now doing well, according to the spokesman.

In the year to March, total income climbed 33 percent from R1,4 billion to R1,9 billion.

Most of the group's income comes from interest on advances, which rose 32 percent from R1,2 billion to R1,6 billion.

After higher interest paid on deposit and current accounts, pre-tax income increased by 13,8 percent from R189 million to R215,1 million.

A lower effective tax rate of 43 percent resulted in a 21,4 percent rise in taxed profit from R101,2 million to R122,9 million.

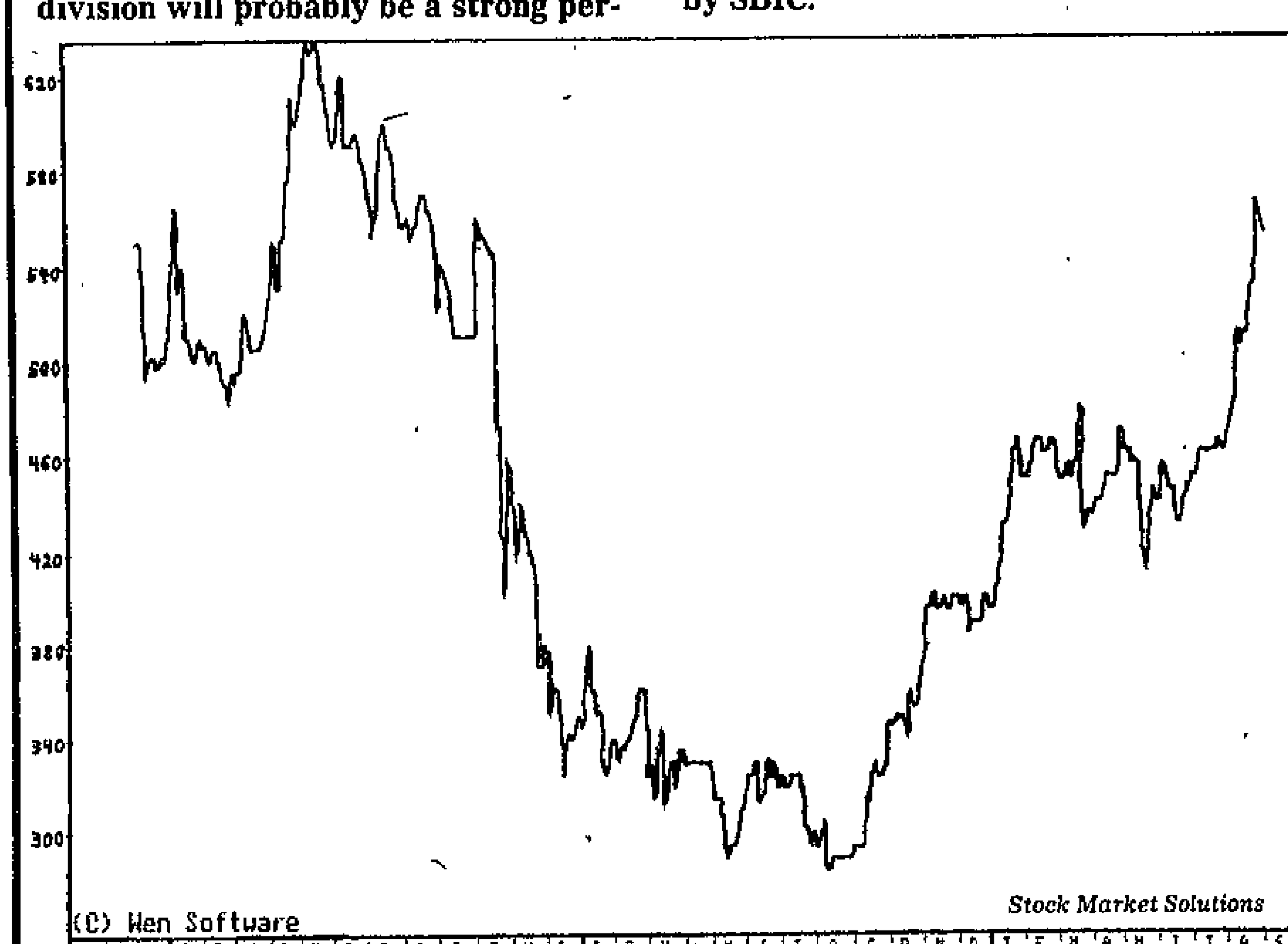
Earnings per share climbed 23 percent from 51,3c to 63,1c and, after an increase in cover, the dividend for the year was 27c, compared with 24c in financial 1988.

The return on average shareholders' funds increased from 11,6 percent to 12,6 percent and the return on average assets improved from 1,16 percent to 1,24 percent, the best in the industry.

Net asset value rose 7,5 percent from 482,8c to 518,9c.

Brokers expect UBS to achieve above-average earnings growth this year and believe the share deserves as good a rating as any banking share.

Priced at 545c, UBS provides an historic dividend yield of five percent, compared with 4,4 percent provided by Nedcor and 3,7 percent provided by SBIC.



UBS has been outperforming the JSE banking & financial services index since early 1988. The price, which shot up recently, is in a primary bull trend.

Liberty, Rembrandt set for GFSA driver's seat

Star 4/9/89 (58)

By Sven Lünsche

Liberty Life and Rembrandt are set to call the shots at Gold Fields of SA (GFSA) when the mining group's R1 billion rights offer is concluded.

The issue, announced last week, is the second-biggest in JSE history and will ensure that Liberty gets a major stake in one of South Africa's more profitable gold mining operations.

Liberty Life will be a member of the consortium to underwrite the issue and could emerge with a 20 percent stake in GFSA Holdings which, in turn, controls 40 percent of GFSA.

GFSA Holdings is owned jointly by Rembrandt and Asteroid, a company controlled by GFSA and its gold mine, Driefontein.

Rembrandt and Asteroid are likely to cede all of their rights, or a major part of them, to Liberty. The insurance giant will then have pay about R400 million, but will gain an indirect stake of eight percent in GFSA.

Liberty already holds 2,5 million ordinary shares and 2,7 million preference shares, but is likely to swop some of these for the 20 percent that will be allocated to it in GFSA Holdings

Liberty chairman Donald Gordon denied in a weekend newspaper that he wanted anything to do with control of GFSA.

He said Rembrandt and Asteroid would remain in control because his group was not paying the control premium.

But with equal control currently exercised by both GFSA management and Rembrandt, Liberty could emerge as the power broker, and more than likely in favour of Rembrandt, given the close relationship between them.

Mr Gordon also reportedly said that the investment would be used to protect GFSA's 10 percent holding in the Standard Bank Group (Stanbic) from moving to "unfriendly third parties".

Liberty holds about 30 percent of Stanbic — the largest stake — and through an interest in GFSA ensures that it would be more difficult for an outside partner to take up GFSA's stake in Stanbic.

Stanbic controls about 50 percent of Liberty Life's ultimate controlling company, Liberty Life Controlling Corporation.

GFSA Holdings was formed when Consolidated Gold Fields last month sold a 30 percent holding in GFSA after Consgold was taken over by UK industrial conglomerate Hanson Plc.

Both Rembrandt and Asteroid paid an effective R97 per share to Hanson at the time, but Liberty will enlarge its holding in GFSA at a considerable discount to the current JSE price.

Since the time of the divestment GFSA's share price has fallen from R87 to about R81 and the rights offer is likely to be placed at a further discount of around 10 percent to the present share price, putting a price tag of around R72 per share to the rights offer.

Estate agents have mixed feelings about UBS's move

(58)
Star 5/9/84

By Frank Jeans

There appears to be mixed feelings within the real estate business about the United Building Society's decision to buy a 33,3 percent share in the home selling network — Multi Listing Services (MLS).

One leading agent, Mr Basil Elk of Basil Elk Estates, who is surprised at the move, says: "In America over the past two years, I have attended many seminars and management conferences with leading estate agents and I can report a strong move away from multi-listing organisations."

Mr Elk believes there are two reasons for this:

- The 50 to 70 percent commission sharing with other agents brought some agencies "to their knees";
- It has taken since the late Sixties for the US estate agents to finally recognise that a sole mandate with one agent attending to the seller's interests is the way of giving consumers the "best dedicated service".

"The South African-styled MLS is an estate agent and the United, by buying into MLS has, in turn, become an 'estate agent'.

When he announced the move, United's chief executive, Mr Piet Badenhorst emphasised that the money paid over to MLS would be used to upgrade the present MLS computer listing system and that the arrangement would not affect the society's relationship with estate agents who are not affilitated to the MLS group.

"The United will not, by our arrangement with MLS, be buying control of a section of the local real estate industry," he said.

Another leading agent, Mr Eskel Jawitz, managing director of Eskel Jawitz-JHI Real Estate says· "Clearly the United is motivated by the desire to both protect its market share and ensure its growth in the bond market.

Mr Jawitz believes the United move is the first in a trend that is likely to see the six or seven major players in the bond market reduced to four or five.

"Competition for the consumer's rand by way of bond finance is so fierce that the other institutions will no doubt be quick to investigate the advisability and desirability of following suit," he says.

"The upgrading of technology for MLS members, making almost instant bond approval possible, will not necessarily put estate agents outside the MLS group at a competitive disadvantage.

"Well established and well connected companies have no problem with bond finance."

Mr Jawitz also stresses that in today's highly competitive, demanding and financially complex residential property market, the "days of the bored housewife becoming an agent are over.

"I do not believe the United's involvement with MLS will prejudice the vast numbers of accredited and non-accredited agents throughout the country," he says.

No change in control claims GFSA

Star 5/9/84 (204) (58)

The announcement last week that Liberty Life is to join the Remgro-Asteroid partnership controlling Gold Fields of SA, will in no way effect the partnership's effective control of GFSA, says GFSA executive director Bernard van Rooyen.

Mr van Rooyen was reacting to press reports, that with Liberty Life joining the Rembrandt-Asteroid partnership, it could mean that GFSA managementwill have to take orders in future.

Reports added that unless there was an agreement to the contrary, Remgro and Liberty together "could call the shots". Because Liberty Life has the casting vote, it appears to be the power broker.

Mr van Rooyen told Sapa that the new arrangement would in no way impinge on the Remgro Asteroid partnership. Asteroid is controlled by companies within GFSA.

Liberty Life chairman Donny Gordon confirmed that his company would not be involved in the management of GFSA.

"GFSA will be run by the initial partners, Asteroid and Rembrandt so it was not necessary for us to pay the control premium. Liberty regards the control line clearly between Rembrandt and GFSA."

Liberty, according to reports, which is to put "couple of hundred million rand" into GFSA at considerably less than the R97 a share paid by Remgro-Asteroid, is entering the control partnership by partially underwriting GFSA's R1 billion right issue announced last week

After the issue, Liberty will have 20 percent of unlisted GFSA Holdings while Remgro and Asteroid will each hold 40 per cent. — Sapa

58

SA 'painted into financial corner'

Own Correspondent

LONDON. — South Africa and the squeeze ahead of the country in the face of increased sanctions is the main report in the latest issue of the respected US financial magazine International Business Week.

Staring from the cover is a pensive Mr F W de Klerk. Behind him is the ominous title: "South Africa — the squeeze is on".

"As sanctions bite hard, will De Klerk choose reform or repression?" the lead article asks, illustrating the point with a stark picture of a police helicopter hovering inches above the sand as it closes in on a group of demonstrators on a Cape Town beach.

Compiled by a team of correspondents — which includes Business Day's Alan Fine — the article portrays South Africa as a country painted into an ideological and financial corner as the clock ticks ominously in the international community.

One set of graphs underlines the economic cost of apartheid (security spending over 10 years rising as GDP growth falls), while another shows the rand as a hostage of fortune to the gold price.

Acknowledgement of the effect of world pressure comes from Chamber of Mines president Mr Kennedy Maxwell: "Those chanting the mantra of sanctions ... have played a part in bringing South Africa to its present crossroads."

Business Week goes on to examines the underlying malaise — capital flight, high interest rates, the brain drain and the growing militancy of the disenfranchised black majority.

Even the Minorco bid for Consolidated Gold Fields is described as an indicative symptom which "said loudly to local business leaders that South Africa wasn't a long-term bet".

The magazine was in no doubt that it was the cumulative effect of these factors that was forcing Mr De Klerk to the negotiating table. But like most observers outside, it did not know which way he would jump after the elections.

COMPANIES

Argus 6/9/89 (58)

Retco repays R30-million and banks R19-million

By TOM HOOD, Business Editor

REASONS for unusually heavy trading in Retco shares became clearer today when the Cape company announced an earnings growth of 23 percent, a dividend rise of 15 percent and a cash pile of R19-million.

More than 611 000 shares worth R916 000 changed hands last Thursday — the second highest volume recorded on the JSE that day — almost a week ahead of the disclosure of year-end results.

Another 102 440 were traded on Monday and 22 560 on Tuesday.

Last week Retco sold 3,6-millon debentures to a financial institution for R19,8-million.

Today's results show the final dividend is up 1c to 5c for a total of 7,50 (R6,50) from earnings of 20,20c (16,37c).

Net profit rose to R8,9-million from R8-million a year ago.

Dividend income grew sharply to R2,5-million from 1,7-million, reflecting good performances from subsidiaries Premier Consolidated and Frasers.

Growth forecasts from these companies meant shareholders could expect higher profits and dividends in the year to June 1990, said managing director David Chapman.

While the company's policy was to try to invest in a major acquyisition, he was in no hurry use the R19-million. Meantime the funds were earning a high rate of interest, he said.

Retco had de-geared its balance sheet. Long-term debts had been repaid and the bank balance had swung from a R30-million overdraft to cash deposits of R19-million.

There had also been a dramatic change in attitude toward debentures by institutions, added Mr Chapman.

The government relaxation in investments by institutions in prescribed assets had also made debentures more attractive to investors.

The market for these instruments had moved from R4,50 to R5,50 a unit, with strong indications of further upward movements, he said.

● Picbel subsidiary **Picprop** has reported a 50 percent hike in earnings to 25,6c (17,1c) a share for the 12 months to end-June and raised the dividend to 12c (10c) a share.

During financial 1988 Picprop sold its major property asset, Picbel Parkade, for R17,8-million. The company has one remaining property.

Net proceeds of the sale were invested in high yielding preference shares and according to the directors the 50 percent earnings improvement in financial 1989 was owing mainly to the prevailing high rates obtained on its cash investments.

The directors also say that improvements in the luggage and sports division also contributed to the group's increased earnings

But the most significant factor boosting the group's results was the sharp drop in tax from R639 000 to R222 000.

This converted a pre-tax improvement of only 14 percent into an after-tax rise of 51,6 percent.

Sage Holdings growth curbed by SPH

Star 7/9/89

(58)

By Ann Crotty

Growth in earnings at Sage Holdings has been curtailed by a poor performance from its property subsidiary, Sage Property Holdings.

The outlook for the group is clouded by investigations into its home-building activities, with indications that losses of at least R8 million may have to be written off reserves.

Sage Holdings reported a 15 percent advance in pre-tax profit to R24 million (R20,9 million) for the six months to June.

An increase in the tax charge reduced the improvement at attributable earnings level to 11,6 percent, taking it to R10 million (R9 million).

This was equivalent to 46,05c (41,28c) a share, from which an unchanged dividend of 22c has been declared.

Sage Holdings derives its income primarily from its listed subsidiaries, Sage Financial Services (SFS) and Sage Property Holdings (SPH).

The pre-tax profit figure for Sage Holdings indicates that its other (non-listed) interests are producing a loss at the pre-tax profit level.

SPH and SFS reported pre-tax profits of R4,3 million and R23 million respectively, making a combined R27,3 million.

SFS, which was listed in June, recorded a strong six-month performance with a 54 percent hike in pre-tax profit to R23 million (R14,9 million).

An increase in the tax rate restricted the earnings advance to 33,6 percent from 10,08c to 15,19c. A dividend of 7c has been declared.

Strategic investment

SFS' interests include life insurance, financial planning, investment management and corporate finance. It also has a strategic investment in the Allied Group and Rand Merchant Bank.

The directors of SFS believe that "barring unforeseen circumstances" the earnings forecast of 32c a share for the full year will be attained. A full-year dividend of 16c has also been forecast.

SPH, which holds the group's interests in property, home-building and land development, had a tough six months and reported an increase in attributable earnings of only seven percent to R2,9 million (R2,7 million). This is equivalent to 8c (7,6c) a share, from which an unchanged dividend of 4c has been declared.

The directors say high interest rates, pressure on affordability and cost escalations have combined to squeeze the home-building industry.

More worrying is the report of internal investigations into certain of the group's home-building activities.

The directors say: "Internal audits have revealed that over a period of time profits have been overstated in certain home-building activities outside the PWV area and on certain major contracts awarded on a tender basis.

"These construction activities have been discontinued. Disciplinary action has been taken against certain management and the matter is receiving further serious attention.

Extraordinary item

"Losses from discontinued operations arising from the aforesaid presently appear to be in excess of R8 million and the finally determined amount will be treated as an extraordinary item after deducting possible recoveries.

"The directors are satisfied that these occurrences will not be repeated and that they have had no lasting effect on the core activities of the home-building division."

At this stage it looks as though any losses will be taken from SPH's reserves. At the end of financial 1988 the group had share capital and reserves of just over R81 million.

Minister issues order on Set for Life sales

Star 7/9/89 (58)

By Jabulani Sikhakhane

The deputy Minister of Economic Affairs and Technology, Dr TA Grant has issued a stay order against Set for Life Insurance and Marketing CC from selling its insurance products until the Business Practices Committee has completed its investigation on the company's marketing scheme.

The order, published in a special issue of the Government Gazette yesterday, was on the recommendation of the Business Practices Committee, which is taking evidence on Set for Life's marketing scheme until Friday.

Set for Life launched a controversial insurance scheme in mid-June, underwritten by Standard General Insurance (Stangen), providing a protection plan against death and dreaded disease, while providing a member with an opportunity to supplement his income.

The head of Set for Life, John Drinkwater, says the scheme is "both moral and legal".

The scheme was slammed by the in surance industry as operating in a "chain letter-type manner". The Registrar of Financial Institutions, Theo van Wyk added his voice of disapproval to the Set for Life marketing concept and appealed to Stangen to end its marketing agreement.

Dr Grant, in an announcemnet in the Government Gazette on August 25, said the Business Practices Committee had received complaints regarding a marketing scheme involving the sale of a life insurance product by the firm.

Robert Grundi, MD of Standard General Insurance (Stangen) said Stangen has already cancelled its underwriting of the Set for Life Group Lifeline Benefit Scheme.

He said the underwriting was cancelled because Set for Life's marketing scheme was not in accordance with Stangen's underwriting policy.

However, Mr Drinkwater told the Star that Set for Life had expected there would be strong resistance to its scheme from the "powerful insurance industry" and had negotiated a 12-month guaranteed policy.

Set for Life responded to Stangen's unilateral cancellation by announcing earlier this week that Stangen was not lawfully entitled to terminate the Lifeline Benefit Scheme and claimed that Stangen has ignored its contractual obligations.

In addition, it said Set for Life "fully supports the free enterprise concept and, therefore, everybody's right to pursue honest economic pursuits of their choice, without unnecessary regulation or unfair cartel-like competition.

"Set for Life empathises with Stangen. We sincerely hope that Stangen will resist the unacceptable pressures that are being applied on them by others in the industry."

Industry sources argue that regulations are necessary to protect the consumer.

Set for Life had been asked to stop selling the insurance product at least until the Business Practices Committee had completed its investgation, a proposal which Set for Life turned down, Mr Grundi said.

Sage results marred by R8m writedown

B/Day 7/9/89

BARRY SERGEANT (58)

MANAGEMENT irregularities have marred the interim results of the three listed companies in the Sage Group to the tune of at least R8m.

Turnover in Sage Property Holdings (SPH), adversely affected by high interest rates, "pressure on affordability" and cost escalations, saw untaxed profit plummet by 29% on the same six months last year.

The directors say internal audits in SPH have revealed that "over a period of time," profits have been overstated in "certain home building activities outside the PWV area and on certain major contracts awarded on a tender basis".

In an interview last night, the directors said it was impossible to provide additional details to those furnished in official financial statements released last night which said the construction activities under question had been "discontinued".

"Disciplinary action has been taken against certain management and the matter is receiving further serious attention. The losses arising appear to be in excess of R8m and the finally determined amount will be treated as an extraordinary item after deducting possible recoveries."

The directors say the occurrences would not be repeated and would have "no lasting effect on the core activities of the home building division".

Meanwhile, operating results were mild overall, for the six months ended June 30 against the same period a year ago:

☐ Sage Holdings Limited increased taxable profits 15%, attributable earnings 11,7%, EPS 11,6%, and declared an unchanged interim dividend of 22c;

☐ Newly-listed Sage Financial Services increased taxable profits 53,8%, attributable earnings 50,7%, EPS 50,7% and a 7c dividend, just under half the total earnings

☐ To Page 2

Sage results

B/Day 7/9/89 (58)

☐ From Page 1

forecast for the year; and

☐ Sage Property Holdings' taxable profits fell 29,4% to R4,3m, tax fell 80,9%, while attributable profit increased 5% and an unchanged dividend of 4c was declared.

The R8m problem in SPH is clearly worrying, if only because it comprises half the R16m taxable profits for SPH's latest full year. The figure is material, but not significant, in the group's overall profile and as an extraordinary item, it would not affect the bottom line.

SPH has numerous subsidiaries, including four wholly-owned subsidiaries in its construction and land construction division, Sage Schachat, Sage Land Holdings, Schachat Cullum and Schachat Homes.

Sage Holdings is trading around the 850c mark, down from a recent high of 1 400c. To some extent, the decline has been associated with Sage Financial Services' holding of 10% of the Allied Group.

Sage Group results hit by R8m 'losses'

Cape Times 7/9/89

Own Correspondent

JOHANNESBURG. — The Sage Group's three listed companies interim results were hit by R8m "losses".

And turnover in Sage Property Holdings (SPH), adversely affected by high interest rates, "pressure on affordability" and cost escalations, saw untaxed profit plummet by 29%, on the comparable six months last year.

The directors said internal audits in SPH have revealed that "over a period of time," profits have been overstated in "certain home building activities outside the PWV area and on certain major contracts awarded on a tender basis".

In an interview last night, the directors said it was "impossible" to provide additional details to those furnished in official financial statements released last night.

The official statement goes on to say the construction activities under question have been "discontinued".

"Disciplinary action has been taken against certain management and the matter is receiving further serious attention."

The "losses" arising "appear to be in excess of R8m and the finally determined amount will be treated as an extraordinary item after deducting possible recoveries".

The directors said the "occurences will not be repeated" and will have "no lasting effect on the core activities of the home building division".

Meanwhile, operating results were mild overall, for the six months ended June 30 (against the comparable period a year ago):

- Sage Holdings increased taxable profits 15%, attributable earnings 11,7%, EPS 11,6%, and declared an unchanged interim dividend of 22c;
- Newly listed Sage Financial Services increased taxable profits 53,8%, attributable earnings 50,7%, EPS 50,7% and a 7c dividend, just under half the total earnings forecast for the year, and
- Sage Property Holdings' taxable profits fell 29,4% to R4,3m, tax fell 80,9%, while attributable profit increased 5% and an unchanged dividend of 4c was declared.

The R8m problem in SPH is clearly worrying, if only because it comprises half the R16m taxable profits for SPH's latest full year.

The figure is material, but not significant, in the group's overall profile. Treated as an extraordinary item, it will not affect the bottom line.

SPH has numerous subsidiaries, including four wholly-owned subsidiaries in its construction and land construction division, Sage Schachat, Sage Land Holdings, Schachat Cullum and Schachat Homes.

Sage Holdings is trading around the 850c-mark, down from a recent high of 1 400c in March. To some extent, the decline has been associated with Sage Financial Services' holding of 10% of the Allied Group.

The latest interim results for the three Sage companies took more than two months to be released.

Sage loses R8-million and acts against management

Mcus 7/9/89 (58)

Business Editor

DISCIPLINARY action has been taken against "certain management" of home-building company Sage Property Holdings (SPH) and losses of more than R8-million will have to be written off, the directors said today.

The directors said in the interim report to shareholders: "Internal audits have revealed that over a period profits have been overstated in certain home-building activities outside the PWV area and on certain major contracts awarded on a tender basis.

"These construction activities have been discontinued. Disciplinary action has been taken against certain management and the matter is receiving further serious attention.

"Losses from discontinued operations appear to be in excess of R8-million and the finally determined amount will be treated as an extraordinary item after deducting possible recoveries.

"The directors are satisfied that these occurrences will not be repeated and that they have had no lasting effect on the core activities of the home-building division."

The losses however would make little dent on SPH, which had share capital and reserves of more than R81-million at the end of 1988.

The performance of SPH curtailed the growth of group earnings and prevented Sage Holding from raising the interim dividend above last year's payout of 22c.

SPH, which holds the group's interests in property, home-building and land development, had a tough six months and reported an increase in earnings of only 7 percent to R2,9-million, equal to 8c (7,6c) a share, from which an unchanged dividend of 4c will be paid.

The directors say high interest rates, pressure on affordability and cost escalations have combined to squeeze the home-building industry.

Sage Holdings reported a 15 percent rise in pre-tax profit to R24-million (R20,9-million), the equivalent to 46,05c (41,28c) a share.

But after the impact of the home-building division, net earnings rose by 11,6 percent to R10-million.

Sage Financial Services (SFS) reports a 50,7 percent jump in net earnings to a record R12.3-million.

SFS, listed on the JSE in June this year, is the holding company for the group's interests in life insurance, financial planning, investment management and corporate finance, and its strategic investments in the Allied Group and Rand Merchant Bank.

Its profit before tax rose by 53.8 percent to R23-million in the review period. Earnings a share amounted to 15,19c, up 50,7 percent on a year ago. The directors of SFS forecast earnings of 32c ashare for the full year.

● The motor division of Industrial and Commercial Holdings (ICH) is set acquire control of Sinclair Holdings.

Sinclair, which manufactures and distributes pool care equipment, will acquire the motor division of ICH in exchange for Sinclair shares. The consideration is subject to determination of the value of certain assets and is expected to take approximately two weeks.

The official announcement says control will change as a result of the acquisition of ICH Motors, and ICH has agreed to make an offer to shareholders of Sinclair of 180c a share.

During financial 1988 Sinclair reported a loss and a net asset value of just over 60c a share.

B/Day 7/9/89.

58

Life assurers dissociate themselves from tax policy

LESLEY LAMBERT

CAPE TOWN — Major life assurers have objected to comparisons between their loans to policyholders and Norwich Life's Protax plan, saying this could result in blanket action similar to that imposed on pure endowments in 1985.

Norwich's policy — which received critical attention from the industry and tax authorities — provides a tax-free funding vehicle for provisional taxpayers and a haven into which funds can be invested and withdrawn tax-free.

To maintain the tax-free status of an endowment policy from which money is withdrawn within the first 10 years of existence, the withdrawal has to be interpreted as a loan, for which tax legislation makes provision.

While legal advisors interpret the nil interest rate loan system formulated by Norwich for Protax policyholders as a partial surrender, some actuaries say the line dividing it from normal policy loans is very fine.

Norwich legal advisor Thea Heunis says the line is so thin that if Inland Revenue rules that Norwich's loan system renders the Protax policies non-standard and thus taxable then the same treatment should be meted out to all other policy loans.

Conventional policy loans attract interest normally equal to the bonus rate earned by the insurer's investment portfolio.

Replaced

But because the interest charged by the insurer is regarded as investment income and is therefore taxable, policyholders who do not borrow against their policies are effectively subsidising those who do.

Norwich has formulated a nil interest rate loan system on the basis that it prevents cross-subsidisation and is more equitable for policyholders.

It sells interest-bearing or growth units equal to the loan the policyholder needs for a provisional tax payment. These units are then replaced in the fund by non-growth units.

No interest is charged on the loan and it can be repaid by the repurchase of growth units at the ruling price.

Some actuaries say the effect is similar to that of a partial surrender as far as the bonus is concerned because it is paid on a net rather than a gross amount.

Norwich says that because the unit exchanges do not amputate the fund in any way, they are loans, not surrenders.

The actuaries say the system goes against the spirit of the legislation, which allows loans as an emergency benefit, not as the sole purpose of what is essentially a life insurance policy.

And, if it was more widely adopted, they say, there was the possibility that the tax authorities could apply the sledgehammer to all policy loans in the same way they altered the pure endowment market overnight in 1985.

Many in the industry believe an immediate solution to the problem would be not be to clamp down on policy loans but to require that all life offices marketing the schemes advise the Receiver of Revenue of policyholders and their transactions.

LIFE INSURANCE — 1 58

Blood-letting ahead?

Could SA's R150bn life assurance industry be in for a blood-letting? No less an authority than Pierre Steyn, MD of Sanlam and chairman of the Life Offices Association (LOA), recently said the industry "will suffer" in the expected economic slowdown.

There will be less disposable income available for saving both by individuals and companies and marketing life policies will become more difficult. He adds that competition is strong.

To add to these problems, it could be that the industry has almost saturated the market for the larger endowment policies. If so, the industry will be forced to search for new markets or find themselves saddled next year with idle agency forces.

Until now, the industry has enjoyed amazing growth. So much so, that other institutions, notably building societies, have complained bitterly about "uneven playing fields" as they watched the vast volume of savings draining away into the hands of the life offices, mainly in the form of endowment policies offering a hedge against inflation.

Large assurers have argued for some time that SA is served by too many life offices and

58 8/9/89.

that the competitive position of at least some middle-ranking groups is weakened by their inability to provide adequate computing services.

But one company in this category — Sage Life — says it at least is assured of effective computer back-up through its sister company, Sage Computing. It also seems to be an industry view that smaller "niche" companies, selling to specialised segments of the market, are not at risk.

There has already been one casualty — Lifegro — which merged with Momentum Life in a rescue contrived by its controlling shareholders. The collapse was admittedly attributable to company-specific causes — over-aggressive selling and other serious faults of management.

However, the fortunes of all offices other than the big five (Old Mutual, Sanlam, Liberty, Southern and Momentum) should be watched closely over the next 12 months. ■

Bank goes ahead with extended-hours plan

LOUISE BURGERS

Star 8/9/89

58

STANDARD Bank is going ahead with its pilot scheme to extend Saturday banking hours to 1.30 pm today in spite of strong opposition from its employees, some of whom have threatened strike action.

More than 400 employees voted against the extension of banking hours at two emotional protest meetings held this week.

The South African Society of Bank Officials (Sasbo) and Standard Bank started urgent negotiations on Thursday to try resolve the issue, but was unsuccessful.

The deputy general secretary of Sasbo, Mr Graeme Rowan, said Sasbo was contacted by Standard Bank officials yesterday and told there was no further need for negotiation "as the parties were getting nowhere".

Sasbo now plans to call an emergency meeting of its standing joint committee to renegotiate the Saturday work scheme.

The union will conduct an opinion poll among its members to determine whether a strike ballot should be called with the view towards calling a strike every Saturday morning until a settlement has been reached.

59

A storm erupted over Standard Bank's announcement three weeks ago that it would extend banking hours to 1.30pm at 10 of its branches at major shopping centres around the country to cope with public demand. Sasbo officials could not refer the matter to its members for a mandate because they were sworn to secrecy by bank officials in case of a leak to their competition.

Top city firm faces take-over

Cap Times 11/9/89

58

Finance Staff

ONE of Cape Town's oldest companies, the Board of Executors, has become the target of a hostile take-over by Johannesburg-based Investec Bank.

The attempted take-over of the Board would cost Investec R50 million.

To grab control, Investec has to take over Mercury Trust, the Cape-based company that controls the Board, a 150-year-old company steeped in tradition.

It will cost R50m for Investec to buy up all the shares.

Yesterday the Board's chief executive, Mr Bill McAdam, vowed to fight the bid.

He called the Investec move "a hostile approach — and we will fight it with all we have got".

Mr McAdam said he would make no other comment at this stage, because it was a matter between Investec and Mercury Trust.

"We have not been notified officially of Investec's offer, and therefore we regard it as a hostile approach," he said.

The executive chairman of Investec, Mr Bas Kardol, said the bank's offer had not been "well received".

He defended Investec's proposal as logical. "Although we expect resistance from certain quarters, it is my belief that simple business and financial logic will prevail and ensure the bid's success."

Mr Kardol also questioned the Board's right to acquire its own holding company.

"If the bid went to court, Investec could raise the issues of a subsidiary buying a share in its own holding company, as well as the 'independence' of Mercury directors who accepted the Board of Executors' offer," he said.

Mr Kardol said most Mercury directors were also Board of Executors directors.

Financial sources said it could be the start of one of South Africa's few hostile take-over bids and could spark a bitter boardroom battle.

Investec Bank is on an acquisition trail with its latest bid coming soon after it took over Duros Merchant Bank. Control of the Board will be the next step in the rationalisation of the financial services sector.

If it gained control of the financial services company the Board of Executors, Investec would strengthen its property investments. Investec's property arm, Metboard, is strong in the Transvaal, while the Board is a major force in the Cape property market.

Investec has offered 2 750 cents a share for 100% of Mercury Trust.

The Board itself wants to buy Mercury and has offered 2 250 cents a share for the company — R5 less than Investec's bid.

The Board owns 100% of the Board of Executors' Trust company. The trust in turn owns at least 41,8% of Mercury and is responsible for management of Mercury's assets. These include 30% of Fidelity Bank, 30% of Storeco, 9,5% of Speciality Stores and R5,3m cash.

Mercury, through ordinary shares and loan stock, controls 80% of the Board according to Mr Kardol. He said Board of Executors directors had, through personal shareholdings, built the Board of Executors-controlled Mercury shareholding up to 50%.

Investec bids for BOE — Page 8

'WE'LL FIGHT' Board chief executive Mr Bill McAdam

BoE to oppose Investec offer for Mercury Trust

58

Star 11/9/89.

By Ann Crotty
and Derek Tommey

The Board of Executors will fight the Investec offer for Mercury Trust, said the BoE's managing director, Mr Bill McAdam today.

Investec Bank is making a R52,25 million bid for Mercury Trust, which has a substantial stake in Cape-based Board of Executors.

Giving his reasons for the BoE's decision to contest the offer, Mr McAdam said that BoE Board had not been informed officially about it. The BoE saw this as a backdoor approach and therefore it regarded the offer as a hostile one.

Accordingly, the BoE would oppose the offer.

Investec is offering R27,50 for every 100 Mercury Trust shares, subject to it receiving acceptances from holders of 50 percent.

Mercury Trust has a 40 percent stake in the BoEwhich in turn holds 42 percent of Mercury Trust.

Investec's R52,25 million bid is equivalent to R27,50 for each for the 1,9 million Mercury Trust shares.

The offer was sent on Friday to the directors of Mercury Trust by Investec's executive chairman, Bas Kardol.

Last month BoE said that in an attempt to clean up the organisational structure it was going to acquire the remaining 58 percent of Mercury that it did not hold.

BoE offered R22,50 for each Mercury share and the directors of Mercury were advised that this offer was fair and reasonable.

Ownership of the outstanding 58 percent of shares is widely held by a large number of Cape- and Port Elizabeth-based individuals, none of whom holds more than two percent.

Mr Kardol says that since becoming a subsidiary of Mercury back in August 1987, the BoE has acquired more than four percent of Mercury as a result of share-based payment for a number of deals.

But as a company cannot acquire shares in its holding company, these share deals could be null and void.nd void.

If this is the case, BoE has significantly less than 50 percent

Bas Kardol

and Investec, although coming from far behind, is certainly in the running for control of Mercury.

Apart from its stake in BoE, Mercury's other assets are a 30 percent holding in Fidelity Bank; a 30 percent holding in Storeco; a 9,5 percent holding in Speciality Stores and R5,3 million cash.

Mr Kardol says the total value of the assets is about R48 million.

That Investec is prepared to pay a premium of R4,25 million is indicative of the synergistic benefits Mr Kardol believes can be realised in a link-up of the two.

In terms of synergistic potential, the greatest scope exists between BoE and Investec's Met-board.

Mr Kardol believes that a merger can be effected on this front without hurting the identities of the parties involved.

On a more general front, the combined operation will be well represented countrywide.

If the acquisition of Mercury is to succeed, Mr Kardol will not only have to ensure that he gets sufficient acceptance of his offer but — just as important — that the takeover battle does not become too emotional.

The key to success in a financial services company is good, committed staff. So Investec cannot afford to antagonise the BoE management team.

Mr Kardol hopes to avoid any hostility and believes that business logic will prevail when all parties see what an excellent opportunity it is.

Mr McAdam said the original intention was to list Mercury but the 1987 share market crash prevented this.

The BoE now believe that it get more evident benefits from taking over Mercury.

The BoE has a strong growth record. It has show a compound annual growth of 23 percent in both shareholders funds and attributable profits during the past five years.

Earnings a share for the year ended September, 1988 were 37,5c. In the six months ended March this year earnings amounted to 33c a share, suggesting that the BoE was heading for a record year.

The BoE is one of the country's "big two" trust companies. Established in Cape Town 150 years ago to manage "widows' and orphans' funds" it has made great strides in recent years and has benefited greatly from the individual wealth and the need for personal management services.

It has also invested in a number of commercial operations which have proved extremely profitable.

The BoE is presently engaged in setting up its own unit trusts.

BOE bid

58

From Page 1

cury shareholders included BOE shares and cash and was not directly comparable.

Its offer was that for every 100 shares held, Mercury shareholders could choose to receive 300 ordinary shares in BOE, plus a cash payment of R1 050. Shareholders who exercised this option would have the right to acquire an additional 100 BOE shares at 400c a share.

Alternatively, shareholders could accept R2 250, comprising the cash payment of R1 050 and the proceeds of the sale of 300 BOE shares, which are underpinned at 400c a share.

Kardol said the Board's offer of R22,50 per Mercury share was 16% less than Investec's estimation of Mercury Trust's market value — R26,01 a share — made at the end of August. He said Investec's offer represented a premium of 5,7% on the August evaluation of R26,01.

Kardol said that in view of the more attractive Investec price, BOE was bound to advise Mercury minorities to accept the offer.

Boardman denied unconfirmed reports yesterday that BOE directors, on hearing of the takeover bid on Friday afternoon, had spent the weekend buying up Mercury shares in order to lift their holding over the crucial 50% level.

"We can say quite categorically that no directors have bought shares for weeks, and especially not over the weekend, and that the holding remains at 41,8%."

The BOE share closed untraded yesterday at 410c.

'Offer above market value' 58

B/Day 12/9/87.

BOE gears up to fight hostile bid

LESLEY LAMBERT
and ROBERT GREIG

THE Board of Executors and its holding company, Mercury Trust, are to take professional advice on their response to Investec Bank's "hostile" takeover bid for Mercury.

This is in terms of Investec suggestions that cross-holdings and the BOE offer could breach sections of the Companies Act dealing with holdings by subsidiaries in holding companies.

BOE said yesterday its response to Investec's bid was "a matter between Mercury Trust and Investec". It was awaiting a response from Mercury Trust directors.

BOE director Tom Boardman confirmed that only one of Mercury's four directors — Tony van Ryneveld — was not also a BOE director.

Meanwhile, speaking from Port Elizabeth, Investec's executive chairman Bas Kardol suggested yesterday that its offer was above the market value of Mercury shares and BOE's was below it.

Investec also questioned whether BOE directors, also portfolio managers for "many" Mercury shareholders, could rebuff the Investec offer.

In Cape Town, BOE directors emerged from a meeting vowing to fight Investec's attempt to gain control of BOE via minorities in Mercury Trust.

BOE owns 100% of the Board of Executors Trust company. The trust owns 41,8 of Mercury, according to The Board, a[illegible] manages Mercury's assets.

According to Investec, Mercury contr[illegible] 80% of BOE through ordinary shares a[illegible] loan stock. Mercury owns 30% of Fideli[illegible] Bank, 30% of Storeco, 9,5% of Speciali[illegible] Stores and R5,3m in cash.

Investec's takeover bid was triggered [illegible] the announcement in August of BOE's off[illegible] to Mercury Trust minority shareholders [illegible] buy their share of the holding compa[illegible] (58%), thereby increasing its stake to 100[illegible]

The BOE currently holds 41,8% of Me[illegible] cury which, in turn, is understood to co[illegible] trol 80% of the Board through ordina[illegible] shares and loan stock.

If BOE's offer to minorities were [illegible] succeed, Mercury would become a whol[illegible] owned subsidiary, which, according to I[illegible] vestec's Kardol, breaches sections of th[illegible] Companies Act related to subsidiari[illegible] holding shares in a holding company.

Investec has offered 2 750c a share f[illegible] 100% of Mercury Trust.

The BOE made an offer of 2 250c a sha[illegible] in August — R5 less than Investec's offe[illegible] Boardman said the Board's offer to Me[illegible]

☐ To Page 2

B/Day 12/9/89 58

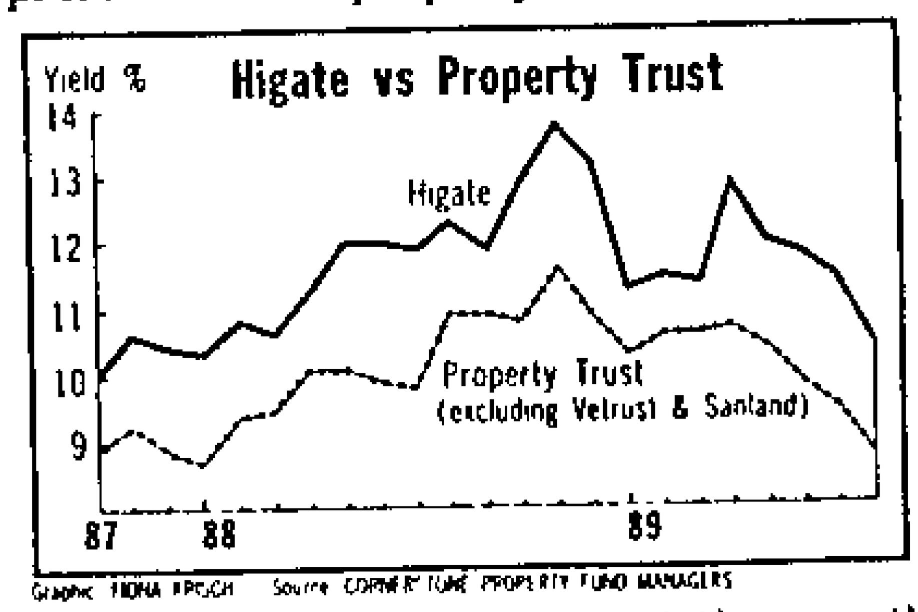
Hiprop to convert and make R30m rights offer

KAY TURVEY

INSTITUTIONAL demand has driven Higate Properties to convert from a variable rate debenture (VRD) company to a property unit trust, which will be managed by a newly formed management company, Cornerstone Property Fund Managers.

Mick Hyatt, MD of the promotors of the new venture, Russel Marriott & Boyd Trust, said he believed the market's perception justified the conversion.

He explained that financial institutions' preference for property unit trusts had



been clearly shown in recent times with the large differential rating which has continued to range between 1% and 1,5% over the past year.

He said the decision had been taken to convert notwithstanding that VRD companies would be quoted separately on the JSE from November this year.

The varying structures of VRDs quoted on the JSE, which made comparisons difficult, was given as a reason motivating the move.

Although it had been decided VRDs and property unit trusts could be included in institutional property portfolios in the new prudential investment guidelines, which have replaced the old prescribed asset requirements, Hyatt said they had still been determined to go-ahead with this "innovative move".

The increased limit on property portfolios of up to 30% coupled with the abolition of the hefty requirement to invest in government stock had increased institutional interest in property.

This could be seen in the decline in yields of property trusts and the increase in prices since the announcement of the intention to abolish the part 1 asset requirements in the March Budget.

Hyatt said the newly formed Higate Property Fund planned a R30m rights offer in November of which R20m had been earmarked to complete two projects. The balance would be used to further the investment programme in the Transvaal.

Based on market value, 61% of Higate's property portfolio is in Natal. Plans are to reduce this to 50% by favouring investment in the greater Johannesburg and Pretoria areas.

Russel Marriot & Boyd director Kevin Moore said the decision had not been taken lightly as share capital had to be increased from the existing R100 000 to R2m to meet unit trust requirements.

Cornerstone Property Fund Managers had been established with the approval of the Registrar of Financial Institutions. NBS has a 30% stake and Russel Marriot & Boyd Trust are the principal shareholder in concert with First National Bank Pension Fund, the Grincor and McCarthy group.

B/Day 12/9/89

Investors await ruling on bid to take over BAT

ROBERT GENTLE

LONDON — Former Premier chairman Tony Bloom is just one of the many investors who will be awaiting the ruling of the Takeover Panel this week on the controversial £13,5bn bid for BAT.

Bloom has pledged £2m towards the bid, which has developed timetable problems similar to those which dogged the Minorco bid for ConsGold.

The Takeover Panel is set to decide whether or not to grant the Hoylake consortium — which is mounting the bid — an extension to sort out a series of US court actions.

● BLOOM

These have arisen because of the potential change of control at BAT's US insurance subsidiary Farmers Hoylake has already been stymied in Texas and Washington, and hearings are pending in several other US states.

Although there is no indication whether or not the panel will accede to Hoylake's request for extra time, analysts expect BAT may go ahead and announce an alternative restructuring as part of its defence.

BAT has a number of important operations in SA which are likely to be affected by the on-going bid hostilities.

They include food and tobacco group Utico, snack food manufacturer Willards, and short-term insurer SA Eagle.

BOE claims support to fight bid

Cape Times 12/9/89

58

By AUDREY D'ANGELO
Financial Editor

BOARD OF EXECUTORS (BOE) CE Bill McAdam — fighting off a hostile takeover bid from Investec Bank — said yesterday he was confident of the support of a majority of shareholders in controlling company Mercury Trust.

McAdam and his senior executives learnt only at 4.30pm on Friday, from a director of the unlisted Mercury Trust, that Investec had offered 2 750c a share for 100% of Mercury.

BOE had already made an offer for Mercury. Tom Boardman, GM of BOE, said yesterday that it was wrong to suggest that its offer was R5 a share less than Investec's.

"The bids are not comparable, because BOE's offer was of shares and cash. And there is a big difference between a takeover bid and the restructuring of an inter-related group."

Boardman said BOE's offer was for three BOE shares and R10,50 for each Mercury share. There was an option for four BOE shares and R6,50 for each Mercury share.

Yesterday afternoon BOE shares traded at R4,10 each.

"The value of our offer depends on the price of BOE shares at the time the deal is implemented — and we believe they have great potential," said Boardman.

He said BOE was receiving "overwhelming support. Our lines have been jammed with shareholders phoning in from all over the country to say they are 100% behind BOE and its management team."

McAdam said: "We have received incredible support from all around the country — from clients, shareholders and other business institutions."

He pointed out that at this stage it was a matter between Investec and Mercury Trust. The Mercury directors had not yet issued any statement.

"The executive chairman of Investec is reported to have said that BOE directors have been buying up Mercury shares in their personal capacities. I categorically deny and refute that. I regard that suggestion, if it came from him, in a serious light."

McAdam said BOE would need only another 7% of Mercury shares to be safe from the takeover. There was no need to acquire them, because he was confident of shareholders' support.

But Investec executive chairman Bas Kardol said a question mark hung over BOE's shareholding in Mercury. "We believe some of these shares may be invalid."

He believed some of the shares had been acquired or issued when BOE was already a subsidiary of Mercury. A company could not buy shares in its own holding company.

Kardol said that if the bid succeeded there would be many synergistic benefits from the acquisition of BOE, which had similar business interests to Metboard. "We are strong in the Transvaal and they are strong in the Cape."

He has a high regard for BOE and its management. "There is a lot of talent there."

If the acquisition went through, BOE would remain in the Cape and retain its identity.

"I dearly wish to sit down with its directors and senior executives and plan for the future."

Closing gold

Bitter battle looming

Cpt Times 12/1/88
58

By AUDREY D'ANGELO
Financial Editor

THE battle for control of the 151-year-old Cape Town-based Board of Executors — fighting off a hostile take-over bid from Johannesburg-based Investec Bank — is likely to be a long and bitter one.

Board chief executive Mr Bill McAdam said he was optimistic about his chances of fighting off the take-over, "and very determined".

Denying that directors of the Board had been buying shares in its holding company, Mercury Trust, in order to gain another 7% which would give them control of it, Mr McAdam said he was confident of the support of a majority of Mercury shareholders.

Mr Tom Boardman, general manager of the Board, said: "Our lines have been jammed with shareholders phoning in from all over the country saying they are 100% behind the Board."

But Mr Basil Kardol, executive chairman of Investec, said he believed that some of the shares in Mercury Trust held by the Board were invalid. "They were bought while the Board of Executors was a subsidiary of Mercury Trust."

Full report — Page 10

'Fergie

Own Correspondent

LONDON. — Fergie, the Du[illegible] of York, was yesterday [illegible] preparing to "pocket" [illegible] (R1.32m) from two chi[illegible]

the impression that all th[illegible] would go to charity.

Bitter battle looming

Cape Times 12/1/88

By AUDREY D'ANGELO
Financial Editor

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● Full report — Page 10

Offer price not only BoE factor

Star 12/9/89.

Initial market response to Investec Bank's R52,25 million bid for control of Board of Executors (BoE) is that it makes good business sense, but that it seems unlikely to succeed.

Indications from the Cape are that control of the "Dowager of Wale Street" will not be determined by monetary considerations alone.

The BoE team is due to make an announcement today and the market is keen to see whether it will fight the battle on price or on something less tangible and more chauvinistic.

However, it may be difficult to dissuade the Mercury shareholders from accepting a 525c premium to the R22,25 offer that BoE made for Mercury a month earlier by resorting only to tradition.

Major attraction

Investec has made an offer of R27,50 a share for the 1,9 million Mercury Trust shares.

The major attraction, and Mercury's most important asset, is its 80 percent stake in BoE.

This stake will be diluted to 40 percent when the 5,6 million of loan stock in the BoE's balance sheet is converted into ordinary shares.

The conversion process will begin on the last day for registration of the financial 1989 final dividend, which should be sometime in November.

Conversion will be completed after the final dividend payment for financial 2002.

Mercury's other assets are a 30 percent stake in Fidelity Bank; a 30 percent stake in Storeco; a 9,5 percent stake in Speciality Store and R5,3 million cash.

The total value of these assets is estimated to be around R48 million, equivalent to R25,25 a share.

The BoE has an estimated 42 percent stake in Mercury, making it by far the largest single shareholder.

The remaining shares are held by a large number of Cape and Port Elizabeth-based private individuals — none of whom holds more than two percent.

The BoE has said it will fight the Investec bid.

Diagonal Street

58

ANN CROTTY

The reasons given by MD Bill McAdam are somewhat reminiscent of Rudolph Agnew's response to the Minorco attack back in September 1988.

Mr McAdam said yesterday the BoE board had not been informed officially about the offer, which it saw as a backdoor approach and therefore regarded as hostile.

BoE chairman Paddy Wilson said: "The offer came out of the blue and we believe it is not in the long-term interests of either clients, shareholders, management or staff to be controlled by Investec."

He added that the BoE staff was unhappy at the prospect of being merged with Investec's Metboard, saying that the entire top management team of Metboard was believed to have left after the merger with Investec back in 1985.

Running order

The feeling in the market is that the Metboard merger was not handled well and that it has taken some time to get it back into full running order.

BoE has also experienced the problems involved in merging two distinct cultures in the financial services industry.

Back in the early 1980s, BoE attempted to merge with the PE-based Fidelity Bank.

But incompatability between the two parties meant that the best relationship that could be established was to be joint subsidiaries of the same holding company.

Investec chairman Bas Kardol has a tough battle ahead.

He had hoped to avoid hostility and persuade management and shareholders to accept on the basis of an attractive price offer and also on the basis of business sense.

If emotions are stripped out, the deal does appear to make good sense.

It achieves certain strategic goals that both parties have been targeting for some time.

In addition it will bring some rationalisation benefits.This is an important consideration in the highly competitive financial services sector, which is dominated by a few very large players.

But if the bid remains hostile and the BoE team adamant that the two companies are not compatible, the potential benefits of a merger are likely to be insignificant.

Knotty problems of 'hostile' bid

BDay 12/9/89 (58)

ROBERT GREIG

INVESTEC's bid for control of Mercury Trust is seen by the Board of Executors as "hostile", partly for reasons of regional and institutional pride.

But there are some potentially knotty financial issues and apparent ethical ones too.

In early August, BoE announced through its merchant banking wing, BOE Securities, that it was planning to buy the entire shareholding of Mercury Trust.

BoE already owned 41,8%, the remainder being held by an array of small, mainly Cape shareholders, few with more than 2% of the issued share capital of 1,9-million shares. BoE offered 2 250c per share in the unlisted investment holding company.

BoE is not a particularly high-profile financial institution in the Transvaal. Until about five years ago, it made much play of the fact that it was the oldest trust company in SA — now more than 150 years old.

But in the late '70s, with the advent of present BoE MD Bill McAdam, the former trust company began diversifying and developing its property, participation bond scheme, portfolio management and corporate finance divisions. It also boosted its geographical diversification.

BoE is now strong in the Cape and its strength is growing in the Transvaal and in Natal, particularly in property. Investec's strength is Transvaal-based.

Part of BoE's diversification was by means of restructuring. In 1987 BoE and Fidelity Bank became associated, wholly owned subsidiaries of Fidelity Group, with Fidelity Bank and Storeco being both 30% owned by Mercury.

The complication is that BoE owns 42% of Mercury while Mercury owns 40% of BoE, an arrangement that has elicited accusations of subsidiaries buying holdings in holding companies, in contravention of Company Act provisions.

Ultimately, what may matter more is who manages Mercury Trust. Investec executive chairman Bas Kardol believes that since three out of four BoE directors are Mercury directors, and since Mercury's role is purely that of a holding company, BoE effectively manages Mercury.

This leads to what may be one of the key issues in the takeover — an issue in Kardol's mind.

When BoE formed Mercury, many of the small shareholders in Fidelity and Storeco became portfolio clients of the Board. It is on their reaction to the Investec offer, 22% higher than BoE's, that the success or failure of Investec's offer may depend.

BoE directors will be in the position of advising minority shareholders, who have already received a 2 250c offer from BoE, of the fairness of a counterbid that is 22% higher. Many of those shareholders also happen to have their portfolios managed by BoE.

The proportion of Mercury minorities whose portfolios are managed by BoE is "unknown", says McAdam. He continues: "Naturally we will fulfil our fiduciary responsibilities and advise them at arms-length. They will be free to choose."

He is curious as to how BoE could advise those shareholders that the Investec offer was unreasonable.

"Their fiduciary responsibility as a board of directors is for them to advise acceptance."

An argument of some BoE executives against the proposed takeover is based on the intangibles of cultural incompatibility but Kardol refuses to get into that, saying they had no wish to disturb BoE's identity.

According to Kardol, the counter-offer was no brash attack on an unsuspecting BoE. Relationships already existed between the two managements that had been discussing co-operation before August 9.

In fact, the notion of making a counter-bid for Mercury did not originally come from within Investec, Kardol confirms.

Some smart corporate financiers at DMB Securities, ironically the group that chose to break from Duros, now Investec's merchant banking wing, took a close look at BoE's arithmetic and brought the idea to Investec.

Investec's offer is based on an estimated market value of Mercury's shares at the end of August of 2 601, compared to BoE's offer of 2 250c per share.

Business Report

Bankorp rights issue

CAPE TIMES 13/9/89

Own Correspondent

JOHANNESBURG. — Bankorp CE Chris van Wyk yesterday unveiled a wide-ranging strategy to enhance profitability — including a R340m rights issue in early December and the de-listing of the Trust Bank in mid-November.

He also announced a dividend cut to 25c from the previous year's 34c, a more open disclosure policy and the appointment of Gencor's Derek Keys as non-executive chairman of Bankorp. He also pledged to improve communication with the investment community.

The main feature of Bankorp is its low capitalisation relative to its rapid asset growth. TrustBank's need for a R200m capital injection is the major factor behind the rights offer.

Retained profits on the balance sheet are boosted by R9,9m.

Bankorp's asset growth (40% in the year to June 1989) knocked the group's capital-to-assets ratio down to 2,93% from 3,46% in 1988 — hence the need for a rights issue.

TrustBank shareholders are being offered one new Bankorp share for every share they own at a price of R3,40 a share (R1,00 lower than Friday's market price of R4,40). The issue is underwritten by Sankorp, which holds about 60% of Bankorp.

Sankorp's stake in Bankorp already exceeds the limit of 30% stipulated in the Banks Act — but permission has been obtained for the Sanlam subsidiary to increase its holding in Bankorp if necessary.

Bankorp is to buy out the minorities' interest in TrustBank (21,6%) and the bank will be delisted.

TrustBank shareholders will be offered 100 Bankorp shares for every 200 Trust shares held and will be able to take up their Bankorp rights immediately. Trust shareholders will be offered cash if they prefer, at R200 per 100 shares.

However, Van Wyk says shareholders will benefit by increased earnings per share (22%) if they opt for the Bankorp shares.

The cash offer to minorities — a maximum of R58m if everyone opts for cash — will be financed through the rights issue. After injecting R200m into TrustBank, Bankorp will have between R82m and R190m in extra capital.

Diagonal Street

ANN CROTTY

58

Bankorp displays plenty of nerve

Star 13/9/89.

It's quite a brave move for a poorly rated banking group to announce a R340 million rights issue on the same day that the Iscor roadshow came to town.

It helps when you have the backing of powerful, wealthy parents who can ensure success in one form or another.

The group is Bankorp (the parent Sankorp) and it has announced that it will be doubling its equity base with a R340 million one-for-one rights offer pitched at a relatively cheap 340c a share. Ahead of the announcement the Bankorp share fell back from 435c to 400c.

Bankorp has also announced an offer to buy out the 21,6 percent TrustBank minority shareholders at 200c a share.

The size of the rights issue is way in excess of market expectations and the level at which it has been pitched is below expectations.

But it looks as though the Bankorp team (headed by a new non-executive chairman Derek Keys) obviously means business. It is asking shareholders for all this extra cash and almost in the same breath announcing a cut in dividend payments for financial 1989.

The cut in dividends (down to 25c from the previous 34c) will add almost R10 million to capital. The corollary is that the dividend cut will cost Sankorp (and ultimately Sanlam) about R7 million in "lost" dividend income.

Undoubtedly the overwhelming factor in the determination of the details of the rights issue is the shareholder profile — about 75 percent of the shares are held by Sanlam, Sankorp and associates.

Sankorp, (the holding company for Bankorp) will underwrite the proposed issue and will also follow its rights. Permission has been obtained for Sankorp to exceed the previously sanctioned level of its shareholding in Bankorp should its underwriting commitments require this.

Bankorp chief executive Dr Chris Van Wyk says: "The fact that Sankorp is underwriting the issue, the magnitude of its capital injection and its willingness to forego immediate income shows how strongly Sankorp supports Bankorp."

But as analysts point out, the fact that the issue was pitched so cheaply — on an estimated P/E rating of around 3,5 times — suggests Sankorp does not rate its banking group too highly. It also reflects the fact that although Sankorp does have access to funds, it spends carefully and likes to think it is getting value for money.

The level at which it is pitched indicates the Bankorp team wants to entice the minorities to follow their rights.

Referring to the offer to buy out the TrustBank minorities (which is part of a restructuring of Bankorp), Dr Van Wyk sayst this is being done in order to streamline the group and improve its flexbility in focusing on the areas of highest potential.

TrustBank shareholders have the choice of exchanging their shares for Bankorp shares or for cash — 100 new Bankorp shares for every 200 TrustBank shares or R200 cash for every 100 TrustBank shares.

If all the TrustBank minorities accept the share alternative then there would be an additional 14,4 million Bankorp shares in issue. Those who take the Bankorp shares will be able to participate in the rights issue.

If there is sufficient acceptance, TrustBank will be delisted. Dr Van Wyk says that this will bring the group into line with other banking groups.

The initial response to the TrustBank offer seems to be take the money and go. And there doesn't appear to be too much enthusiasm for following the Bankorp rights offer. But this may be a little hasty.

TrustBank has suffered a poor rating which has more to do with market perceptions, an unfortunate association in a number of forex scams and its much earlier history, than it has with its more recent profit performance.

Profit growth in recent years has not been spectacular, but it has been good. (Financial '89 results show EPS up 15,2 percent to 50c.)

The group has a lot going for it. Its asset base has increased dramatically. But, says Dr Van Wyk, attention will focus on liability management rather than asset growth.

S8

Interest costs curb Unidev

Finance Staff

Unidev has reported a 60 percent advance in net profit from R3,5 million to R5,7 million for the six months to June.

Operating profit surged 290 percent from R1,9 million to R7,4 million due to the inclusion for the first time of the profits from Cortech Electronics.

The pre-interest profit performance was helped by improved results from the group's existing operations.

But the strong performance was countered by the surge in finance costs, with a massive increase in interest payments from R1,6 million to R6,5 million.

The directors say that this will be reduced after the R20 million rights issue which closes on Friday.

The rights offer of 80 new shares for every 100 Unidev held, opened in August.

It was underwritten by Garcon, the R26 million cash shell, which Unidev's executive directors acquired to convert into a pyramid holding company for the group.

Garcon will be renamed Unicon and relisted on the industrial holdings sector of the JSE.

Ronnie Stein

Ronnie Stein, MD of Unidev, says the group's earnings for the second half of the year will be as good, with all divisions of the group having operated strongly and contributed well to profits in the past six months.

Mr Stein says the R20 million rights offer will signficantly reduce the group's high finance costs.

He is confident Unidev can maintain its improved earnings, despite the dilution caused by the 13 million new shares in issue.

"We are confident that our existing operations will continue to improve in profitability.

"We have a sharpened corporate focus, a highly motivated management team and prospects look good.

"The rights issue has put us in the market for possible acquisitions, but we are going to concentrate on larger, more established companies, rather than the small development capital concerns we previously looked to as prospective acquisitions."

Henry Vorster has been appointed chairman because the directors of Unidev feel a non-executive chairman is more suited to the structure of the group.

Mr Vorster, a senior partner of a Johannesburg-based legal firm and a professor of tax law at the University of the Witwatersrand, replaces Geoff Grylls who continues as an executive director of Unidev and who will run Unidev's electronics arm, Cortech Electronics, as chairman and executive director.

Bankorp strategy to boost profits

(58)

B/Day 13/9/89

GRETA STEYN

BANKORP CE Chris van Wyk yesterday unveiled a wide-ranging strategy to enhance profitability — including a R340m rights issue in early December and the delisting of the TrustBank in mid-November.

He also announced a dividend cut to 25c from the previous year's 34c, a more open disclosure policy and the appointment of Gencor's Derek Keys as non-executive chairman of Bankorp. He pledged to improve communication with the investment community.

The main feature of Bankorp is its low capitalisation relative to its rapid asset growth. TrustBank's need for a R200m capital injection is the major factor behind the rights offer.

Retained profits on the balance sheet are boosted by R9,9m.

"By taking action now we are laying a sound basis for consistent and satisfying future growth in dividends," Van Wyk said.

Bankorp's asset growth (40% in the year to June 1989) knocked the group's capital-to-assets ratio down to 2,93% from 3,46% in 1988 — hence the need for a rights issue.

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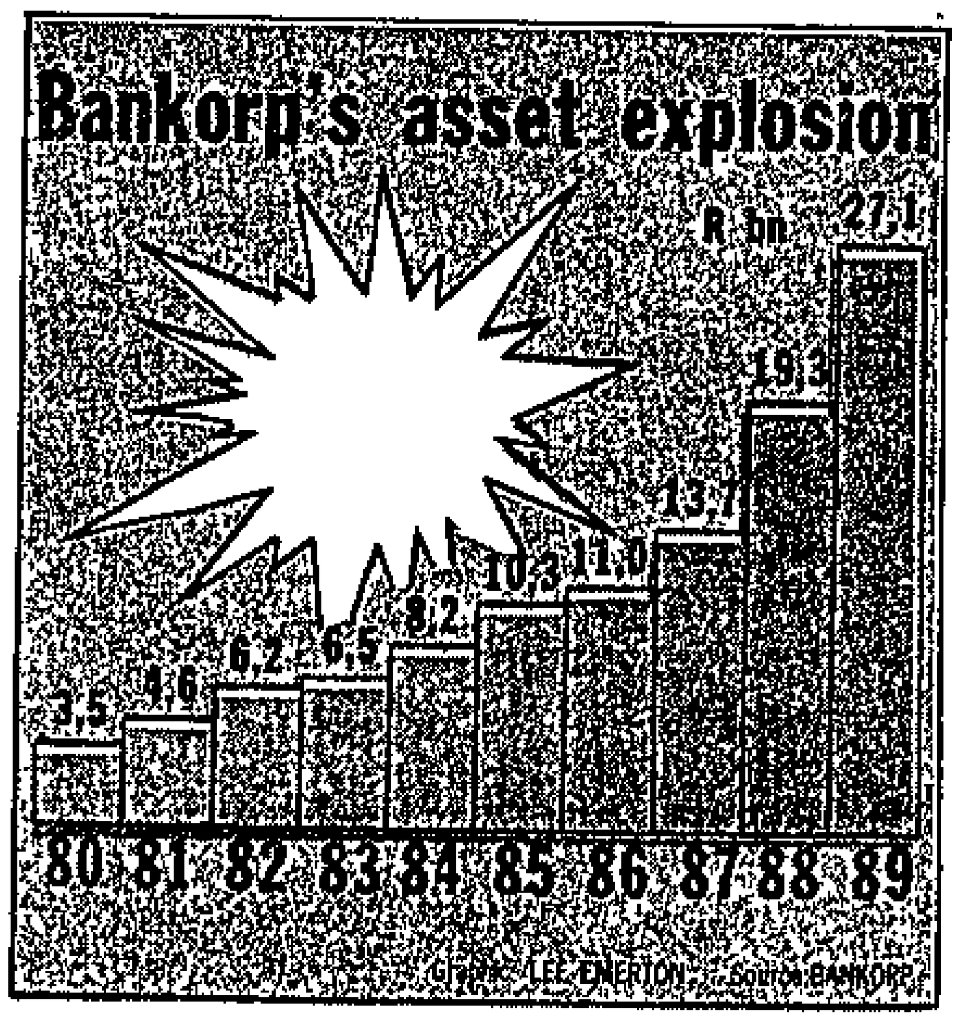

Bankorp

B/Day 13/9/89.

(58)

☐ From Page 1

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However, Van Wyk says shareholders will benefit by increased earnings per share (22%) if they opt for the Bankorp shares.

The cash offer to minorities — a maximum of R58m if everyone opts for cash — will be financed through the rights issue. After injecting R200m into TrustBank Bankorp will have between R82m and R190m in extra capital.

See Page 12

Bankorp recovers well to post increased earnings

B/Day 13/9/89 (58)

GRETA STEYN

BANKORP staged a good recovery in the second half of its financial year to post an increase in attributable earnings of 16,1% to R113,3m in the year to June 1989. This translates into a 15,8% rise in earnings per share to 125,8c (108,6c).

The first half of the financial year was characterised by extreme pressure on margins but this was partly offset by higher business volumes and curtailment of operating expenditures.

TrustBank remains the main contributor to the group's profits (50%) with Santambank next in line (27,8%). Santambank, the group's hire-purchase bank, had a roaring year with profits rising by 19,7% to R36,5m. TrustBank's improvement in profits was more modest at 15,1% (to R66,4m).

However, the increase in earnings did not keep pace with the group's rapid asset growth (40%) and return on assets (ROA) consequently fell from 0,68% to 0,57%. The banking industry regards ROA as a significant measure of performance. Bankorp and First National trail behind frontrunners Nedcor and Standard when it comes to ROA.

The main reason for the surge in assets was the explosion in credit demand during the economic upswing. Advances and other loans grew by a massive 48% in the year. TrustBank's growth was the main force behind the group's asset surge with the bank's total assets rising 53% to R18,1bn.

However, the TrustBank's capital position resulted in only a small increase of 4,2% in dividends for the year (12,5c a share).

For the first time, the group disclosed more details in its financial statements. Its policy of limited disclosure, which has long been a thorny issue, is in the process of being phased out. This set of results contained, among others, information on maturities of deposits and repurchase agreements.

● VAN WYK

Bankorp CE Chris van Wyk promised the annual report would contain even fuller disclosure and the group's ultimate aim was to report fully on bad debts, transfer to contingency reserves, interest paid and tax paid.

"In principle Bankorp has accepted the need for disclosure," Van Wyk said.

● McADAM

● KARDOL

BOE lying low as speculation mounts

Bl Day 13/9/89 LESLEY LAMBERT (58

CAPE TOWN — The Board of Executors and its holding company Mercury Trust lay low yesterday as speculation mounted about legal obstacles which could impede their response to Investec Bank's bid for Mercury Trust.

BOE directors — including MD Bill McAdam — have been locked in consultation with their advisers and declined again yesterday to comment, saying they would issue a statement when they were ready.

Mercury Trust directors, three of whom are BOE directors, have until September 22 to reply, while acceptances have to be lodged by October 11. BOE executive director Tom Boardman said yesterday no closing date had been set for its offer in August to Mercury's minority shareholders as the documents had to be finalised.

Speculation also mounted over BOE's chance of resisting Investec's "hostile" bid for the holding company it sought to acquire by way of an internal scheme of arrangement, and turn into a wholly-owned subsidiary, a month ago.

Investec executive chairman Bas Kardol maintained that in terms of the Company's Act, any shares acquired in Mercury by BOE after it became a subsidiary of Mercury in August 1987 were null and void.

BOE owns 100% of the Board of Executors Trust company. The trust owns 41,8% of Mercury, according to the Board, and manages Mercury's assets. Kardol argues that a large majority of the 41,8% holding was acquired after August 1987.

Unless BOE was able to refute this, sources said, it would have to acquire or

☐ To Page 2

BOE lying low (58)

Bl Day 13/9/89

☐ From Page 1

have the support of far more than an additional 8% of Mercury's shareholding to fend off Investec.

Kardol has also argued that by acquiring Mercury Trust and making it a wholly-owned subsidiary, the BOE would be in breach of sections of the Company's Act relating to subsidiaries holding shares in a holding company.

There was also market speculation yesterday that another predator was waiting to better Investec's offer for Mercury.

Investec's offer to shareholders of R27,50 a share represented a premium of 5,7% on a revaluation of Mercury's market value — R26,01 — in August. Kardol said the price was "very full" and likely to be too high for a company without the same synergistic opportunities as Investec.

Nice profit seen in battle for BoE

Star 4/9/89

58

By Ann Crotty

It looks as though investors are expecting to reap nice profits in the battle for control of Board of Executors — yesterday its share price reached 470c, up from 435c.

The movement indicates that the market believes the matter is far from resolved.

Yesterday Mercury Trust, the major shareholder in BoE, issued its first formal response to the bid, saying the directors were "seeking independent advice on the Investec offer and on receipt of this advice will issue a takeover statement as required in terms of the Companies Act".

The statement will be issued on or before September 21.

This will not shed too much light on the situation for shareholders who would probably like to have some matters cleared up, particularly as it is rumoured that Investec is not the only party stalking BoE.

What needs to be clarified is the exact level of Mercury's holding in BoE and the extent of BoE's holding in Mercury.

There appears to be disagreement on the latter point arising out the legal implications of a subsidiary (BoE) buying shares in its holding company (Mercury).

The market is keen to hear why the Investec bid (which should help to clean up the Mercury-BoE relationship and rationalise and perhaps make more efficient their combined assets) should be rejected.

The only obvious reason at this stage is cultural incompatibility — a major factor in the financial services sector.

Bankorp deserves more consideration

Star 14/9/89.

Diagonal Street

58

ANN CROTTY

The market seems to have given the thumbs-down to Bankorp's rights issue.

In reasonably heavy trade yesterday the share dropped 50c to close at 350c.

This means that it is now just above the 340c level at which the rights offer has been pitched and indicates that there is unlikely to be much acceptance from minorities.

It also suggests that the TrustBank minority shareholders will bale out with the 200c cash.

This means Bankorp will be raising R390 million from the market, of which it will be injecting R200 million into the inadequately capitalised TrustBank.

Given time for reflection, the market may revise its initial harsh view.

The group suffers from a poor image within the investment community — an issue that chief executive Dr Chris Van Wyk has at last started to address.

But it has a lot going for it and for those investors who like recovery stocks, the issue price should look attractive.

One major attraction is that the group appears to have focused the attention and energies of the Sanlam/Sankorp top executive team.

With so many of that institution's other investments having turned in good performances in recent times, Bankorp is now looking like an obvious laggard.

And it must be assumed that the Sanlam guys are feeling a bit irritated about the underperformance of this massive asset base.

The size and the pricing of the issue indicates that they are not holding back in their efforts to move the group onto a more profitable footing — with or without the support of the minorities.

In the short term, (ie. for 1990), the 340c offer price is on a prospective P/E rating of an extremely cheap 3,4 times — assuming a 15 percent profit increase on the present capital base and a reasonable return from the additional R390 million.

Looking a bit further down the line, Dr Van Wyk makes a very strong and convincing case for the potential profitability of the group — particularly TrustBank.

During the past two years TrustBank has effected a massive increase in its asset base — 53 percent up in '89 alone.

This may not delight the investment community at a time when all the other majors are talking of consolidating asset growth, particularly in view of financial '89's accompanying profit increase of only 15 percent. It has also caused the need for the rights issue.

But Dr Van Wyk stresses that the growth in the asset base is part of a long-term plan to get the bank to the critical mass needed to run an efficient operation.

He also says the assets have been acquired in the market niches that are most attractive to the other players, citing the sharp increase in the home loan market — from virtually nothing in '87 to around R2,6 billion in '89 and the hike in cheque account advances.

But from here on attention will be directed at liability management.

Dr Van Wyk does not underestimate the difficulties involved in effecting this sort of massive shift in attitude in an organisation as large as TrustBank.

He says that budgets, incentives and, reward systems have been changed in order to effect the change.

Also on the plus side is TrustBank's relatively low operational cost ratio, the fact that it has reportedly got its bad debt experience into line with the industry's and the benefits of the capital injection.

Liberty's returns again tops for small investors

LIZ ROUSE

THE average man in the street, or a professional, can obtain a much better return on his money by taking up a policy with a solid group such as Liberty Life.

An analysis of the Liberty Group's performance record by Richard Lomberg of Davis Borkum Hare shows that Liberty is in the forefront of life companies.

Lomberg says that most investors recognise that the pass mark for Liberty is excellence — reflected in its conservative accounting policies, its stability in profit growth, its extraordinary performance in building up its overseas operations, and in many other areas.

Growth is likely to be enhanced by the emerging importance of the highly successful Transatlantic and by the diversification offered by the group's investments on behalf of shareholders, in particular SBIC, Premier and SA Breweries.

Liberty Life's interim results showed growth in new annualised recurring premiums of 35,4%. Investment income also showed excellent growth, up 32% on the previous half-year.

Lomberg's analysis shows that Liberty has been obtaining a return of 21,9% in real terms. This gives the average person a real return of perhaps as much as 6% or 7% a year after tax. In many cases the initial contributions qualify for tax relief as well.

Add to that the fact that in many cases the initial contributions qualify for tax relief and it is clear that a policyholder can acquire a much larger nest egg for the production of retirement income through a life company such as Liberty, than if he tries to do the job himself.

The redistribution of wealth that is taking place means that there are large markets opening up and that can be tapped by the positioning of Charter Life, in which Liberty Life has a 60,8% interest.

Long-term

58

An annual bonus history of the main untaxed portfolios shows that the 10-year average return from 1979 to 1988 was 19,74% for a managed portfolio, 15,16% for a property portfolio and 22,94% for an equity portolio.

Looking at the overseas operations, held through First International Trust (FIT), which owns 49,3% of TransAtlantic Holdings, Lomberg foresees that management skills will yield long-term benefits.

Lomberg recommends all Liberty shares are good buys at current levels.

8/10 ny 15/7/89

BUSINESS SCENE by HAROLD FRIDJHON

58

B/Dau

13/9/89

Volkskas the odd-man-out in attitude to disclosure

Five big commercial banks
said disclosure is a bore
Charter hassled Stanbic
and then there were four.
Four big commercial banks
were bound to secrecy.
the UK boss thumped Barclays
and then there were three.
Three big commercial banks
but Nedbank made a blue,
repented to raise equity
and then were two.
Two big commercial banks
but Bankorp sought the sun,
and promised to disclose all
and then there was one.
One lonely banking group
still clinging to the past,
will either have to follow suit
or end up coming last.

BANKORP'S decision to end the unacceptable farce of informing shareholders that profit for the year "after tax and transfer to inner reserves" was whatever millions the directors chose to reveal, will certainly burnish the image of a banking group that has not enjoyed extensive investor support.

● KEYS

After the Jan Marais debacle when short-term funding was poured into property and the Reserve Bank had to launch a massive lifeboat to save the bank from going under, serious investors steered away from TrustBank, Bankorp's major asset.

Loyal friends supported the Sanlam-backed issues to re-finance the then stricken bank, more out of sentiment and faith in Fred du Plessis than good investment judgment.

They knew that with Sanlam backing and with bright new management, the bank would come right, but the question was "when?".

The annual reports did little to instil confidence, in spite of the forceful personality and undoubted skills of Chris van Wyk.

Investors want numbers, with reserves quantified and not cloaked in secrecy, with liabilities outlined and, more to the point, with assets more clearly delineated so that the shrewd analyst could judge the adequacy of bad debt provisions.

The latest TrustBank accounts show an unhealthy explosion of advances in the face of a relentless drive for market share.

Banking is a risk business — for investors, but more so for depositors.

Secretive accounting is a vestigial relic of the gentlemanly, leisurely days of banking; not now when necks can be broken on the potholed paths of competition.

Prescience

The JSE should insist, in spite of the concessions contained in the Companies Act, that every listed bank — including bank holding companies — should be on full disclosure. There could be some surprises.

☐ Derek Keys, who will occupy the Bankorp chair, is no stranger to some elements of banking.

For many years, he was the very active chairman of the National Discount House, guiding it profitably through the valleys and the peaks of see-sawing interest rate movements with uncanny prescience.

● See Page 12

BDay 15/9/89

(58)

Syfrets and Southern to raise Suregro stake

EDWARD WEST

SYFRETS and Southern Life are set to increase their stake in Sure Group (Suregro) through a rights offer aimed at raising R6m to finance further growth.

Syfrets and Southern Life already have a combined holding of more than 2-million shares and debentures in the group which specialises in materials-handling equipment, the sale of trucks and truck spares, and earth moving equipment.

Syfrets will underwrite the offer and Southern Life will follow its rights, says Suregro joint MD, Keith Blair in a statement. He said directors and management would take up at least 40% of the issue.

Suregro's growth had exceeded expectations to such an extent that a rights issue was needed to keep gearing within set parameters, he added.

In the year to March, Suregro lifted turnover 97% to R40,7m, increased earnings a share by 72% to 16c and declared a dividend of 4,2c (3c).

Over the past six years the group achieved turnover growth at a compound growth of 58% a year, while attributable income increased at a compound growth rate of 87%.

Blair said results for the current year were ahead of budget. The overseas division would play a strategic role on Suregro's overall growth pattern as well as strengthening long-term objectives.

The parts, tyres and forklift hire divisions benefited from an economic slowdown, while local production of low-tech components would give the group good reciprocal export opportunities in the future.

The trucks and parts division, which has relaunched Foden trucks, held potential, but needed to be adequately supported with the neccesary working capital.

The division will offer re-engineered trucks which will allow owners to replace chassis cabs and register the vehicles as new for two-thirds of the price of a new truck.

As the exchange rate remained under pressure and inflation remained high, new trucks was expected to become increasingly more expensive, making the re-engineered-truck concept attractive, he said.

Time of reckoning has come for the banking sector

58

BD 15/9/89

BARRY SERGEANT

BANKORP's R340m rights offer comes at a time when all banks are studying the structure of their financial statements under a microscope. It comes too at a time when profit margins in the banking industry have been slashed to the bone, and when competition has never been fiercer.

The outstanding questions regarding Bankorp are whether the rights issue will be fully taken up, and what will be done with the money, apart from the R200m that is to be injected into Trust Bank to strengthen its financials.

Bankorp's rights issue was a question of when, not if. SA's banking supervisors are determined that banks and financial services enterprises should be in line with international efforts to ensure soundness of a sector that is highly vulnerable to public confidence.

The Banks Act is undergoing scrutiny for its first major revamp since promulgation in 1965. In the meantime, supervisors are keeping a close eye on measures of soundness compiled from confidential returns submitted by financial institutions.

The requirements, which relate to cash reserves, liquid assets and capital coefficients, are being phased in. Right now an 80% compliance is required, building up to 100% in 1992. The effect of full compliance will be that SA, by and large, complies with the principles of soundness required by the Basle Banking Supervisory Committee, and similar requirements outlined by the Bank of International Settlements.

It is difficult to summarise the effect of soundness regulations. None refers to a single soundness ratio as being all-important. Capital co-efficients depend entirely on the mix of business on a bank's books. Each type of activity carries a different requirement; the endgame requirement figure that applies to a particular bank is not a fixed amount, but varies over time with changes in asset structure.

The internationally accepted measure of soundness is the capital:-assets ratio. It can be argued that this measure prompted Bankorp to announce its rights issue. It was foreseen by many, including a stockbroking analyst who recently said that Bankorp's equity position looked "somewhat undernourished".

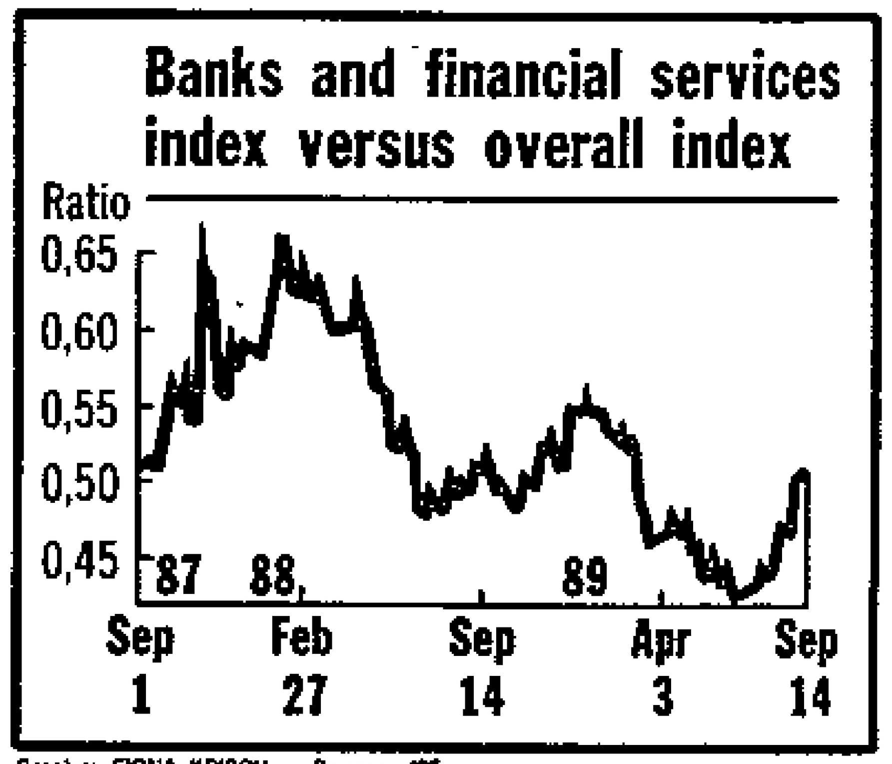
Here are some capital:asset ratios based on the latest full set of available financial accounts for the top eight banks (from this month's issue of The Banker):

- ☐ Stanbic 5,71%;
- ☐ First National Bank 3,62%;
- ☐ Nedcor 5,21%;
- ☐ Volkskas 5,99%;
- ☐ Bankorp 3,85%;
- ☐ Boland Bank 6,48%;
- ☐ Finansbank 8,98%; and
- ☐ Rand Merchant Bank 7,08%.

In some cases the ratios declined heavily from the 1987 figure. Rand Merchant fell from 14,81%, with falls also recorded by Stanbic, First National, Bankorp (4,91% to 3,85%). Ratios improved at Nedcor, Volkskas, Boland Bank and Finansbank.

Based on these figures, the next most obvious in line for strengthening its capital base is First National. Under Barry Swart, the bank is undergoing significant internal change, with major cost-cutting programmes replacing the focus on social responsibility that characterised the previous administration.

Ahead of the results for this year, it appears that First National has



Graphic: FIONA KRISCH Source JSE

contained its growth and focused on profitability. This is another, somewhat novel, way, of keeping the capital: assets ratio in good shape.

The weakening of bank's capital:-asset ratios did not happen overnight. The process, which has been going on for about a decade, was characterised by banks paying out too much by way of dividends, and not retaining sufficient profits to swell capital. In today's economic environment, a bank needs to increase its capital by 15%, just to stand still. In general, this has not been done recently, with the resultant spate of bank rights issues.

But making profits in banking has never been more difficult. Corporate banking, now a mature market, is characterised by margins that have been caned to the bone. But those banks that have undertaken the costly expansion into corporate banking are scared to withdraw, if only because of heavy overhead costs.

The personal banking market is characterised by a breathtaking level of competition. In the general macroeconomic environment, this cake is growing only marginally, and aggressive moves to increase market share are seen from time to time.

Trust Bank, for example, has increased market share in this area. The new business is quality business, but probably not as proportionately profitable as it could be. The only new market on the horizon is blacks, but no bank has reached a firm policy decision as to how to enter it.

One choice is the costly "bricks and mortar" route, the building of unlimited branches throughout the country. The alternative is to assume that blacks are a First World market, and to make further investment in electronic banking.

In the medium term, the focus is on expanding the existing "middle market". In this market, between corporate and personal banking, the typical constituent is smaller businessmen. Subject to successful marketing, expansion of this market is attainable, with the heavy investment that has already characterised electronic banking.

And after the pressures to improve capital:equity ratios, it is further spending on electronic banking that is again under the chief executive's microscope. The general opinion is that banks should overcapitalise now in electronic banking, mainly as a method of self-insurance against further punitive sanctions.

Andersen Consulting's Avron Satill comments: "In the banking sector, in the long term, the only way to achieve competitive advantage is by the effective use of technology." And it is technology that is emerging as the main factor increasingly blurring the lines of distinction between banks and other financial services enterprises.

There is no question that in the next two to three years, the financial services industry will be the scene of mergers and other restructural activity. Takeovers, such as the current bid by Investec for the Board of Executors, will be less common.

But when the activity is finished, the most likely scenario is a small number of "Super Banks", and a greater number of tiny, boutique-type niche financial services organisation. In spite of the mergers, the head count at the end of this process is likely to be higher than todays.

The major players are already well positioned. Liberty's Donny Gordon recently announced that the group would be involved in taking up part of the Gold Fields rights issue. Liberty, which holds 30% of Stanbic, will have 20% of Gold Fields Holdings, with Asteroid and Remgro at 40% each.

GFSA and Rembrandt each hold 10% of Stanbic. In effect, it could be argued that Gordon has a say in 50% of Stanbic's equity. So it was not surprising that Gordon explained his involvement in the GFSA rights issue as "defensive".

Stanbic is clearly the market leader. It has tremendous depth of management, long-term vision and the ability to win tenders and still make acceptable profits. By comparison the Bankorp Group is rated very poorly by the market.

Perhaps the first action in the sector will involve Saambou, which is well priced for a takeover, and unlikely to grow significantly given its present structure. For the investor, the "best" banks for the future are those that are tops on technology and cost-control.

Suregro in R6-m rights offer

(58) STAR 15/9/87

Two institutions are set to increase their stake in Sure Group Holdings (Suregro) through a rights offer aimed at rising R6 million to finance further growth.

Syfrets and Southern Life already have a combined holding of more than two million shares and debentures in the group, which specialises in materials handling equipment, the sale of trucks and truck spares, and machine moving.

Syfrets will underwrite the offer and Southern Life will follow its rights, says joint managing director, Keith Blair. He adds that directors and management will take up at least 40 per cent of the issue.

"Our growth has exceeded expectations to such an extent that a rights issue is needed to keep gearing within set parameters," he says.

TURNOVER UP

In the year to March 31, Suregro lifted turnover 97 percent to R40,7 million and produced earnings a share 72 percent up at 16c and a dividend of 4,2c, 40 percent up on the previous year's 3c.

"Over the past six years the group has achieved turnover growth at a compound rate of 58 percent a year while attributable income has increased at a compound rate of 87 percent a year."

The last day to register will be September 22 and the offer will close on October 20. Share and debenture holders are being offered 35 compulsorily convertible debentures of 60c each for every 100 Suregro ordinaries or debentures.

Interest is to be capped at 19 percent and the bottom is 12 percent. The debentures will be convertible into ordinary shares on a two-for-one basis from 1994 to 1998.

Mr Blair says results for the first quarter of the current year were ahead of budget and point to another good overall performance.

"Our concentration during the current year is on containing growth to those areas of the business with above average profit margins."

Mr Blair says the truck and parts division which has relaunched Foden trucks, holds enormous potential, but needs to be adequately supported with the necessary working capital.— Sapa.

OCEANA TRUST 58

On trust

Activities: *Investment trust incorporated in the UK and holding an internationally spread portfolio.*

Control: *American Swiss Holdings has 24,26%, Nicholas Holdings 17,15% and Travpart Investments 10,03%.*

Chairman: *S Lewis.*

Capital structure: *5,3m ords of 25p each. Market capitalisation: R98,1m.*

Share market: *Price: 1 850c. Yields: 1,3% on dividend: 1,9% on earnings; PE ratio, 52,3; cover, 1,6. 12-month high, 1 850c; low, R15. Trading volume last quarter, 295 000 shares.*

Financial: *Year to March 31.*

	'86	'87	'88	'89
Debt:				
Short-term (£m) ..	1,3	1,0	—	3,0
Debt:equity ratio	0,01	—	—	—
Shareholders' interest	0,87	0,94	0,97	0,76

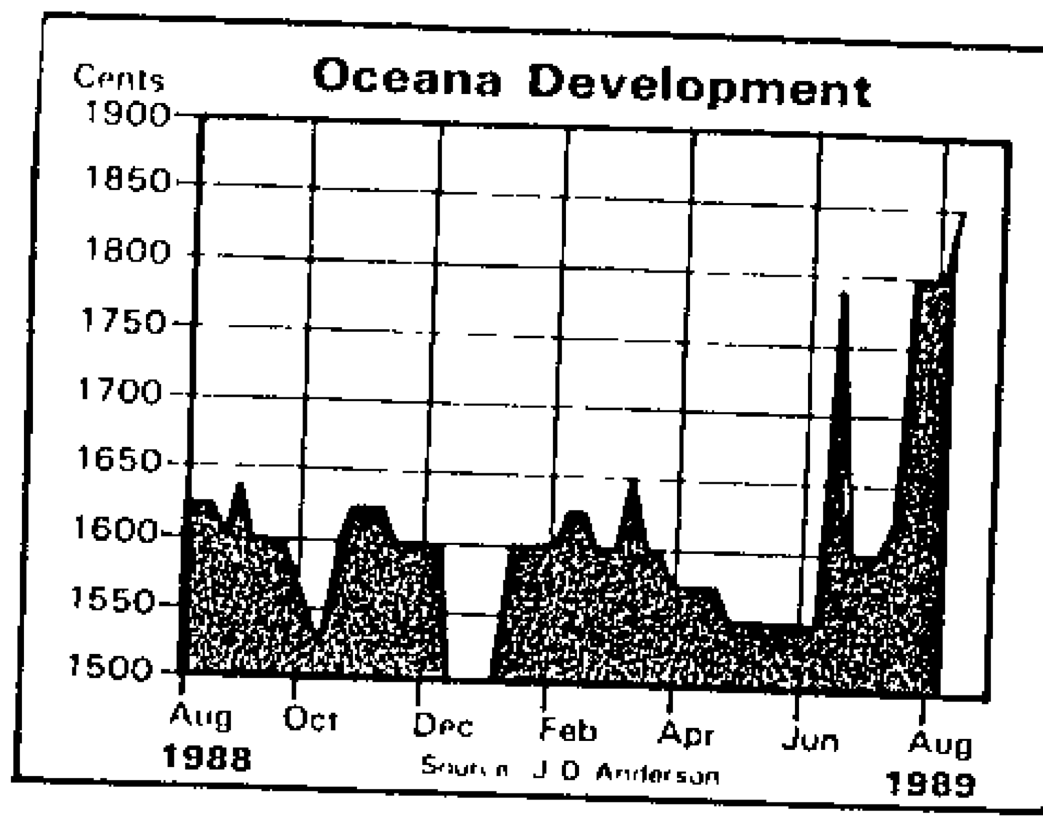
Performance:

	'86	'87	'88	'89
Taxed profit (£m) ...	0,1	(0,1)	0,2	0,5
Earnings (p)	(1,71)	3,34	4,43	8,86
Dividends (p)	—	—	—	5,5
Net worth (p)	273	317	245	249

The nature of Oceana Trust has altered substantially since the change of control (*Fox* July 29 1988). Originally, the intention was to invest overseas, with the idea of achieving capital growth only, thus providing a pure rand hedge.

The new controllers, under chairman Stanley Lewis, have an investment policy to invest predominantly in retail related businesses internationally, while considering suitable ancilliary investment opportunities, including real estate The first investment has been in the Dutch Gioma Group, which operates a chain of 22 restaurants in the Netherlands and Belgium.

Finweek 15/9/89.



In keeping with the new orientation, a dividend — with a stock alternative — was declared in the year to end-March.

But, for old investors, there may be some disquiet The investment management contract with the Board of Executors has been terminated (at a cost of £92 500), but Lombard Odier will act as consultant, though ceasing its management function.

The change seems to have brought benefits. While accepting that the October 1987 Crash took its toll, in the year to end-March 1988, net worth per share fell from 317p to 245p, though EPS was up from 3,34p to 4,43p. Under the new management, earnings have doubled and the value of investments is up from £9,8m to £12m. The company has a bank overdraft of £3m.

That the investing public has confidence in the new management can be seen from the price increase in the past year from R15 to R18,50. At this point, this is the essence of an investment in Oceana. Without any knowledge of the new investments to be made and the success of the investment policy, investors are buying on faith, with only the rand hedge element a certainty.

Pat Kenney

BANKORP/TRUST BANK

58 Finmail 15/9/89

After the asset chase

The shares of Bankorp and its subsidiary, Trust Bank, have long been among the more poorly rated stocks in the banking and financial sector. Reasons have included a belief that the group was under-capitalised, resulting in speculation about a large rights issue, and the group's focus on growth rather than profitability.

This week Bankorp announced plans intended to usher in a new era. It is to be recapitalised with a whopping rights issue to raise at least R340m, Trust Bank — rescued by Sanlam in the early Seventies — is to be delisted, the Bankorp 1989 dividend is to be cut by 26%, disclosure is being improved and the declared aim is to concentrate on profitability rather than volumes.

Certain of the plans may be well received in the market. From the initial reaction of brokers, the dividend cut could go down like a lead balloon. If so, Sanlam could end up with a still bigger stake in Bankorp.

The decision to cut the dividend was related to the capital raising exercise rather than the 1989 results. In the year to end-June Bankorp lifted its attributable earnings by 16,1% to R113,3m and EPS by 15,8% to 125,8c. On the dividend of 25c (34c), the cover was raised to 5,0 (3,2). Trust reported EPS 15,2% higher at 50c, and declared a dividend of 12,5c (12c).

Chris van Wyk, who was appointed CE of Bankorp in March after the death of former Sanlam chairman Fred du Plessis, says the aim is to take all the medicine in one blow and thus avoid speculation about further rights issues. Gencor chairman Derek Keys, who has joined the board of Iscor and is a former executive chairman of National Discount House, has been appointed chairman of Bankorp.

Bankorp's total assets have rocketed over three years. They rose by 24,6% to R13,7bn in 1987, by 40,9% to R19,3bn in 1988 and by 40,4% to R27,1bn in the year to end-June 1989. Between 1987 and 1989, net income after tax and transfers to contingency reserves was up by 91%, having risen in the year to end-June 1989 by 17,4% to R131,6m.

Assessment of the true profitability of Bankorp and Trust has always been problematical owing to limited disclosure. In its 1988 annual report, Bankorp stated its return on average total assets as 0,58%. On the improved but still limited levels of disclosure which accompany the 1989 results, the figure was 0,68 in 1988 and fell to 0,57 in 1989. Van Wyk contends that, had the returns been calculated on comparable levels of disclosure, Bankorp's figure would have been in line with that of Stanbic.

Van Wyk reckons that by targeting volumes, the group has gained market share and achieved the critical mass needed. When measured by total assets, Bankorp claims that its market share has increased annually over the past five years, rising from just over 15,5% to 20,5%, while those of Volkskas, First National and Stanbic have shrunk.

But Bankorp's (and Trust's) growth has been achieved on an undercapitalised balance sheet. While the industry has been making efforts to increase capital ratios in line with more stringent requirements of the Banks Act, Bankorp's ratios have plunged.

Until now the directors have played down the issue of capital requirements. In his 1988 review, Du Plessis, then chairman of Trust, stated: "the bank continues to capitalise itself exclusively from retained earnings and there is no reason to look for external sources of capital." Van Wyk now reveals that Bankorp's capital as a percentage of total assets has fallen from 4,27 in 1987 to 3,46 in 1988 and to 2,93 in 1989.

This, essentially, is what lies behind the rights issue and the buy-out of Trust minorities. Van Wyk says that, without a delisting, Trust would have needed its own rights issue of about R200m. This way, the Bankorp rights issue will bring in about R340m, of which about R200m will be injected into Trust and about R58m absorbed by the take-out of Trust minorities, leaving some R82m unappropriated.

The actual amounts would depend on the response to the offer to Trust minorities. The offer seems attractive enough. For every 100 Trust ords held, minorities will be offered either 50 Bankorp ords or R200 cash, or they may take a combination. At Tuesday's prices of 185c for Trust and 410c (after falling 25c on the day) for Bankorp, 50 Bankorp shares were worth R205, so the offer favours acceptance of the shares — assuming minorities want to stay with Bankorp. The cash offer is at an 8% premium to Trust's price while the share offer is at a 10,8% premium.

Should all minorities accept Bankorp shares, the amount which the rights offer effectively raises for Bankorp will be higher and the unappropriated amount rises accordingly. Bankorp holds 78,38% of Trust.

In the rights issue, Bankorp shareholders are offered 100 deferred ords for every 100 ords held, at an issue price of 340c. The price discounts the latest 410c price by 17,1%. Notably, Bankorp's share price rose from a low of 355c late July to 440c last week, before slipping to the present level. But the funds will not be cheap. Bankorp is doubling its issued ords, which presently total just under 90m shares. Holders of about 8,5m "scheme" shares under the executive share purchase scheme may also participate. With about 100m new shares issued, the dilution is considerable.

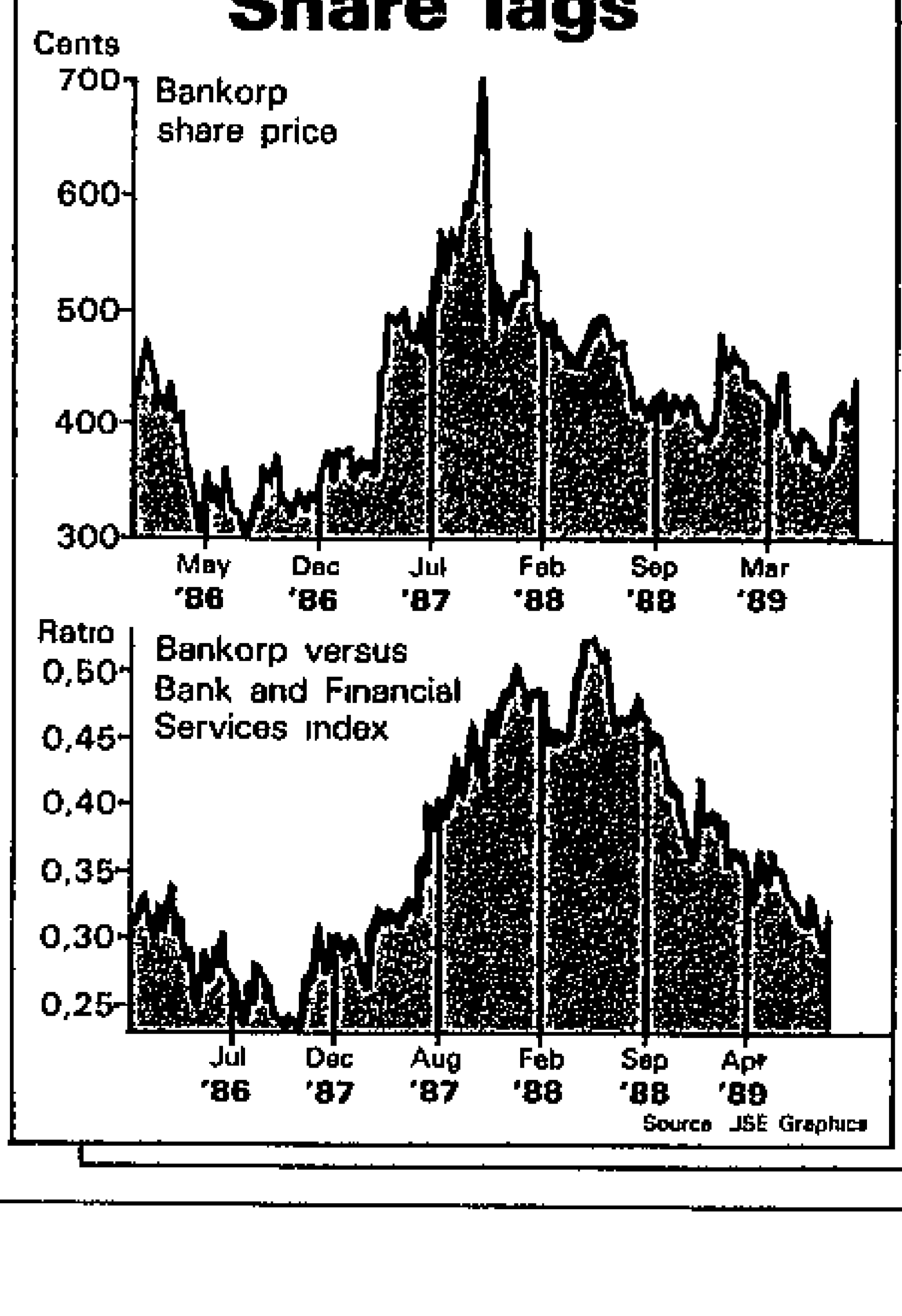
The rights issue will reduce the 1989 EPS by 41% from 126c to 74c. That would increase the historical p:e on the 410c price from the present 3,3 times to 5,5 times, compared with the average of 7,1 times for the banks and financial sector. Assuming there is growth of, say, 15% this year then the prospective p:e is 4,8. As the group says the 25c dividend will at least be maintained for 1990, the dividend yield will be 6,1% on a 410c price.

The dividend cut adds some R9,9m to retained earnings, but that was not the point. Van Wyk says that on the 340c issue price, a 25c dividend gives a cost of capital of 7,5%. In effect, it seems the board was unwilling to see the yield determined by the poorly-rated share price. It's also contended that the 25c level provides a sound base for future dividend growth. Whether the market will be impressed with this is another matter. One banking analyst comments that on this argument the dividend could have been passed and the cost of capital could be considered nil. His reaction was that the dividend cut seems a "transparent ploy to drive the share price down."

Sankorp, which holds about 70% of Bankorp, will fully underwrite the offer and will follow its rights. It has permission from the minister of finance to lift its holding if necessary.

However, those investors who have stayed with Bankorp could see the recapitalisation as a turning point. Van Wyk reckons that

Share lags



Source JSE Graphics

58 FMail 15/9/89.

after the rights issue Bankorp's capital ratio — based only on primary capital — will rise to at least 4,2% and a return of 0,67% on average total assets is targeted.

In shifting the focus to profitability, management will concentrate not only on the interest margin but also on such aspects as liabilities management, a broader base of savings and cheque accounts and improved fees and commissions income, which should accompany growth in cheque account business.

Management is hopeful that investors will consider the medium-term effects of the overall package without undue emphasis on the dividend cut. Even so, a rerating of the share may not come quickly. *Andrew McNulty*

BOE bid: big legal guns wheeled out

B Day 15/9/89

(58)

ROBERT GREIG

BIG legal guns are being wheeled out by the Board of Executors and Investec as signs mount that the Investec bid for Mercury Trust (which owns 80% of BOE) may depend on whether BOE can vote on its 41,8% Mercury holding.

BOE's share price has continued rising, suggesting, one broker said, "Some defensive buying is going on. If the share price rises, it makes the BOE offer to Mercury minorities, which is comprised of cash and shares, more attractive."

He did not believe the volumes were large enough to suggest buying in the hope of profit from takeover action, successful or not.

Yesterday BOE's share price reached a new high of 500c. This represented a 21% rise from 410c, the price ruling in the week before Investec's bid was announced, and a 30c gain on Tuesday's 470c.

In three deals, 2 200 shares were traded, with signs of sellers entering the market, seeking 550c per share, and incipient resistance from buyers.

BOE's share price would have to rise to between 525c and 563c to match the Investec offer of R27,50 for Mercury Trust. (The variance is related to the alternatives in the BOE offer.) On August 9, BOE offered 300 BOE shares at 400c per share and R10,50 per Mercury share, making a total of R22,50, or 400c with a R6,50 per Mercury share.

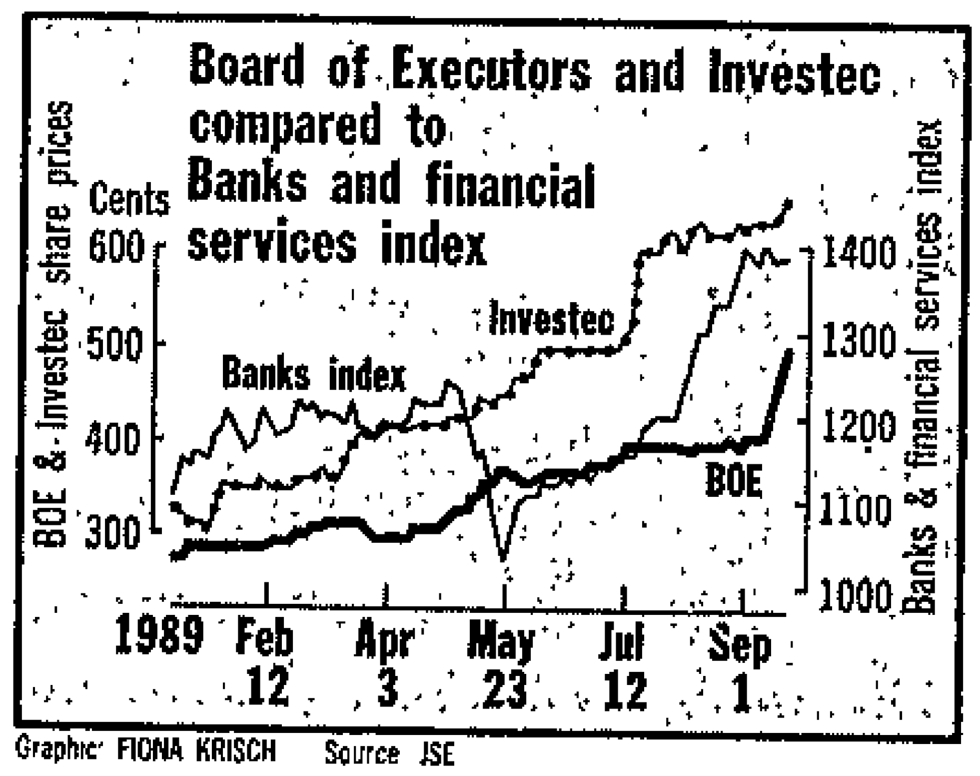
The Investec offer is R27,50, a 16% premium on the BOE offer.

Investec's legal opinion is that share-buying on the market may be beside the point: the success of the takeover could depend on Company Act legality.

Before mounting its bid on Monday, September 11, Investec consulted the legal firm Hofmeyr van der Merwe about the legal standing of the BOE-Mercury Trust relationship in terms of the Companies Act.

Yesterday, BOE directors confirmed they were taking legal opinion. They would not say what the opinion would be about, but in the light of Investec's earlier threat

□ To Page 2



Graphic: FIONA KRISCH Source JSE

Investec

(58) B Day 15/9/89

□ From Page 1

to submit the BOE-Mercury relationship to court judgment it seems this is what they are checking out.

On Wednesday, Michael Katz, a leading corporate counsel, told Business Day he could not confirm or deny claims by well-informed sources that he had been consulted by the parties to the dispute. Nor would he say on what issues he might have been consulted about.

The key issues are whether BOE is a Mercury subsidiary; and if it is whether BOE can vote on Mercury shares; and if not, what the status of the BOE offer for Mercury will be.

Yesterday, Jowell said: "On the basis of published information, it seems BOE is a subsidiary of Mercury's and this could sterilise the shareholding."

If that were the case, BOE's shareholding in Mercury could be "sterilised". BOE might not be competent to make an offer to Mercury, Jowell said.

He stressed: "But we would prefer to handle this takeover bid on a commercial basis.

"Our view is that this is a commercial offer, which is being contested, and not a hostile takeover."

Mercury directors — three out of four of whom are BOE directors — have until September 22 to reply to the Investec offer.

Stanbic rated first of Africa's Top 50 banks

58

BARRY SERGEANT

STANDARD Bank Investment Corporation (Stanbic) is No 1 among Africa's Top 50 banks, ranked by the London-based The Banker. Stanbic ranked first on capital and assets, 33rd on the capital-assets ratio, 17th on profitability (profits on capital) and 13th on performance (real profits growth).

Eight SA banks appear in the rankings, including the top five positions. First National Bank is ranked second overall, followed by Nedcor, Volkskas and Bankorp. Boland Bank filled the 15th position, with Finansbank at 31 and Rand Merchant Bank at 34.

The highest ranking SA bank on soundness (capital-assets ratio) was Finansbank at 19, the lowest FNB at 44. Rand Merchant Bank showed the highest growth in assets on the year before of 181%.

Nigeria scored 12 entries in the rankings, the highest of 12 countries that made the rankings. SA was second, followed by Cameroon, Kenya and Zimbabwe with three each.

Stanbic had by far the highest capital, $672m, followed by FNB with $408m. FNB had the most staff (26 062), followed by Stanbic (24 662). Nedcor was the highest-scoring SA bank on performance, rating sixth overall.

● See Page 12

We'll fight to bitter end, says BoE boss

(58) S/Times 17/9/89.

BOARD of Executors managing director Bill McAdam swears to fight Investec's "hostile" bid for control of his company all the way to the Appellate Division of the Supreme Court.

He broke an all-week silence on the first contested bid in SA since Sage went for Unisec in 1981 to tell Business Times that a dissenting document would be sent to the shareholders of Mercury Trust, controller of BoE, in the next few days. He warned the legal fight could last two years.

By David Carte

It appears that the Cape commercial establishment is behind BoE — Mr McAdam said long-standing clients would take their business away if Investec succeeded in its unwelcome bid.

"In theory, Investec chairman Bas Kardol is right. There should be benefits in the merger between two medium-size businesses such as ours.

"But in practice, regardless of the question of cultural compatibility, we have had a strong reaction from clients in our money market and corporate finance divisions, stating that if the deal goes through, they will take their business away."

Investec co-founder Bernard Kantor warned that BoE directors had a fiduciary duty not to suggest abandonment by clients as a defence.

Mr Kardol vowed to let BoE keep its independence.

"We treasure the name and identity of BoE, just as management does," said Mr Kardol. A suitor could justify a higher price, but he warned: "Our first price is unlikely to be our last."

Mercury shareholders are gleefully waiting to see if the bids go higher. Mr McAdam warned them against accepting Investec's conditional offer because acceptance was irrevocable and any higher price would be for the benefit of Investec.

Said Mr Kantor: "Several suitors have approached BoE over the years and they have always talked about cultural differences. In talks, we were struck by the obvious compatibility of the two companies.

"It's a clear case of one plus one would equal three — but they don't want to know. Their resistance can be based only on geographical prejudice.

"Our offer makes such good sense commercially. There is irresistable synergy between the two companies for the directors to recommend conversion of the debentures. The debentures carry an extraordinarily high rate of interest — twice the dividend of the ordinary shares subject to minimum of 35c and a maximum of 62,5c or the prime overdraft rate on the last day of the year.

Cont

So the mimimum return on the debentures is 14% and the maximum is 25%. Management had about 50% of the convertible debentures at the time of the placing.

Mercury directors, acting in the interests of all shareholders, must respond to the Investec offer on September 21. If they advise against acceptance, they will have to give reasons.

Steven Kosef, managing director of Investec, gives these benefits in the deal:

- The merged group with equity of R120-million and total assets under administration of R6-billion would be much bigger and more able to compete with other giants in

● To Page 2

Bas Kardol and citadel door Picture: Terry Shean

Time set to take property to lists

By Ian Smith

TIME Holdings has staked a claim to a bigger share of the fast-growing property management, financing and development market.

It has consolidated its operations in Time Property Holdings, which is also headed for a JSE listing.

The new venture will be headed by Mike Raggett, Old Mutual's property investment manager. He joins TimeProp next month and he will have a stake in the company.

Time Holdings executive chairman Colin Hibbert says the new company rationalises the group's maturing commercial and industrial property interests. "TimeProp will be the vehicle for the eventual listing."

It will provide an integrated service in property development and management for third parties.

Mr McAdam responded: "We are not babes in the wood. There has to be cultural compatibility, or good people will leave. Investec's record with Metboard is far from reassuring."

Snobbery

Mr Kantor said there was an easy way to reconcile the companies, including the right of BoE directors to large equity in their own operation.

Mr McAdam said BoE and its associates had more than 51% of Mercury — but that assumes that BoE can vote its 42% stake in Mercury, a disputed point.

He denied that resistance to the deal was based on "Cape snobbery or parochialism".

"We are very strong in the Eastern Cape, Durban and Johannesburg. We are no longer only Capetonians."

If they cannot fend off the advances of Investec, the directors are expected to seek aid from a Cape white knight, perhaps Southern Life in association with First Personal Asset Management, or even long-time competitor Syfrets.

Suitor

Neal Chapman, chairman of Southern Life and a former managing director of BoE, said there had not yet been any discussions. But Southern would listen sympathetically to any suggestions from BoE. Syfrets denied being interested.

Mr Kardol said the 2 750c offered for Mercury was a full price, which took into account rationalisation benefits. It was doubtful any other

Incestuous

Right now, unlisted Mercury Trust, with 900 shareholders representing mostly "old Cape money" has 80% of the voting shares of BoE.

BoE in turn has 42% of its parent.

To eliminate the incestuous cross-holding and to raise additional capital, BoE offered the holders of the outstanding 58% effectively 2 250c a share to obtain 100% of Mercury Trust. This transaction would have given the directors of BoE 35% and effective control of a free-standing BoE.

On Monday, Investec offered 2 750c cash for Mercury, a 6% premium to asset value of 2 600c and 22% more than the BoE offer. Investec's lawyers claim that because it is a subsidiary of Mercury, BoE cannot vote its 42% holding in Mercury.

Overdraft

Whether the deal goes ahead depends on non-BoE holders in Mercury. They have to decide whether they want the R5 a share extra — or control of BoE to remain in the Cape.

Ten Investec staff members have badgered the Mercury minority by phone all week.

Mercury has 5,2-million ordinary shares and an identical number of convertible debentures in issue. The debentures are convertible into ordinaries one for one any time between now and 2002.

It could convert the debentures to dilute Mercury's 80% stake in BoE to 40%. Then BoE would not be a subsidiary and could vote its shares in Mercury.

But there would have to be sound commercial reasons

S/Times 17/9/89

Millions lost in big Site muddle

By Robyn Chalmers

HUNDREDS of thousands of South Africans, black and white, may have lost millions of rands through incorrect Site deductions by employers.

Companies and individuals can expect long delays in receiving their assessments. Barbara Green of Pim Goldby says the Receiver of Revenue is sending many tax forms back to companies, largely because of confusion about the Site method.

Extended

Miss Green says officials of the Receiver started 1989 company assessments only on August 14.

Johannesburg Receiver senior official Linda Pretorius says, however, that to her knowledge the branch has not returned forms to companies because of the time delay.

"Small branches with more time may have sent forms back, but Johannesburg has set up a Site group to deal with problems Officials have completed a large amount of assessments and dispatched refunds."

Site was announced by Finance Minister Barend du Plessis in his 1988 Budget. It originally applied to married women who earned up to R20 000 a year, but was extended in March this year to include all net remuneration earned by married women.

In the case of persons other than married women, the limit was increased from an amount calculated at a rate of R12 000 a year to R20 000. The R12 000 limit still remains for the 1988 year, however.

Confusing

For example, a married man who earned R22 000 last year would pay Site on R12 000, and Paye on the remaining R10 000.

When Site was introduced, the private sector slated it as being highly confusing. Many experts called for the scrapping of the Site system, which they described as seriously flawed.

One of the major problems appears to be the onerous burden placed on employers when calculating Site. It is a final tax, and employees cannot get refunds if they discover there has been an incorrect deduction.

It has also been found that the computer systems of many companies are not adequate to cope with Site. Many previously workable systems have become obsolete, but have managed to wreak a fair amount of havoc before being replaced.

Annuities

Life assurers have had to cope with their fair share of hassles over Site. When taxing retirement annuities, many found they had not had enough time to gather details from policyholders.

As a result, they have had to tax annuitants at the maximum rate for the past year, and policyholders have no recourse because overpayments are non-refundable.

Apart from late assessments, taxpayers were slow in returning the 233 000 certificates (IRP5) issued by the Johannesburg office of the Receiver.

The forms were due in by June 7, yet by the end of that month about half were outstanding. The Johannesburg office is still receiving inquiries about Site.

Consensus among tax experts is that there have been widespread miscalculations of Site, and that the lower-income groups have been hardest hit.

Defrauded

Black Sash co-ordinator Sheena Duncan says that the Johannesburg advice office dealt with a stream of clients "defrauded of part of their wages by incorrect Site deductions".

She claims that working-class Site taxpayers have no right to see employers' tax assessments, to challenge their accuracy or to reclaim overpayments.

In an analysis of political reform trends, Econometrix director Azar Jammine says that between the 1985-86 and 1987-88 years, the number of blacks paying personal income tax more than doubled from 6,4% to 14,6%.

Dr Jammine says the Government will be faced with a dilemma by 1993 when the number of blacks paying tax will outnumber whites. It will either have to draw thousands of black workers into the tax net, and give them the vote, or lower taxes and face a huge loss of revenue.

Time Life looks up

58

Business Times Reporter

TIME Life, the youngest player in the life-assurance industry, is growing strongly.

Managing director Bill Haslam, who left Southern Life early this year to join the new company, says that in May, June and July Time Life wrote new business worth R3-million in the independent broker market.

"We are proud of this achievement by a young player," says Mr Haslam.

Time Life, an arm of listed management and financial services group Time Holdings, was the first SA company to be given a life-assurance licence in 20 years when it was formed in December 1987.

Seven months ago it expanded from its original niche in the mortgage protection market, mainly for Time Housing, to offer a tax-provider plan for indepedent brokers.

"We have surpassed all expectations and are receiving substantial recurring premium income," says Mr Haslam.

... property situated in the Eastern Transvaal Hoedspruit area. 21 different species of

CARTE BLANCHE

Sauce for the goose

58

S Times 17/9/89

By DAVID CARTE

THE law that Investec seeks to use to gain control of Board of Executors could conceivably also apply to last month's Remgro-Asteroid purchase of 30% of Gold Fields of SA.

Through Cons Gold's disinvestment from SA, Remgro and Asteroid increased their combined stake in GFSA to 40%.

Section 38 of the Companies Act states tortuously: "No company shall give, whether directly or indirectly, or whether by means of a loan, guarantee, the provision of security or otherwise, any financial assistance for the purpose of, or in connection with the purchase or subscription made, or to be made, by any person or for any shares of the company or where the company is a subsidiary company of its holding company."

According to the Interpretations Act 33 of 1957, a person includes a company. Contravention of Section 38 is a punishable offence.

Investec maintains that BoE cannot vote its shares in controlling Mercury Trust because it is a subsidiary of Mercury. It has placed a question mark over the legality of the holding in the first place.

GFSA and 31%-held associate Driefontein own 50% each of Asteroid, which in turn has 50% of Gold Fields Holdings, which has 40% of GFSA.

(GFSA's R1-billion rights issue will give Liberty 20% of Holdings and dilute Asteroid's stake to 40% — but that is in the future and is not relevant now)

In the transaction between Asteroid, Remgro and Cons Gold, Asteroid accepted 16,3-million shares in GFSA for £500 000 plus the 16-million Cons Gold shares GFSA and Driefontein bought in their parent in a pre-emptive move two years ago.

The swop of Cons Gold shares for GFSA may have been tantamount to GFSA's buying shares in its own ultimate holding company

Louis Luyt, who is writing his doctoral thesis in company law, agrees with this reading of the case. He believes it would not matter if there were 10 holding companies stacked up above GFSA.

If this reading is right, the transaction is illegal and null and void and the question of an offer to the GFSA minority goes out of the window.

Let's assume that all is well with the deal. But I still cannot understand why minority shareholders have not received an offer.

I still cannot understand why minority shareholders have not received an offer.

As I pointed out three weeks ago, before 1987 Cons Gold had 48% of GFSA. It is hard to argue that that was not effective control.

Today, through GFSA Holdings, Rembrandt and Asteroid have 40% of GFSA. Surely that is effective control, whether the transfer of control happened in the 1987 transaction or more recently. The terminology, one understands, is a creeping change of control.

The JSE says all is well and I have not heard a GFSA minority squeak up for the R97 a share that Asteroid and Remgro paid for their most recent 30% tranche instead of the R86 now prevailing.

The Standing Advisory Committee on Company Law has recommended that in future when any person acquires more than 20% of a company, a newly constituted Takeover Panel must decide whether there is to be an offer to the minority. It should become law in the next couple of months.

Seems to me there is a case for making it retrospective.

JULIE WALKER

Bankorp bid to beef itself up

S-Times 17/9/89

58

CHRIS VAN WYK ... polishing the image

AT the end of my interview with Chris Van Wyk, chief executive of Bankorp, I asked him whose shares should readers buy — Bankorp's or Iscor's.

"Both," was the diplomat's reply. This man thinks on his feet. Until then I had detected a sense of valiant recital in what was his 11th interview with members of the press in what is a new move aimed at improving public relations.

DELISTING

After a lack-lustre performance and a slashed dividend, his was the task of explaining the reasons for the rights offer of R340-million and the delisting of Trust Bank.

It appears the sum to be raised was arrived at amid the sucking of thumbs. Trust Bank needs R200-million of new capital, and Bankorp could need R58-million more to buy out the Trust Bank minorities if they elect to take the cash.

That was already looking at a 75-for-100 share offer, so why not go the whole hog and make it 100-for-100 at a discount to the current trading price?

BED

"We don't want the market wondering when Bankorp's next rights offer will be," says Dr Van Wyk — a Business Times Top Five Businessman of the Year in 1988.

So much for the discount theory. Bankorp's share price fell out of bed on Wednesday and gave up 100c in three trading days to reach 340c.

Major shareholder Sankorp will follow its rights, and will underwrite the offer. It has been granted permission to hold more than the statutory maximum of 30% should the position arise.

On the credit side for Bankorp, timeous action is being taken to deal with the group's problems. Its assets grew by 40% in the year to June 1989, and its market share among SA's big five banking groups from 15,5% in 1985 to 20,5% now.

But the growth in total shareholders' funds — share capital and reserves from accumulated undistributed profits — did not match the rate of asset growth.

A bank needs differing amounts in its reserves depending on who is borrowing. Lending to government and quasi-government is regarded as solid, and no reserves are required to do that.

VULNERABLE

Riskier business, such as vehicle financing or home loans, requires about 5% of the sum lent to be covered by reserves. Really risky business requires 100%. On average, Bankorp's total capital-to-total assets ratio is 4,2%.

After the rights offer it will achieve that. At present it is only 2,9%.

By the way — and over-simplified — a bank's assets are actually what it has lent out, and its liabilities are the deposits which it has to pay back when the saver requres. It is a bank's assets which are vulnerable.

Bankorp's long-term goals can be abbreviated from the flowery news release to one idea — profit-driven people. To achieve it, Dr Van Wyk seeks leadership from the executive, promises fuller disclosure to the shareholders, and is already strengthening the capital base.

The fourth item on the short-term agenda is financial restructuring — referring to the delisting of Trust Bank. SA's other big five banking groups do not have separately listed operations, and Trust Bank is being absorbed for the convenience factor.

Shareholders can accept R200 cash or 50 Bankorp shares for 100 Trust Bank. With Bankorp having dropped, and rallied to 360c, 50 of its shares are now worth only R180, so many will opt for the cash. Trust Bank shares are 193c on the JSE.

After the buyout of Trust Bank, Bankorp will have four operating arms — merchant bank Senbank, the commercial Trust Bank, the financier and general banker Santambank, and Corporate Services & Joint Ventures.

The last division includes data services, broking and property among others.

Bankorp has appointed Derek (Midas) Keys non-executive chairman from later this month. The executive chairman of Gencor was previously the chief at National Discount House, and was coincidentally appointed to the Iscor board from next month.

The bumph says that the appointment of Mr Keys to Bankorp does not mean that Gencor is investing in Bankorp.

Perhaps it prefers to buy Iscor shares. I can't say that I disagree with that.

Bank told of 88 new forex frauds

CM 7/1/A
18/9/89
58

Own Correspondent

JOHANNESBURG. — Eighty-eight new cases of frauds involving "hundreds of millions of rands" in foreign exchange have been reported to the Reserve Bank since January, Reserve Bank spokesman Mr Pieter Troskie said at the weekend.

And, in reply to written questions about how the government was dealing with the investigation and prosecution of fraud cases, the Minister of Justice, Mr Kobie Coetsee, said he had appointed a committee "to deal with corruption and fraud in a much swifter way than has hitherto been known".

Mr Troskie said of the 88 new fraud cases, evidence of foreign exchange contraventions had been proven in 30 cases and they had already been handed over to the police for further investigation.

The incidents of forex frauds had risen dramatically in recent years and has reached "alarming proportions". "It is much, much higher than before. We are very worried about it," Mr Troskie said.

The creation of the financial rand system in 1985 was probably the single biggest cause for the increase in forex frauds, as round-tripping offered big profit margins, Mr Troskie said.

The bank established a special investigations division in January this year, following the exposure by the Harms Commission of the alleged forex fraud involving Pretoria attorney Mr Albert Vermaas.

Mr Troskie said that since then the bank had "tightened up on control measures" affecting forex applications.

Meanwhile SAP Commercial Branch deputy chief General Jaap Joubert said while police had not noticed an increase in the number of forex fraud cases they investigated, "the amounts involved in single cases are larger than they used to be".

Sowetan 19/9/89
Page 2

Mwasa acts against bank

58

THE Southern Transvaal region of the Media Workers Association of SA resolved at the weekend to withdraw its account from First National Bank for the latter's sponsoring of "rebel rugby tours."

In line with the union's congress theme: "1989. A great leap forward." Mwasa said FNB should pay for its efforts aimed at saving SA from international sporting isolation.

The congress, which was held at the Ipelegeng Community Centre in Soweto, also resolved to condemn the negotiated settlement "as only capitalists would benefit from this treacherous ploy."

A union spokesman, Mr Ryder Peta, said Mwasa further condemned the Labour Relations Amendment Act and pledged to crush it.

Members

Other Mwasa resolutions included: the union's solidarity with its dismissed members at the SABC (Pretoria branch).

The union reaffirmed its stance against imperialism and its non-sectarian approach to the struggle.

Mwasa also felt strongly about Nactu and Cosatu having disowned the national day of protest called on September 12 saying "as a result of the confusion some of our members stayed away and were dismissed from work."

BOE fires first salvo in takeover battle

Cape Times 19/9/89

(58)

By BRUCE WILLAN

THE Board of Executors (BOE) has fired the first salvo in response to the "hostile" takeover bid launched by Investec on BOE's Mercury Trust.

In a strongly-worded statement issued by BOE late yesterday afternoon, it urges Mercury Trust shareholders not to accept the offer made by Investec.

According to BOE, which owns 41,8% of the issued share capital of Mercury, it has received formal undertakings by shareholders representing a further 9,6% to reject the offer.

On this basis it seems unlikely that Investec will succeed — it needs to secure the support of more than 50% of the voting rights in a general meeting of Mercury shareholders for the takeover to be successful.

In the offer made by Investec a condition in this regard was made.

The BOE has also come out strongly rejecting the allegations made by Investec that BOE is not entitled to exercise its right to vote as shareholders of Mercury.

The rejection arises from opinions obtained separately from two well-known senior counsel, the BOE's own attorneys and a professor of law.

The BOE has warned Mercury shareholders that should they elect to accept the offer, it becomes binding and shareholders will be unable to withdraw even if there is a higher offer made by a third party.

This suggests that there could be an improved offer coming from the BOE itself in spite of the offer made by them being equivalent to the R27,50 cash offer made by Investec.

BOE's original offer annouced on August 9, 1989 gave shareholders in Mercury an option of either 300 shares in BOE at R4,00 and R1 050,00 in cash plus the right to acquire an additional 100 shares in BOE at R4,00, or R2 250,00 in cash for every 100 Mercury shares held.

Unlike BOE, Investec have made no share offer, enabling Mercury shareholders to benefit from the broader group.

According to BOE, Investec have realised the potential of the company and do not want to share it with the present shareholders but have the sole benefit.

If the claims made by the BOE are accurate, then it seems unlikely that Investec will succeed in gaining control.

BOE say that an extensive survey conducted among Mercury shareholders last week reveal that the majority of shareholders canvassed want to retain an interest in the BOE/Mercury group.

The Star
Finance

Star 19/9/89 (58)

BoE rallies shareholders and matches Investec bid

By Ann Crotty

Ten days after receiving Investec's proposals to acquire control of Board Of Executors holding company, Mercury Trust, the BoE has issued a statement to shareholders urging them not to accept the Investec offer and agreeing to underpin Investec's R27,50 with a similar cash offer.

In a statement issued yesterday, the BoE pointed out that its offer to Mercury shareholders in April of four BoE shares and 650c in cash for each Mercury share, equates to R27,50 at the current BoE share price.

"BoE will underpin the offer so that Mercury shareholders do not receive less than this in cash, if they so wish."

In recent trading, the BoE share price has moved up to 520c in fairly thin volumes of trade.

At this level four BoE shares and 650c cash is equal to R27,30 — just 20c short of the Investec offer.

The April offer included two other options — Mercury shareholders could also chose between three BoE shares and R10,50 cash and; a pure cash offer of R22,50.

The BoE counterbid, with its offer to underpin the current 520c share price, accepts the possibility that the current share price may not be sustainable in reasonably heavy trading. Most important is that it provides the Mercury shareholders — who are reported to be very loyal to BoE's management team — the opportunity to sell to BoE without suffering any loss.

Cape sources indicate that a consortium of Cape businesses may be prepared to help fund the BoE's cash offer, if such funding is needed.

In yesterday's statement the BoE advised Mercury shareholders not to accept the Investec offer and pointed out that acceptance is irrevocable even if an improved alternative offer is made by a third party.

It added that: "Based on separately sourced opinions from two senior counsels, a professor of law and its own attorneys, Investec's allegation that BoE-owned shares in Mercury do not carry voting rights in the matter is rejected."

To be successful, Investec's offer requires the support of more than 50 percent of the voting rights exercisable at a general meeting of Mercury shareholders. According to BoE its present holding of 41,8 percent of Mercury shares together with 9,6 percent held by other shareholders who have already formally undertaken to reject the Investec offer, means that the Investec offer will not succeed."

BoE says that acceptance of its share and cash offer will allow existing Mercury shareholders to remain invested in the BoE/Mercury group and to benefit from the opportunities that lie ahead.

The statement adds that "a comprehensive survey amongst Mercury shareholders reveals that most wish to retain an interest in the BoE/Mercury group."

Investec's chairman Bas Kardol earlier said there should be benefits from a merger between the two medium-size businesses.

Investec had a general banking license, which BoE did not have and he believed, given their combined agency books and merchant banking facilities and Investec's mutual fund, this leverege "could prove very profitable in the future."

Suregro sure to grow after rights offer

EDWARD WEST

FAST-growing Suregro intends to raise R6,147m through a rights offer on September 29 to finance further expansion.

This will be achieved through the listing of 10 246 236 convertible debentures at 60c each on the basis of 35 convertibles for every 100 ordinaries held on September 22, says Suregro's rights offer announcement.

The debentures will be convertible on a two for one basis from 1994-98. Interest is capped at 19% to be paid biannually. In the past five years, turnover has grown eight times and taxed profits 12,7 times.

At the group's year end in March, the trucking, truck parts, materials handling and transport group increased attributable income by 89% to R3,9m when compared with the previous year. Turnover increased 99% to R40,7m.

Increased profitablity in all divisions and contributions from offshore subsidiaries contributed to the companies growth.

Earnings growth of not less than a 20% increase in earnings a share is anticipated during this financial year.

58

New housing shows signs of reversal

B Day 20/9/87

(58)

THE downturn in demand for new housing is showing signs of reversal, says Sage Schachat group MD Rob Crockett.

Sage Schachat, which is active across the full spectrum of housing in the white and black markets, achieved unit sales of 150 in August, 50% above the average sales level in the first half of the year.

"We believe the recent sales trend is sustainable, at least in the medium term," says Crockett.

"There is increasing activity and interest in the black housing sector from major corporations on behalf of their employees. This is evident in the demand for land in the Tembisa area, where our group has acquired substantial holdings which will see the development of over 7 000 units.

"There is also scope for development of free settlement areas, and an emerging growth potential in the group housing market."

Experts advise bond holders to sit tight

Cape Times 26/9/89

By CHRIS BATEMAN

HARD-PRESSED bond holders can look forward to a 1% drop in interest rates from about March next year, with the market holding stable till then, according to several bank and building society executives approached yesterday.

The executives advised struggling home owners to "sit tight", warning of the hidden costs of acquiring a cheaper home and of the burgeoning costs of building a new one.

They also urged prospective or current home owners to "come absolutely clean" when applying for a loan, to prevent future financial embarrassment.

Their advice comes as the estimated arrears in national housing bond repayment tops R1,5 billion, the highest in the country's history.

According to Trust Bank regional business development manager Mr Kevin Adendorff, house prices are soaring as demand outstrips supply.

He said the price of an average southern suburb three-bedroomed house had rocketed from R180 000 to R230 000 over the past six months.

Mr Adendorff predicted that by 1991 the bond interest rate could drop to 17%, saving a borrower of R80 000 about R180 a month on present repayments. This is compared to a meteoric rise from 12,5% to 20% in three years.

Mr Bob Tucker, SA Perm managing director, strongly advised home owners to "do all you can to hold on to your property".

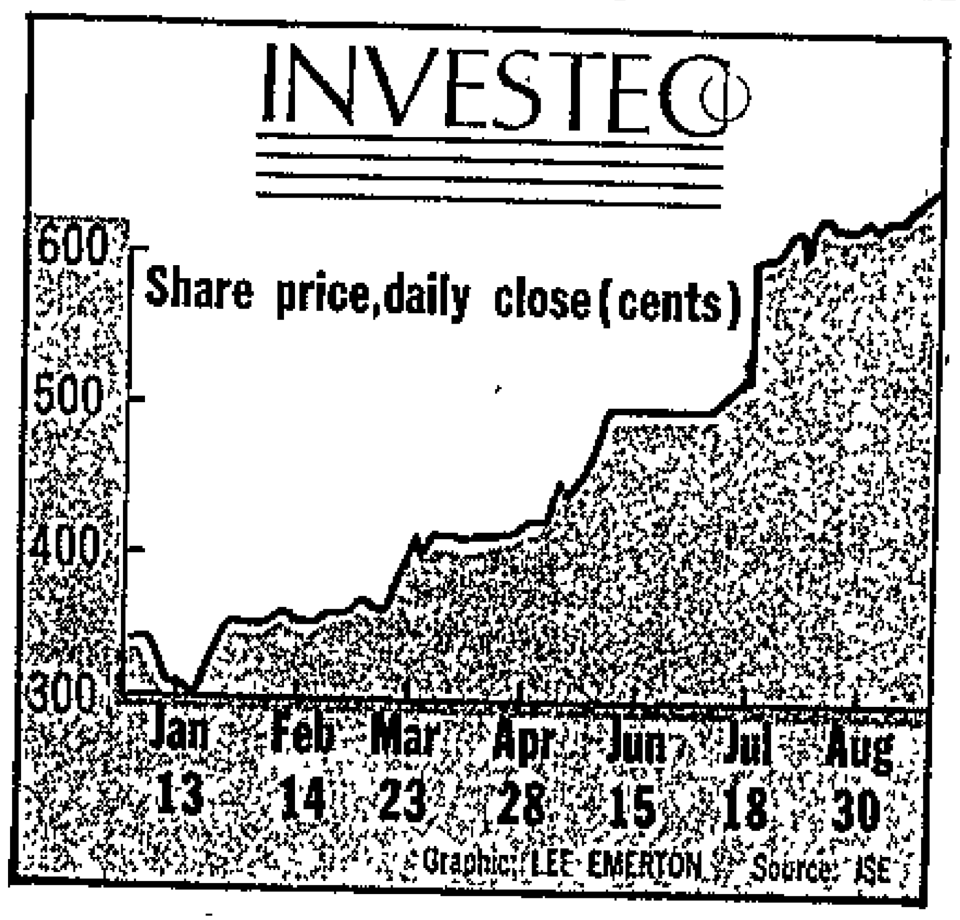
Kardol seeks talks with BOE

58

ROBERT GREIG

INVESTEC wants to talk "round a table" with BOE management, says Investec chairman, Bas Kardol.

"This has always been our first prize," Kardol said yesterday in a further response to issues raised by BOE in Tuesday's open letter to Mercury shareholders.



Kardol said Investec would fight "as long as fighting serves the interests of our shareholders". These would be reviewed step-by-step, he said.

The letter expressed BOE's intention to match Investec's 2 750c offer with cash and shares, thus effectively upping BOE's initial 2 250c offer made on August 9.

Kardol replied to BOE with both tough and conciliatory talk.

He asserted: "The only offer to Mercury shareholders on the table at this stage is our's", saying that BOE's letter simply expressed an intention to make an offer. Mercury directors have until September 22 to reply formally to Investec's offer of 2 750c. B/Day 20/9/89

Referring to the previous BOE communication to Mercury shareholders, made on August 9, Kardol said he could not easily

☐ To Page 2

BOE talks? B/Day 20/9/89.

(58)

☐ From Page 1

understand how BOE could describe its offer then of 2 250c as "fair and reasonable" and follow it with the expression of intent to offer an amount of R5 higher.

Kardol also disputed BOE's warning in Monday's open letter that acceptance of Investec's offer by Mercury shareholders would be "irrevocable" as "misleading" and "untrue". "It is open to Mercury shareholders to accept a higher offer made by Investec or any other party."

He added that Investec had contacted "about 700 Mercury shareholders in the past three or four days.

Finally, Kardol questioned the recent rise of BOE's share price to 525c.

"For BOE to use this as an indication of the current value of BOE cuts no ice. The share has moved upward on no volumes to speak of. At the moment, BOE has the highest rating in the sector."

☐ Investec Bank closed yesterday up 10c at 650c on five deals representings trading volumes 7% over average monthly volumes. Banking analysts believed the upward movement was, "macho stuff" related to takeover activity, like BOE's.

● See Page 8

B/Day 20/9/89

58

BOE's MD launches his first missile

LESLEY LAMBERT

CAPE TOWN — Board of Executors MD Bill McAdam has emerged from the sanctuary of his boardroom, rolled up his sleeves and launched his first missile in the "Battle for the Board".

He declared war on Investec at an icy meeting with the bank's executive chairman, Bas Kardol, the day after its surprise move at 4.30pm two Friday's ago, to take control of BOE via Mercury Trust's minority shareholders.

But, obviously concerned by Kardol's public claims that the Board did not have the vital voting rights on a large portion of its 41,8% holding in Mercury, McAdam, a former Western Province cricket captain, sought refuge in his boardroom with his team of directors and legal advisers.

On Monday, renewed by his legal team's interpretation and emboldened by "overwhelming" support from investors and institutional friends, McAdam entered the fray.

His first move, in what appears to be a carefully planned strategy, was to issue a strongly worded statement urging Mercury Trust shareholders not to accept Investec's offer and promising to match the offer by underpinning an earlier BOE offer with cash.

Yesterday, confirming that the gloves were well and truly off, he suggested that Investec had broken a gentleman's agreement to call off merger talks between the two companies earlier this year by returning to make a "hostile" bid for BOE.

In response to claims by Investec that BOE's rejection was based on Cape snobbishness and emotion rather than commercial logic, McAdam disclosed that the BOE had rejected earlier overtures by Investec to merge BOE with Metboard and take control of the merged operation because it was concerned about the cultural conflicts that could arise from such a merger.

"Our clients do not want to buy caravans on hire purchase. They have got money and they want security. That's not snobbishness, it's just a pragmatic understanding of the differences in our business," he said in an interview yesterday.

Assuming that the Board does manage to clear the legal hurdle — at this stage there is no certainty that it will do so at all or without a protracted court battle — McAdam believes BOE's year-end results, due out soon, will justify shareholders' support.

As a result of their confidence in the results, McAdam says the company is under pressure to get them out before its offer closes on October 11. In any event, he says shareholders will soon be issued with another statement which will give them a sneak preview of the results and provide more good reasons for them to stay with a growing BOE rather than take Investec's money.

But it is clearly with some difficulty that McAdam maintains the kind of bravado which his staff and the marketplace require of him. He talks frankly of the cost to the Board of a legal battle which his advisers have warned him could extend beyond two years if appeals are made.

"Already, we have had people we were going to make major presentations to, putting us on hold until the battle is resolved because they do not want to enter into a relationship and allow us to manage their business if there is a chance we will fall into hands they are not happy with."

There is also the more obvious cost of having to match Investec's offer which, given Kardol's apparent tenacity, may go far higher than the current R27,50. BOE has placed no ceiling on its promises to match Investec's offer.

McAdam says the company has cash and support and will continue to match Investec "within reason" He is unwilling to define "within reason" without knowing the limits to which Investec is prepared, can afford, or ultimately, is allowed by its shareholders to go.

Whatever the outcome, it appears the battle will be a long, and possibly messy one and neither party will escape unscathed.

Meiring frank in

R35m more than bid?

Cape Times 21/9/89

Investec's 'bill' mounts on JSE rules

By BRUCE WILLAN

THE possible takeover of Mercury Trust by Investec could cost Investec some R35m more than the R52m being bid for the company.

Experts believe that if the 10-year-old Investec is successful in its takeover bid for Mercury it will have to comply with JSE rules and buy out the minority shareholders of 151-year-old The Board of Executors (BOE) — at a cost of some R35m.

Questioned about this possibility, Investec CE Bas Kardol said in an interview yesterday that Investec was well aware of the rules of the JSE, and has complied and will continue to comply with them through-out.

However, he was not able to say how the finance would be raised but indicated there were several options open to the company to raise the necessary funds.

Some of the options open to Investec are to have a rights issue, borrow the money or have a placement of debentures.

Whatever route is taken Kardol, is confident that Investec would raise the funds if needed.

In spite of the size of the deal, the JSE has, at this stage, waived its right in terms of its own rules to call for a general meeting of Investec shareholders to ratify the takeover should it succeed.

President of the JSE, Tony Norton said yesterday that in this case, the outcome of any voting in such a meeting is already known and that calling for a general meeting would be purely academic as Investec's holding company, Investec Holdings, has already undertaken to support the takeover.

Investec Holdings owns some 75% of the shares in Investec.

It appears that the approval of minorities will not be necessary and has not been taken into account.

However, it is still not clear what Investec's intention is should the takeover succeed.

Rumours have it that Investec's target is BOE and possibly Fidelity Bank, and that it has no interest in the non-banking interests of the Mercury Group.

Furthermore, it is rumoured that Investec plans to strip these non-banking assets from the group in an effort to reduce the cost of the takeover, should the result be in its favour.

But Kardol says that "detailed planning has not yet been considered" and that this is one of the motivations for further talks with BOE.

However Bill McAdam, CE of BOE, said that while talks were held in March this year, the position is very clear and there is nothing further to talk about.

It is also understood from reliable sources that legal counsel are investigating any breach of JSE rules which may have occurred in regard to the takeover.

Whatever the outcome of this seemingly hostile takeover, it is clear that the minority shareholders of both Investec and the broader Mercury group have not been considered.

In a R30m deal . . .

Finansbank gets control of Furngro

Cape Times 22/9/81

(58)

By BRUCE WILLAN

FOLLOWING rumours in the marketplace yesterday, Ivan Hammerschlag, CE of the rapidly expanding Furniture Fair Group (Furngro) yesterday confirmed that control of the group has been sold to Finansbank for R30m.

The deal which was only concluded late yesterday afternoon could amount to R50m, should minorities of Furngro and its operating subsidiary Furniture Fair (Furnfair) accept the standby offer of 180c a share made by Finansbank.

Some 17m shares changed hands at 180c between the two parties in a deal which Hammerschlag described as a surprise move.

He added that the deal was accepted on sound financial decisions and had nothing to do with rumours of the family emigrating.

"It was a strategic decision taken for the sake of our families and one which gives us an opportunity to diversify our risks," he said.

However, Finansbank has requested both Ivan Hammerschlag and his brother Jeff to remain in their respective positions of CE and financial director till the end of the year.

Ivan Hammerschlag said that both he and his brother would then make a decision about their future.

The deal became apparent on the Johannesburg Stock Exchange during afternoon trade yesterday when a special bargain was struck at 180c in Furngro.

Prior to this, Furngro shares traded at 205c with minimal volume on September 15. They closed at 180c (sellers) yesterday.

The operating subsidiary, Furnfair's share price closed at 190c (sellers) with the last trade at 200c.

In the five years since the Hammerschlags started the burgeoning furniture retail business, the Furngro empire has grown from the one store in Woodstock opened in April 1984, to 24 stores at present.

The group acquired, in a series of deals, both Harmony and Montana Furnishers and then proceeded to open its own specialist store, TV Time.

The group has recorded phenomenal growth over the past few years and with the use of assessed tax losses and a growing debtors book has never had to pay tax or found it neccessary to make provision for deferred taxation.

Experts believe that the group would have to continue to grow at a substantial rate to keep the profits up as well as meaningful returns to shareholders.

However, it is also believed that in the future the debtors book might not be able to keep up the necessary growth due to the slowdown in the economy and the group would become liable for tax.

This could in due course negatively affect earnings attributable to shareholders.

 (58) Fmail 22/9/89

By any other name

Banks' latest BA9 quarterly returns to the Reserve Bank show an increase of 64% in First National Bank (FNB)'s deposits withdrawable by cheque. But this is not a gain in cheque accounts, but a reclassification, says financial manager Rob Devereux.

"It is part of a cash management system for bluechip companies. Reclassification is simply to ease comparison of this information with that of other institutions and help the Bank's economics division in determining the trend of creditor cheque accounts." Interest rates on reclassified funds will stay at about the 15% paid on call money. (Current account returns range from 2%-3%.).

The new classification reverses a decision taken early in 1987, when "credit balances on cash management were excluded from amounts reported as withdrawable by cheque." Market speculation is that the original decision was made in the face of technological teething problems. Having overcome these, FNB can handle the accounts in the same way as its major competitors.

The drop in current accounts on the original reclassification was incorrectly interpreted by *Beeld* as a vote of no confidence in then-MD Chris Ball, whose financing of a controversial advertisement led to the appointment of the Munnik inquiry by then-State President P W Botha. On May 28, *Beeld* reported: "Deposits declined by 40%

(58) Fmail 22/9/89

after the debacle." It failed however to notice that the R1,3bn drop in cheque accounts was largely compensated for by increases in other categories of deposit. ■

Safety steps fail to curb thefts

(58)

Sowetan 22/9/89.

STRINGENT security measures introduced by the SA Perm to curb the unlawful withdrawal of thousands of rands from their clients accounts, seem to be ineffective.

The new scheme was introduced last month.

Perm is now insisting that before any withdrawals are made customers should produce their identity documents. If the building society suspects that the withdrawal is unlawful, the signature of the account holder is compared with that of the person withdrawing the money before any money is discharged.

But one of their clients, Mr Patrick Wells of Geluksdal near Brakpan, claims that R1500 was unlawfully withdrawn from his savings account book at Perm's Brakpan branch last month.

Complaint

He said R1000 was withdrawn on August 30 and another withdrawal of R500 was made the following day.

A spokesman for the building society said she had no knowledge of Wells' allegations. She said they would only investigate the matter after a formal complaint had been lodged with his branch in Springs.

Wells said he had sent his wife, Pascaline, to deposit R980 in Brakpan on August 30. "My wife only realised when she arrived home in the afternoon that my savings book had been stolen because it was missing from her handbag," he said.

Wells has reported the theft to the Brakpan police, who are investigating. A police spokesman said no arrest had been made.

Hold

Wells said he contacted his branch the following day and informed them of the theft, and that they should put a hold on his account.

He claims the building society assured him that they would do so and that he could come and collect a new book. He also said Perm had promised to cancel his old account number and provide him with a new one to prevent theft.

"I am suprised that my money was withdrawn from my account without my permission despite the assurance given by the bank that they have introduced stringent security measures to safeguard our monies," said Wells.

(58) Finmail 22/9/89.

BANKING

Big is no longer beautiful

After a period of rapid and aggressive growth, First National Bank (FNB) is curtailing its expansion of assets. This emerges from the latest BA9 quarterly returns submitted to the Reserve Bank by the nine major bank and four major building society groups. After growing 17,6% to R34,1bn between end-June 1988 and end-March 1989, total assets shrank 1,9% to R33,5bn in the next quarter. This reduced growth in the year-to-June to 15,3%, substantially down from the 42,7% in the previous June-to-June.

This cut market share from 23,09% in June 1988 to 22,65% in March and 21,55% in June and allowed the closest rival, Standard, to increase market share from 18,2% to 18,6% and 19,8% in the same periods. Standard's assets are now R30,7bn.

However, FNB bank financial manager Rob Devereux points out the "figures don't appear to eliminate intra-group transactions. If these are taken into account, all the totals are lower. More important, by our analysis, there has been no fall in FNB's assets in the second quarter. They rose by 0,4%."

There appear to be four reasons for FNB's reduced drive for assets.

After several sets of disappointing financial results (largely due to ratio of revenue to operating costs) and following the appointment of Barry Swart as MD last year, asset growth is no longer top priority. Says senior GM finance Eddie Cade: "There has been a change in emphasis. We are now containing growth at economic levels. If you over-use pricing as a weapon, it will dilute earnings.

"Moreover, it is a truism that dilution of capital via excessive balance sheet expansion further diminishes the return on assets, simply because of the 'endowment factor'; capital is a comparatively 'cheap' source of finance. True, it has to be serviced at dividend level, but at the pre-tax and pre-allocation level, capital is interest-free funding.

"This is a reciprocal argument involving concepts of performance and balance; balance is what banking is all about."

With capital adequacy in mind, therefore, the bank is curbing growth to allow capital requirements to catch up.

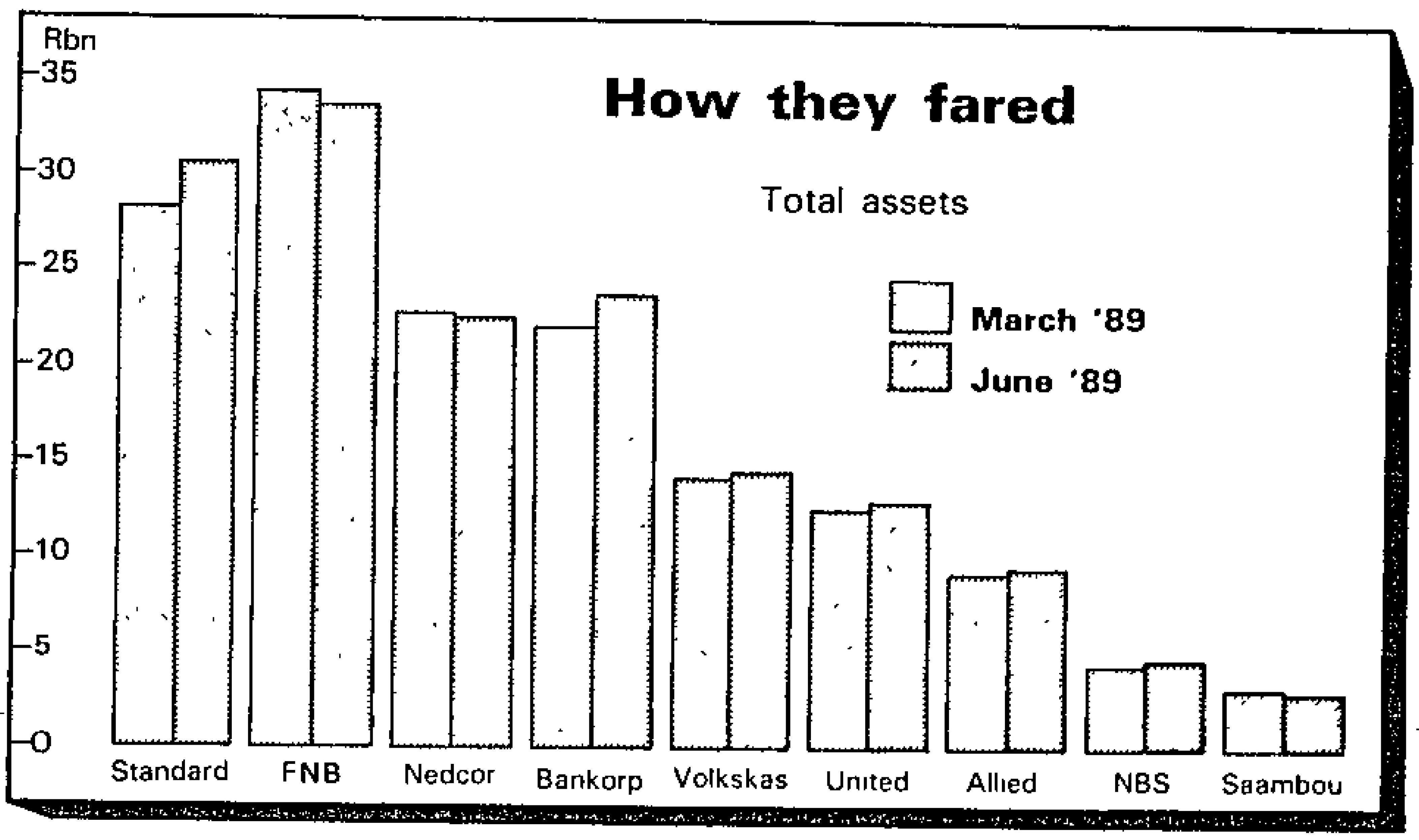
Which raises the second reason for slowing growth: a phasing-in of more stringent statutory capital requirements, which has forced all bank groups to keep a careful eye on the relationship between capital and reserves on the one hand, and size and risk profile of assets on the other.

"When you grow more than 15%-20% a year for some years, it is extremely difficult for capital to keep pace," says Cade.

A third reason is the change in the economic cycle which has made cost of funding, rather than volume of loans, a main concern for banks, especially when official policy has prevented institutions from keeping lending rates market-related

A fourth factor is the switch in emphasis, internationally, from assets as a measure of success to capital-asset ratios. In a recent analysis of the world's top 1 000 banks, *The Banker* ranked First National No 774 while Standard Bank group was No 482

So, all in all, quality rather than quantity has become the key to successful growth. ■



ENDOWMENT POLICIES

Battle stations

Last week's meeting between Norwich Life and Inland Revenue legal draftsman Ian Meiklejohn (*FM*, September 22) didn't resolve differences over the tax status of Norwich's latest endowment product, Protax.

Protax is aimed at professional people in particular to combine tax-free capital gains from an endowment policy complying with the troublesome Sixth Schedule of the Income Tax Act with short-term finance facilities to enable them to match cash flow to provisional tax payments.

When Meiklejohn expressed concern that policies along these lines might not comply with the Schedule, Norwich sought a ruling. The upshot, says Norwich, was that both parties agreed the ideal would be an "industry-wide" agreement to regulate endowment policy contracts in relation to loan facilities to remove any room for argument that life offices are competing with banks in offering short-term financing facilities.

Resolving this sensitive issue will need delicate and possibly protracted negotiations. In the past, the threat arose that severe restrictions might be imposed on policy loans to combat what was regarded — not only by Revenue but also the Reserve Bank — as life assurers' intrusion into short-term financial activities. The threat was averted by a commitment by the Life Offices Association (LOA) not to market endowments with a term of under five years.

(An endowment with a term of less than 10 years will not meet the exacting requirements for a "standard" policy, so any gains are taxable. Short-term endowments, nevertheless, have powerful attractions when high inflation is offset by more than commensurate gains on equity portfolios.)

What if life assurers and Revenue do not resolve their differences? It would be an unacceptable intrusion on the marketplace to prohibit loans on any class of life policy. After all, a major value of a life policy (including endowment-type policies) is that it may be pledged as security for a loan.

Not every advance against the security of a policy is a means of drawing tax-free cash flow pending an eventual tax-free capital gain on a standard endowment policy.

And even if life offices are denied the right to advance cash to a policyholder in terms of the contract, why should restrictions be imposed on a bank whose business it is to make advances of this sort?

And what about so-called "back-to-back" contracts? The term describes an ingenious arrangement to pay a lump sum to a life office, which applies the money to a "voluntary purchase annuity." Part of the annuity is paid regularly as income (which will bear some tax) while the balance legitimately funds a standard endowment complying with the Sixth Schedule. The two contracts, however, are not linked in any way. So far, these have stood up, but it could be argued that they, too, subvert the Sixth Schedule.

Regrettably, unless the LOA and Revenue reach another gentlemen's agreement, Rev-

(58)

Fmail 22/9/89

LIFE RIGHTS

Down to brass tacks

The Harmful Business Practices Committee has been drawn into the fray concerning the sale of retirement homes under the controversial life rights system.

Committee chairman Professor Louise Tager has warned retirement village developers, particularly those who specialise in life rights, to ensure that they provide the service they claim — accommodation for the elderly for life.

According to Tager, many elderly people who believe they are securing a home for their twilight years could in reality simply be placing their hard-earned life savings on the line

The fact is that life rights mean nothing. Invariably, says Tager, the loans used to acquire these life right units are unsecured, as is the accommodation.

Life rights are generally sold on the basis of an interest-free loan by the occupier to the developer. It is usually, but not always, repayable to the estate of the occupier on termination of the life right — provided a new occupier is found for the unit. The termination date is the date when the signatory or spouse dies, whichever is the latter, or if the agreement is cancelled for other reasons.

Tager says she believes in the free enterprise system. A developer has a right to deal with his property according to his own judgment. And an individual has the right to invest in any manner he chooses. At the same time a buyer should be given a fair description of what he is being sold. "I worry about people who go into these things under the illusion that they have ownership for life or some form of secured rights. As long as they know what they are getting, I don't mind. I don't want a law which prohibits the sale of life rights.

"The impact of a business practice on the elderly merits special consideration since they generally don't have the capacity to accumulate savings anew. In the case of life rights it must be stressed that substantial unsecured loans are made to the developer in return for unsecured rights."

Her committee has investigated one retirement village and is in the process of scrutinising a second. The first was a life rights scheme. The second is a share block scheme.

"Our first inquiry covered one specific project, but most holders of life rights will be in a similar position," says Tager.

The committee found the privileges of a life rights holder are tenuous. He is entitled to no more than a contractual right of occupation for the duration of his life; he has only a personal right against the owner; he has no

Tager ... concern for the elderly

real right in the property and his occupational right is not protected against the world.

The occupier must make a substantial, interest free, loan, in advance, to the owner of a housing scheme in order to obtain a life right; while under contract, he cannot have access to this money because it is tied up in the loan; he has no control over the loan — nor does he have any security for it.

Furthermore, the occupier is at risk because the developer is free to deal with the property at his discretion. Should the developer mortgage the property the occupier would be vulnerable to the possibility of foreclosure; should the developer sell the property, the occupier would not have the rights even of a lessee against the new owner.

Because of this the committee found that the term life rights misrepresented the nature of the right acquired and was therefore misleading. "The term implies that the holder has a secured occupational right for his life. If the full implications of the acquisition of unsecured life rights were appreciated, it is unlikely that people would enter into disadvantageous contracts of this nature."

However, the committee recommends that the disadvantage of the unsecured loans could be diminished if the right of occupation were made into a secured right. If this could be done, the fact that the loan was unsecured would not be seriously prejudicial since the loan would be repayable only when the unit was resold.

The committee stresses there could still be serious prejudice to occupiers if the developer's sole asset were a property that was mortgaged. The developer's sole source of income to service the mortgage would be from the sale of unsold units and from the profits on the resale of units. When this income was insufficient the company might have a cash flow problem and the occupiers would be at the mercy of the mortgagee or other creditors.

The only way around this, Tager says, is some form of registered rights such as usufructuary rights, or the establishment of a sectional title register.

Hendrik Bester, of Sanlam Properties, which offers retirement villages on a life rights basis, stresses that any rights are meaningless unless the organisation has limitless borrowing power. "What we do is sign a lease with all tenants which provides the security of tenure. In the event of a retirement village changing ownership the tenants would still have a legal right of occupation.

"The action taken by Sapoa with timeshare is possibly the answer to the whole problem, whereby a stamp of approval is given only to schemes which meet certain criteria I think something along those lines is probably in the pipeline from Sapoa."

At the end of the day, whatever Sapoa, Sanlam or the Harmful Business Practices Committee do, the final obligation rests with the individual to ensure that he or she knows exactly what the agreement being signed entails. ■

Government mum about R10,5-billion nest egg

D/C ARGUS 23/9/89 58

From CLAIRE GEBHARDT

JOHANNESBURG. — Government is keeping mum about what it will do with the record R10,5-billion nest egg it has accumulated.

But economists this week strongly urged that soaring revenue receipts be used to offset the R12-billion losses which the Reserve Bank has accumulated on its forward cover book.

These losses were in the limelight once more this week as Senbank researcher EB Nieuwoudt blamed continued high levels of imports on the cheap forward cover offered by the Reserve Bank.

The Exchequer's huge balance with the Reserve Bank is the result of bouyant revenue receipts and successful borrowing on the capital market.

Easing the government's financial position still further will be the R3,1-billion proceeds from the Iscor share offer.

Surplus funds are enough to finance government spending for two months — and this is exactly what economists fear most — that government might be tempted to spend the extra cash.

Director-General Finance, Mr Gerhard Croeser, said however that government was committed to fiscal discipline and that the very large balance would not be an encouragement to spend. He pointed out that traditionally heavy revenue receipts in August were followed by smaller returns in other months resulting in a mismatch during most of the year. Money from the Corporation for Public Deposits — in essence short term money — was included in the balance too.

"So this balance will be depleted — but it does not mean it will be reduced totally. We may, if revenue remains buoyant and we can contain our expenditure, maintain a bit of a surplus which will give an increased balance at the end of the year. But how we will utilise this has still to be discussed."

In spite of having the facilities not to borrow any further for the Exchequer account, borrowing would continue as an instrument of monetary policy when conditions in the markets were right, said Mr Croeser.

If the Exchequer does end the fiscal year with a sizeable bank balance, economists are unanimous that the extra cash must not be squandered on current expenditure.

High up on the list of optimal usage is the "repayment" of the forward cover losses incurred by the Reserve Bank on behalf of the Treasury.

United's Dr Hans Falkena is foremost amongst this lobby. He advocates immediate repayment "to destroy a furthur injection into the economy."

Senbank's Dr Johann du Pisanie agrees that government must use surplus funds to repay some of its debt or cover the forward exchange losses.

This will force the authorities to borrow to finance additional current expenditure, he says.

"Only in this way can it be brought home to the Minister, and the public, that they are spending from borrowed money and not from surplus."

"Reduction of government debt, to which the forward losses must be added, will reduce annual interest payments as well as reduce the need to borrow in future."

Chief economist at Frankel Kruger Vinderine, Mike Brown, believes the government could look at four options.

"To reduce the deficit before borrowing to 3 percent of GDP, to finance another increase in civil servants' wages and salaries next year, or to repay the forward exchange losses."

Dr Azar Jammine, director of Econometrix, agrees that government may decide to keep the cash and earn interest on it in the interim.

"This way they will be able to use it for expenditure over time without having to raise taxes.

"In a year's time when the economy has slowed down considerably and revenue from taxation is no longer as readily forthcoming, there will be increased pressure to spend and civil servants will be agitating for an increase."

Southern's Mike Daly believes government should make a repayment on the forward cover book of perhaps R2-billion.

Rate war costs insurers R500m

S/Times 24/9/89 (58)

By Robyn Chalmers

SOME short-term insurers are heading for disaster because of a rate war which is estimated to have cost companies more than R500-million, says Quest Insurance chairman Denzil Curgenven.

Mr Curgenven issued the warning at the second Quest short-term insurance conference in Sandton this week.

He said the previous rate war, which was not as intense as the present one, devastated the market and reduced its financial strength by more than R500-million.

Loss

The war reduced the underwriting profits of three companies which have so far reported interim results.

In the six months to June, SA Eagle and Commercial Union reported 71% and 20% slides respectively in underwriting surpluses. Fedgen's 1988 underwriting profit of R1,3-million was converted into a R1,2-million loss.

Mr Curgenven said the real effect of the rate war would be felt only in the 1990s because results so far had been cushioned by excellent investment returns.

Concern about the rate war has been expressed by the Registrar of Financial Institutions Theo van Wyk in a letter to all SA insurers.

The SA Insurance Association held a special liaison committee meeting in August to discuss the problem.

Portfolio

Digressing from the rate war, Mr Curgenven said the insurance market's portfolio had changed to such an extent it was in danger of becoming a personal line and small-business market.

"Of gross premium income in 1978, fire represented 34,9%, motor 31,7% and miscellaneous 19,7%. By 1988, fire represented 24,4%, motor 43,1% and miscellaneous 24,8%.

"If this trend continues, by 1998 we could expect fire to represent 10%, motor 49% and miscellaneous 28%. If this is anywhere accurate then it is back to the drawing boards with a vengeance."

Mr Van Wyk told the conference SA was undergoing rapid change, and several worries had emerged because of it.

One was the capacity of the market. Inflation, increased solvency margins and the contingency reserve could place some companies under pressure regarding their capital base.

Entrants to the market could put strain on existing insurers by introducing more competition, but it was important in order for SA as a whole to grow.

PriceForbes Federale Volkskas (PFV) managing director Mike Hofmeyer said brokers faced difficulties.

"We must contend with softer insurance markets, reduced spending by consumers, the expense of attracting scarce human resources and escalating costs of technology.

"In addition, self-insurance is becoming a big issue in SA. Financial insitutions, banks and building societies will become competitors and the threat of direct marketing will increase."

Mercentile & General general manager Dennis Bridge said that in 1988, SA's reinsurers reported underwriting profits for the first time in many years. Four of the seven reinsurers produced profits.

Non-life net underwriting results for all reinsurers in 1987 showed a loss of R10,7-million. Last year, they managed to turn this into a profit of R7,9-million. Munich Re came out tops with an underwriting profit of R7,8-million, followed by M&G at R2,3-million.

Gerling and Cologne also produced underwriting profits last year, and Central, Hollandia and Swiss reported losses.

Southgo

S/Times 24/9/89

□ From Page 1

nority takeout of Solid Doors and last month's contentious R26-million restructure of Unidev.

Less than a year ago, they led an unsuccessful bid to grab control of Garlicks from John Garlick and his fellow executives. They are often in the thick of controversy and litigation.

Former Wit Nigel chairman Peter George and other minority shareholders plan an action to force an offer equal to the price paid by JMFC for Wit Nigel.

A Rubenstein-Lowenthal speciality is rescuing companies in trouble, often by takeover and negotiation with creditors. A colleague calls them the "rag and bone men of the JSE".

Having been advisers to Punch Line since its inception, they brought it to the JSE — and then with consummate timing, sold their stake to Bill Venter's Fintech before the market crashed. Later, problems emerged in Punch Line.

In the great listing boom of 1986, the duo brought dozens of firms to the JSE lists. But unlike some brokers, they avoided being caught with piles of stock when the market crashed in 1987. They have also been the cash-shell kings of the JSE and have been active in property.

Mr Rubenstein has been in law all his working life. After obtaining a BA majoring in law, Mr Lowenthal took a spade and a pick and started looking for diamonds on the Vaal River. Together with the legendary Otto Thaning, he discovered diamonds in the Orange River.

Through Broadacres, he pioneered diamond mining from the surf off Namaqualand. He has maintained an interest in diamonds ever since. He became a stockbroker in 1970.

"We have made some money," says Mr Lowenthal, "and we've had a lot of fun, but we are not Croesus-rich — yet."

Soda-ash deal

OVCON and LTA have won a 15,1-million-pula contract for the construction of buildings for Botswana's P800-million soda-ash plant at Sua Pan, 180km north-west of Francistown.

There is also future provision for the construction of a

De Klerk for FM meeting

58

By Robyn Chalmers

PRESIDENT De Klerk will be the keynote speaker at the Financial Mail's annual investment conference at the Carlton Hotel on October 26 and 27.

President De Klerk will consider the question — Public and private sectors — friends or foes?

Reserve Bank Governor Chris Stals will look at SA monetary policy and the balance of payments. Dr Stals will be following in the footsteps of former Governor Gerhard de Kock, whose speech at the conference was regarded as a highlight.

Thatcherism

The FM has recruited several international speakers. Rimmer de Vries, senior vice-president of Morgan Guaranty Trust in New York, will consider the US outlook in a world of rapid change.

The lessons of Thatcherism will be looked at by Patrick Minford, professor of applied economics at the University of Liverpool.

New York-based Rayner & Stonington president and chief executive officer Ronald Tauber will discuss the outlook for platinum.

Bankorp chairman Chris van Wyk will present his views on the outlook for the banking sector, and Johannesburg Consolidated Investments group economics consultant Ronnie Bethlehem will consider interest rates.

Iscor-Industrial Development Corporation chairman Marius de Waal will discuss the challenge of privatisation, with particular emphasis on Iscor.

Closely connected will be a talk by Highveld Steel & Vanadium chairman Leslie Boyd who will speak about steel and ferroalloys.

Architect of the Labour Relations Act Nic Wiehahn will deal with present and future scenarios in labour law and practice.

A religious look at business morality will be given by Chief Rabbi Cyril Harris.

Other speakers will include Roy & Co senior partner Ivor Jones on inflation and its effect on financial markets and London-based Kleinwort Benson Securities director Mark Wellesley-Wood on inflation versus deflation — the current fight in the gold market.

Closing remarks will be delivered by former Sunday Times editor Joel Mervis.

Unidev rights offer is 90,5% subscribed

INVESTMENT holding group Unidev's R20m rights offer was 90,5% subscribed and the remaining shares were taken up by Unicon, Unidev's new holding company. B/Day 25/9/89. (58)

Unidev MD Ronnie Stein said the main aim of the rights offer was to ensure control of the group was firmly in the hands of management and to inject equity finance into Unidev to reduce borrowings.

ZILLA EFRAT

He said the group also wanted to have capital at hand for possible acquisitions in the wake of rising interest rates and tougher trading conditions.

Before the rights offer Unidev acquired the Garlicks Consolidated (Garcon) cash shell with the intention of converting it into a pyramid holding company.

Garcon's name is now Unicon.

Computers can cut premiums — MD

B/Day 25/9/89

KAY TURVEY

INSURANCE premiums could be cut by up to 30%, if the short-term insurance sector made intelligent use of computerisation to achieve gains in productivity.

Rate cutting of this magnitude was possible without endangering profitability, if information systems were managed properly, said Johan Muller, MD of Dexdata, which specialises in insurance sector facilities and computer network management.

Speaking at the second annual short-term insurance conference in Sandton last week, Muller said companies were already promising prospects of savings through cutting out the "middle men".

Yet, these were achievable where brokers and their associated insurers made comprehensive use of computerisation by working together and sharing resources.

58

Tool

This was taking place in a "competitive arena" where 30% savings were being touted. However, in this instance margins were also being protected, Muller said.

The information based nature of insurance business meant information systems were the ideal tool to improve productivity and public perceptions of the industry's competence.

He warned that a generation ago there were more than 100 companies operating in the short–term insurance sector, but that now there were 29 and seven reinsurers. "a staggering rate of attrition", he said.

A succesion of business failures had deepened the public's poor perception of the industry's competence and many people were turning away from the sector.

Every second car on the road was uninsured either because people could not afford it or because the industry's productivity was poor.

Electronic data interchange to save waste and duplication was one way out of the low productivity trap.

Mercury warns BOE of lengthy legal battle

58

B/Day 25/9/89

ROBERT GREIG

MERCURY directors have formally turned down Investec's R27,50 offer to Mercury shareholders, warning them of a two-year legal battle ahead.

Investec executive chairman, Bas Kardol's off-the-cuff reaction to the Mercury document, received on Friday was: "It contains nothing new".

But sources, preferring not to be named, saw the Mercury battle warning as scare tactics.

"There's no reason why it should take two years to get a decision on whether Board of Executors (BoE) directors can vote their 41,8% Mercury holding," the source commented.

In their reply, Mercury directors, three of whom are also BoE directors, reject Investec claims that BoE is a Mercury subsidiary. They do so in terms of their own view; legal advice received in 1987; and advice received after Investec launched its bid on September 18.

They add: "The auditors of your company have prepared its financial statements on the basis that BoE is an associated company of Mercury and not a subsidiary."

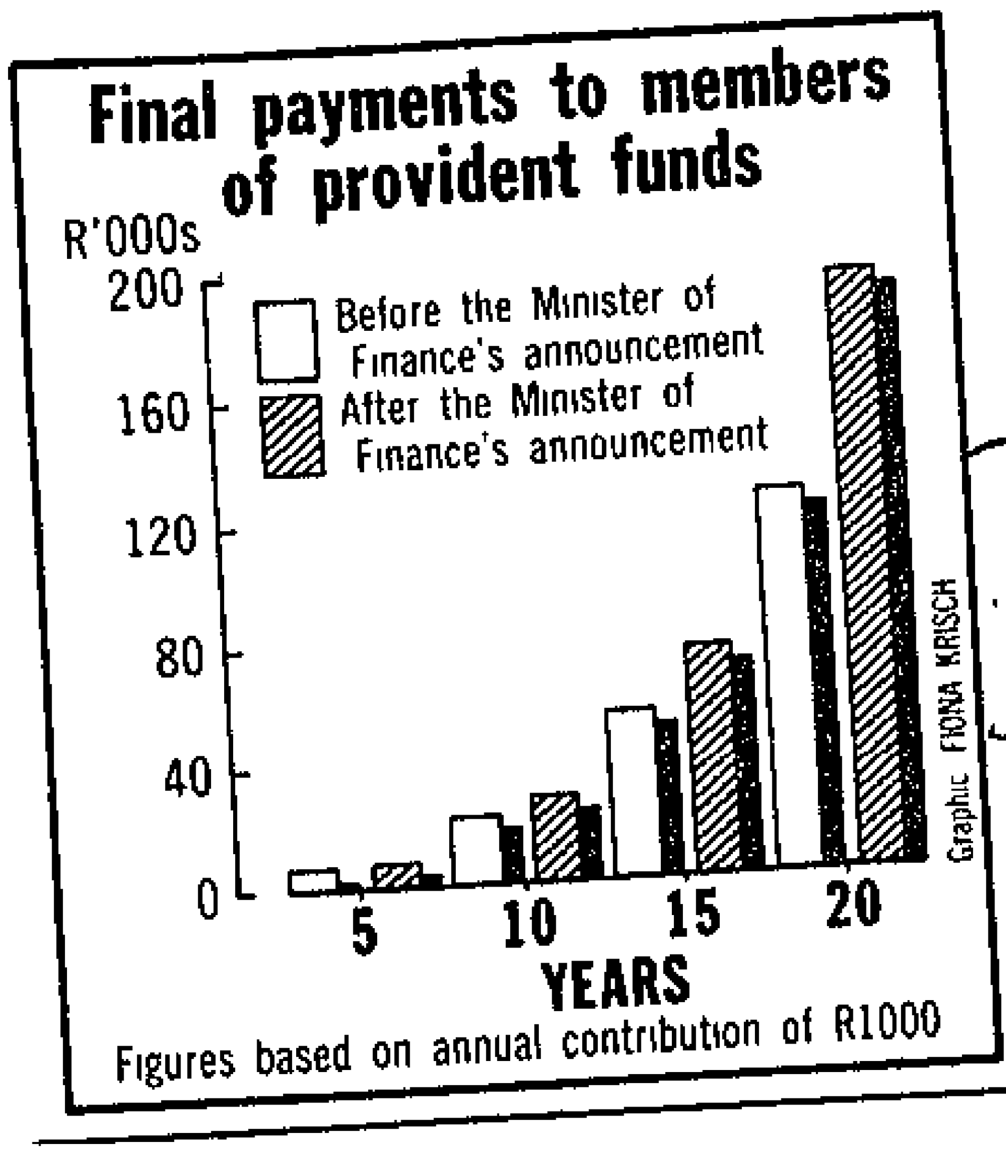
In its reply, Mercury also rejects claims that it holds 80% of BoE, saying it holds 40% of issued shares.

Investec also contends that Mercury holds a total of 80% of BoE in shares and loan stock.

Mercury directors say, too, that in the light of the BoE closing price of 540 cents per share on September 20, the BoE offer is now worth 2 810c per share.

Provident fund members to earn more

LESLEY LAMBERT



CAPE TOWN — Members of underwritten provident funds could earn an additional 54% on their final payout after 20 years as a result of the scrapping of tax on their investments.

Although last week's decision by Finance Minister Barend du Plessis to abolish tax on the investment income derived from underwritten provident funds has yet to be promulgated in Parliament, it has been made effective during the current year of assessment.

This means that beneficiaries of the funds will benefit immediately, by way of their annual bonuses.

They will also benefit in the long-term. Old Mutual says an investment of R1 000 a year into a provident fund over a 20-year period could earn as much as 54% more as a result of the abolition.

Members of funds underwritten by mutual life offices like Sanlam and Old Mutual are likely to benefit most from the move.

Most of the benefit derived by these offices will be passed straight on to them. The other equity based life offices will have to consider shareholders as well as policyholders when passing on the benefit.

The life industry has welcomed the abolition, pointing out that it will mean most to millions of lower-income workers who prefer to invest their retirement money in provident rather than pension funds.

Old Mutual's employee benefits assistant GM, Henk Beets, said that in seeking to redress the inequity which existed between the tax treatment of underwritten funds and privately managed funds, Du Plessis could have gone the route of taxing both.

The fact that he had chosen to remove tax from provident fund investments was a healthy sign for the future.

McAdam: going in to bat for victory

(58)

B /Day 25/9/87

LESLEY LAMBERT

CAPE TOWN — In corporate takeovers, as in cricket, Board of Executors MD Bill McAdam knows that strategy and a strong team are vital for success.

McAdam will be the first to admit that he and his team got off to a slow start after Investec's bid for control of their company. They were caught off guard and reminded by the Press of their legal obstacles and fiduciary responsibilities before they could as much as utter a public "boo" to Bas Kardol.

Investec continued to enjoy wide coverage as McAdam and his men beat a hasty retreat to the boardroom, leaving the marketplace a hive of speculation.

But in his first public interview, a confident McAdam vowed to fight the battle to its bitter end.

The clarity of the strategy that began to unfold last week suggests the preparation time was well spent and that McAdam's talent for boosting the morale of cricketers, as a former Western Province captain, extends to the boardroom. Colleagues and friends support the analogy, describing him as a clear-thinking forward planner who outlines the tactics for others to implement.

● McADAM

A quiet manner belies the inner confidence and self-assurance which emerge as he discusses BOE's strategy to keep Investec away from its "back door".

McAdam is 45 years old, and, like many in his talented and relatively young team of executives managers, was neither born nor brought up in Cape Town. Born in Springs, it was only after he matriculated from Grey High School in Port Elizabeth that he arrived in Cape Town to study for a BA at UCT.

Having achieved the best results for the Stock Exchange exam in 1972, McAdam gave up stockbroking to join the Board as one of former MD Neal Chapman's first appointees.

He set up the pension fund management division and was then given the responsibility for starting a money market and corporate finance division as part of an expansion programme to rejuvenate the old Board.

He took over as CE in 1981 when Chapman left to go to Southern Life, carefully selecting the team of executives to whom he delegates day-to-day operations and continuing to develop the traditional Cape business into a fully fledged, successful and independent investment house.

There is little doubt he is confident of the Board's chance of succeeding in the battle for ownership. He talks enthusiastically of its underlying strength, the commitment of support by many of its shareholders and institutional friends and the confirmation by its legal team of their initial interpretations of the contested status of its holding in Mercury Trust.

B/Day 25/9/89.

(S8)

Bond market hopes hinge on stock issues

THE bond market hopes that, this time round, the Treasury will not by-pass the market when placing the government stock issues mentioned by Finance Minister Barend du Plessis in a statement on Friday.

Serious bond market dealers feel strongly that the Treasury's constant ignoring of the market will lead either to its demise or to its deterioration into a bucket shop, trading futures, options and other betting slips.

Bond market specialists suggest that the Treasury holds periodic open tenders for government bonds of varying maturities. Competitive bidding would reduce the Treasury's costs of borrowing and could give the smaller insitutions the cpportunity to buy stock.

The market itself might form syndicates to buy parcels of stock for onward selling to the smaller would-be buyers. These syndicates could be financed by the banks warehousing stock and/or participating in the deals.

And the maturities offered could also induce trade through the market by dealers negotiating switching deals between the Public Investment Corporation and other investors. The real market must be kept alive.

FINANCE

Bank not only to blame

B/Day 25/9/89

(S8)

IN THE MONEY MARKETS

Harold Fridjhon

PUTTING all the blame on the Reserve Bank for the slow lingering coma in the money market is irrational, unfair and an excuse for a lack of enterprise among market participants.

Of course the Reserve Bank's straitjacket monetary policy is not exactly a minor factor in inducing dealing-room drowsiness. Bored dealers become discouraged having to perform the same routine exercises day after day without any rhythmic change or tempo.

Everything is predictable — the hardening of call rates at the beginning and end of each month, and the mid-month softening. Money market economists have the monthly inflow/outflow patterns of funds chartered almost as acurately as those monitored by the Reserve Bank staff.

The Reserve Bank might have taken some of the fire out of the market but it has not frozen market trading; this has been done by the market itself. Dealers and principals have resigned themselves to Bank dominance and they appear to have lost their enterprise.

It's been apparent for several weeks that the negelected market asset is the 12-month negotiable certificate of deposit (CD).

Issuers and takers quibbled around the 18% mark with both being obdurate and neither apparently doing their homework on the carrying costs, assuming that prime will probably be at least one, and possibly two, percentage points lower by this time next year. A deeper cut in rates is improbable if the Stals/Du Plessis team keeps interest rates positive.

That 18% CD rate appeared to be inviolable. But eager discount house traders negotiated a deal on Friday in which the 12-month CD breached 18%. In a secondary market trade involving about R50m the rate was 17,95% — and that could be a turning point.

The only other rate change last week was the insignifcant easing of the Treasury bill (TB) rate to 17,11% from 17,14% discount. That was market forces at work; the week before last no one apparently wanted TBs, but on Friday the tender was four-times over subscribed, so down came the rate.

SA market shows

Mercury warns of 2-year legal fight

CAPE TIMES 25/9/88

58

JOHANNESBURG. — Mercury directors have formally turned down Investec's 2 750c offer to Mercury shareholders, warning them of a two-year legal battle ahead.

Investec executive chairman Mr Bas Kardol's off-the-cuff reaction to the Mercury document, received on Friday, was "It contains nothing new".

But sources, preferring not to be named, saw the Mercury battle warning as scare tactics.

"There's no reason why it should take two years to get a decision on whether Board of Executors' (BOE) directors can vote on their 41,8% Mercury holding," a source said.

Mercury warns shareholders: "In a bidding situation, the (2 750c per Mercury share) price could still go higher and shareholders are advised to exercise caution before selling their shares."

Full Report — Page 10

Mercury battle cry

Cape Times 25/9/89 (58

Financial Staff

THE board of directors of Mercury Trust have delivered its defence document with a clear rejection of the takeover offer launched by Investec on September 18, 1989 — and have warned of a two-year legal battle ahead.

Initial reaction from Investec chief Bas Kardol was "It contains nothing new."

It is understood that a more comprehensive reaction would be forthcoming later.

In the defence document delivered late on Friday afternoon to Investec, Mercury contend that shareholders in the company have no need to sell their shares and warned shareholders to be cautious.

The document also rejects the Investec claim that BOE is 80% held by Mercury saying that it owns only 40% of the issued shares.

In the defence document the directors cautioned Mecury shareholders who do accept Investec's offer they will be losing control of their shares for at least four months even though they have not physically sold them.

The directors of Mercury (three of which are members from the BOE), are confident that Investec will not be able to receive the more than 50% acceptances required from Mercury shareholders for the takeover to be effected.

Bas Kardol: 'Nothing new'

But, in addition to trying to gain the confidence of its shareholders, Mercury has also suggested that the 2750c being offered is a fair price.

However, it has also stated that in the present situation the shareprice could go up — a possible indication that there may be a higher bid to come from Mercury or one of its subsidiaries.

Mercury acknowledge that there are buyers for its shares unconditionally at 2750c and urge shareholders to contact the company secretary before deciding to sell their shares.

It is clear from the defence document that Mercury and BOE directors as well as a syndicate of BOE executives committed Mercury to giving the syndicate the first opportunity in placing any BOE shares Mercury may want to sell.

It also committed the parties to voting its BOE shares to the extent that the BOE board will be composed of up to four nominees of Mercury and up to four of the syndicate and up to four additional non-executive directors.

While it is fair knowledge that BOE and Mercury intend to fight the Investec takeover bid, they also have the resources to do it.

While the Mercury proposal to its shareholders is a repeat of the BOE one made a few days ago it does give the opportunity for shareholders to be part of a listed company.

It is not only a business which is at stake, but also a reputation built up over the past 151 years.

Clearly the Investec offer comes at a time when it needs to expand its market.

But it is likely that while the battle for control carries on, both groups are likely to experience a slight downturn in business.

Central banks Engineering

Lending is up, but slowing

B/Day 26/9/89

HAROLD FRIDJHON

TOTAL bank lending rose by 4,8% to R112bn at the end of June 1989 from the March-end R106,9bn, but the rate of increase appears to have slowed, according to the BA9 quarterly returns analysed by First National.

During the 12 months to June 1989 bank advances leaped by 24,8%, underlining the reason for the concern of the monetary authorities and the subsequent raising of Bank rate to 17% in May from 11,5% in May 1988.

Cash lent on suspensive sales agreements appreciated by 6,2% in the quarter to R13bn, leasing transactions by 15,5% to R7,4bn and other advances by 4,3% to R82,6bn.

The biggest lender in the business was First National with R20bn, followed by Standard with R19bn, Bankorp with R17,1bn, Nedcor R16bn and Volkskas trailing with R8,5bn.

Nedcor shows the biggest percentage growth in advances, as a result of the incorporation of the Perm. Standard's advances grew by 1,6% and Bankorp's by 2,8%.

58

With the rate of growth in advances declining, a reduction in the growth rate of the banks' total assets followed, being further influenced by a changes in "other" assets, mainly deposits with banks, including no doubt the Land Bank, and the decline in the issue of Land Bank bills.

Banks' total assets showed a growth of only 3,4% in the second quarter to R144,2bn from R139,4bn. The June-on-June increase was 21,8%, indicating growth in the second half of last year, reaching into the first quarter of this year.

The funding mix in the banking sector has tilted slightly from an emphasis on short-term deposits in the March quarter (43,1%) to 40,4% at the half-year. Long term deposits, as a percentage of the borrowing mix has grown to 24% from 21,6%.

BOE asked to table a firm Mercury bid

BI Day 26/9/87 ROBERT GREIG (58)

IT WAS time the Board of Executors (BOE) put a firm offer to Mercury shareholders on the bargaining table, Investec executive chairman Bas Kardol said yesterday.

He was commenting on Mercury's rejection of Investec's offer to Mercury minorities, released on Friday.

"On August 9, they announced a proposed scheme of arrangement at a price of R22,50 which they said was 'fair and reasonable'," said Kardol. "Now, six weeks later, they have released another statement saying that Mercury directors will recommend the proposed scheme of arrangement. But nothing is on the table.

"Mercury has released figures showing that net asset value of Mercury shares the day before the BOE announcement was R26,08. The BOE intended offer was well below this."

Kardol said the BOE should by the end of July have had a fair idea of the Mercury figures.

"Yet BOE described their figures in the proposed scheme of arrangement as 'fair and reasonable'. Next, after our offer of R27,50 was made, BOE said they would offer a cash underpinning of their previous offer. This, too, they said, was 'fair and reasonable'.

"But they have still to tell shareholders the terms of the cash underpinning they talked about and to say who will underwrite it."

Kardol added Mercury shareholders were also told there were unconditional cash buyers at R27,50, but then referred to the BOE secretary.

☐ Last night, BOE MD Bill McAdam said: "It does not take a magician to work out Mercury's NAV. Any Mercury shareholder could have worked it out at any time

He added BOE would come forward with a firm offer "when we believe the time is propitious".

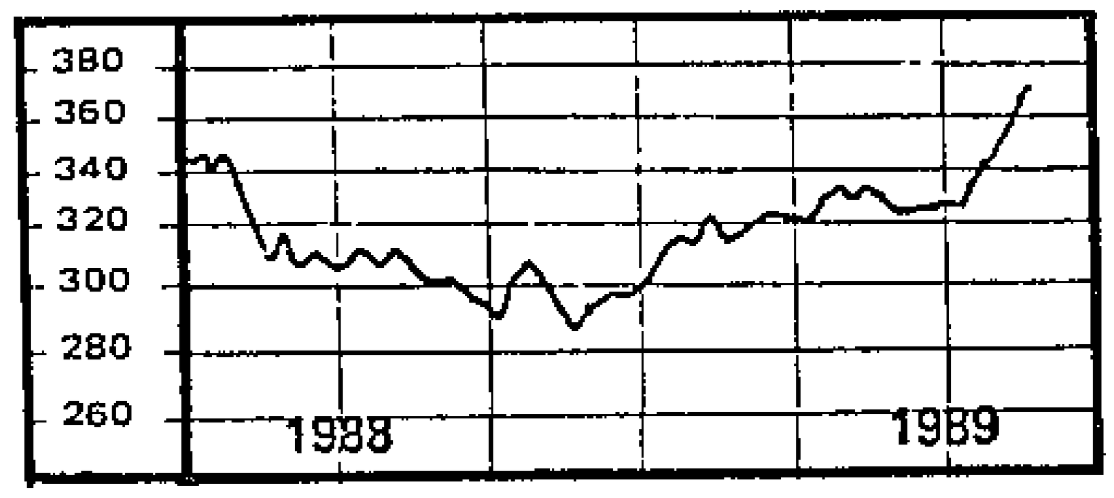
Star 26/9/89

58

The Star
Finance

Property market targeted by PIGs

By Ann Crotty



A new animal is set to join the bulls and the bears on the JSE — PIGs.

First indications are that the major initial beneficiary of PIGs (Prescribed Investment Guidelines) which is to be implemented from next week, will be the property market This factor explains why the property sector of the JSE has had such a good run in recent months.

And at this stage it looks as though the beneficial impact on general equity investment on the JSE will be far less significant than was originally thought.

When it was first announced (in this year's budget) that the regulations requiring pension funds to invest 53 percent of their assets (in terms of book value) in gilts and semi-gilts was to be abolished, analysts believed that it would provide a major boost to equity prices

The feeling then was that with abolition of the 47 percent (book value) ceiling on the combined equity and property exposure, pension funds would be able to pile into equities.

But the reality may be considerably different.

Market valuation

The new PIGs stipulate that the maximum that pension funds can commit to equities is 65 percent of their total funds The maximum exposure to property is 30 percent The combined equity and property exposure cannot exceed 85 percent.

A pension fund's commitment to gilts cannot drop below 10 percent

However as the institutional investors are now pointing out, the new guidelines are based on market valuation whereas the old requirements were based on book valuations.

Because of the much stronger performance of the equity market compared with the gilt market, prices in the former have been moving up very strongly and in the latter have been falling back. The effect has been that exposure to equities in terms of market prices is far in excess of that indicated by book value. In contrast the exposure to gilts in market prices is well below the book value.

A number of investment managers believe that over the years this trend has lead to a situation where the gilt exposure in older established funds may already be close to 10 percent in terms of market prices (although 53 percent in terms of book value).

Similarly many pension fund managers believe that on the basis of market valuation, they may already be close to the 65 percent limit

To the extent that this is the case, the next best alternative home for pension fund cash flow looks like being property as it has been a consistently stronger performer than gilts. Current exposure to this area varies between 10-15 percent so there is scope to lift this another 5-10 percent

But the attraction of property is restricted by the limited supply of good quality property developments. As an investment manager from one of the major institutions pointed out, even allowing for a more favourable approach from the suppliers of capital, in the SA context there is a ceiling to the need for moreblue chip property developments.

Another investment category that could see major benefits from the change is convertible debentures. For regulation purposes these will be treated as fixed interest investments and not equities This means that pension funds could increase their exposure to companies by taking up convertible debentures.

The replacement of the prescribed asset requirements (in respect of assurers and insurers, pension funds and friendly societies) with a less onerous and more market-related system of guidelines has been welcomed by all parties concerned. But it looks as though the next 12 months could produce some trying times for the industry as it feels its way around a more relaxed system.

The implementation of this regime will involve a far greater degree of responsibility from the players and the policing of it will involve a much greater degree of discretion on the part of the Registrar.

Chief reason behind the continuation of some policing seems to be the Registrar's view that "the smaller institutions may not necessarily always have sufficient investment expertise to institute sound investment policies" The intention of the regulations is to ensure a prudent spread of investments within certain maxima and to encourage investment expertise.

The PIGs that will be implemented next week may be, in fact, the first part of a continually revised process that will see the authorities adapt their guidelines to the requirements of the industry. Moving all the time towards less regulation.

The major problem with the new guidelines is that in a bull run, pension funds could very quickly find themselves exceeding the 65 percent equity ceiling and run the risk of being forced sellers in order to come back into line with the legislation

Timely start

Life insurance companies are usually large and cumbersome — and service is not necessarily their strong point. But SA's newest insurer, Time Life, is small and "service orientated" — with a staff of only 20.

Says MD Bill Haslam, previously executive director of Southern Life, "we have a sophisticated computer system to help efficiency."

Time Life, formed in December 1987, was the first company in 23 years to be granted a life assurance licence. It started with share capital of R5m and now has assets in the region of R6,5m and 1 500 policyholders. In May, June and July, it wrote new business worth over R3m in the independent broker market, mainly with the tax provider plan — a linked endowment in a management portfolio — it has designed.

It started off writing business in the mortgage protection market, which Haslam believes helped enhance its image in the black market. "An area we hope to become active in is black provident funds," he says.

A stockbroker's insurance analyst says the

Haslam . . . finding a niche

(58) Fmail

company is doing well off a small base. "Like any young life fund, it will have to be wary of new business strain on cash flow," she says. ■

SA still overspending, says Sanlam survey

58

BDay 27/9/89

CAPE TOWN — Although there are increasing signs that the downturn in the SA economy has gained momentum in the past few months, it has not yet cooled sufficiently to correct imbalances, Sanlam says in an economic survey released today.

Growth in total real domestic production of goods and services increased at a slower rate than in previous quarters for the third time in succession in the second quarter of the year.

"Although more sluggish growth occurred fairly widely in consumption expenditure — and in particular in durable consumption spending — and was also evident in capital expenditure, we believe that total demand in the economy is still too high and that no relaxation in the existing restrictive measures should be considered soon," Sanlam said.

Turning to the country's balance of payments, Sanlam estimated that the current account for 1989 would show a surplus in the region of R3,5bn as against R2,9bn in 1983, provided the gold price and the rand-/dollar exchange rate continued to fluctuate around present levels for the rest of the year.

Sanlam expected the inflation rate to vary between 15% and 16% in the next six to nine months and for the year as a whole it would average in the region of about 15%.

The survey pointed out that apart from a restrictive monetary and fiscal policy, anti-inflationary measures would involve steps such as wage restraints and an attempt to bring about improved competitive markets.

Sanlam did not expect a downward adjustment in short-term interest rates before early next year nor did it envisage any substantial changes in long-term interest rates in the immediate future.

Action

Referring to foreign debt, Sanlam said in comparison with the rest of the world it was not particularly high, but it placed heavy demands on the country and considerable amounts had to be repaid in 1990 and 1991 in particular — an estimated \$2bn and \$1,5bn respectively.

It was vital SA did everything in her power to increase net saving and it was essential the country maintained real interest rates.

Fiscal action should make a contribution by preventing the authorities from becoming a dissaver — and financing current expenditure with loans — as had been the case in recent years.

"An important prerequisite in this regard is stricter discipline with regard to government spending," Sanlam said.

Finally, SA could lessen the stranglehold of foreign debt repayments on the economy by significantly increasing exports. — Sapa.

Two more top men have left Allied

BDay 27/9/89 58

MANDY JEAN WOODS

TWO more senior Allied Bank managers have left the company after clashing head on with Allied Bank MD Kevin de Villiers, sources said yesterday.

Divisonal GM, corporate finance, Clive Cook confirmed he resigned suddenly two weeks ago "to pursue other business interests". He said he would undertake a joint venture in project finance with Avfin. He declined to comment on speculation of clashes with De Villiers.

Senior GM, corporate finance, Mike Henderson said yesterday in a telephone interview he had been fired.

But in a telephone interview De Villiers said Henderson had not been fired; he had resigned. When it was pointed out to him Henderson claimed otherwise, he declined to comment further.

Henderson said De Villiers was sidestepping the issue.

"I have not resigned. The first I heard of my dismissal was when staff contacted me overseas last week following an announcement made by De Villiers."

It was alleged that a third person — lending division chief manager Keith Hutchinson — had also announced his intention of resigning because of personality and management structure differences with De Villiers. Hutchinsion said yesterday he was "still trying to be persuaded to stay by De Villiers".

He said there was dissatisfaction on his part, which was an "internal matter that still had to be resolved between De Villiers and myself". De Villiers said he had not yet received a resignation from Hutchinson.

"I know he doesn't like the new reporting lines but I believe in having proper reporting lines and not pandering to executives."

The bank has lost almost one third of its senior staff in the past two years. Some of the resignations were reportedly because of conflict with De Villiers and his management style.

Sources, who spoke on condition of anonymity, said moves by senior managers in the corporate division to distance it from the rest of the group's operations in an effort to improve its image in corporate banking circles led to the latest clash between De Villiers and his lieutenants.

● DE VILLIERS

De Villiers was fully informed about the proposal from its inception in May this year, sources said. De Villiers declined to comment.

One source said there was total conflict between De Villiers and the whole corporate division.

"They had no latitude to do their own thing. De Villiers just imposed things on them. He didn't understand the corporate business. The whole conflict comes back to dissatisfaction with De Villiers."

He said De Villiers was "totally intolerant of any criticism. He has to go". Another source said "if you don't toe the party line then they don't want you around". He said

☐ To Page 2

iness Report

WEDNESDAY, SEPTEMBER 27, 1989

Cape Times 27/9/89 (58)

R36m Numsa/Iscor deal

Share plan disclosed by RMB

Own Correspondent

JOHANNESBURG. — Rand Merchant Bank yesterday disclosed details of an estimated R36m offer to finance the purchase by 10 000 Numsa members of the Iscor shares to which they are entitled in terms of the employee share scheme.

The offer included a guarantee that no Numsa member would lose money on the issue even if trading in the shares occurred at below the listing price. This would occur through offering each subscriber a right to sell his shares to RMB at a price which covers the issue price, interest and underwriting costs.

RMB chairman G T Ferreira also criticised what he called ill-informed and speculative press reports — which had created the impression RMB intended to exploit uninformed employees and which had caused the bank to suffer embarrassment and a loss of goodwill both locally and internationally.

RMB said it had offered to make a short-term facility available to Numsa members to take up shares, on which interest would be charged at the prime overdraft rate plus 1%. RMB said it would also charge a 2,5% underwriting fee to cover brokerage, administration costs and costs of hedging against market risk. Numsa members wanting to take up the offer would apply individually through the union.

In addition to the free 200 shares being offered to each Iscor employee as part of the privatisation process, each Numsa member is entitled to an average 1 000 shares at a 20% discount on the R2 issue price and a further, equivalent, preferential allocation at the full listing price.

A Numsa spokesman yesterday refused to comment on the offer, saying members had asked the union to conduct with them a series of discussions on the entire Iscor share scheme.

RMB said each member would have until November 15 — a week after the listing — to decide whether to sell or hold any or all of his shares. If he decided to sell this would be done by asking Numsa to instruct RMB's transfer secretaries to sell the desired number at market prices. The surplus would then be paid over to him.

If he decided not to sell, he would have to arrange his own financing and settle his indebtedness to RMB by November 30.

The guarantee would give participants the right to sell their shares to RMB at R2,085 at any time in the first week after listing. However, no one would be forced to sell shares to RMB. The offer would not apply to the free shares.

Ferreira said the offer had been made in August after Numsa had made known its reservations about the Iscor employee share scheme.

This was before details about the share price and the State's special financing scheme (which includes deferred repayments over three years for the discount shares) for employees had become known.

Restructuring to begin at Saambou

BARRY SERGEANT (58

SAAMBOU has announced major restructuring to "expand its business activities considerably and eventually operate fully in the field of commercial banking." BDay 28/9/89.

In an interview, MD Christie Kuun said Saambou would implement a major cost-cutting programme.

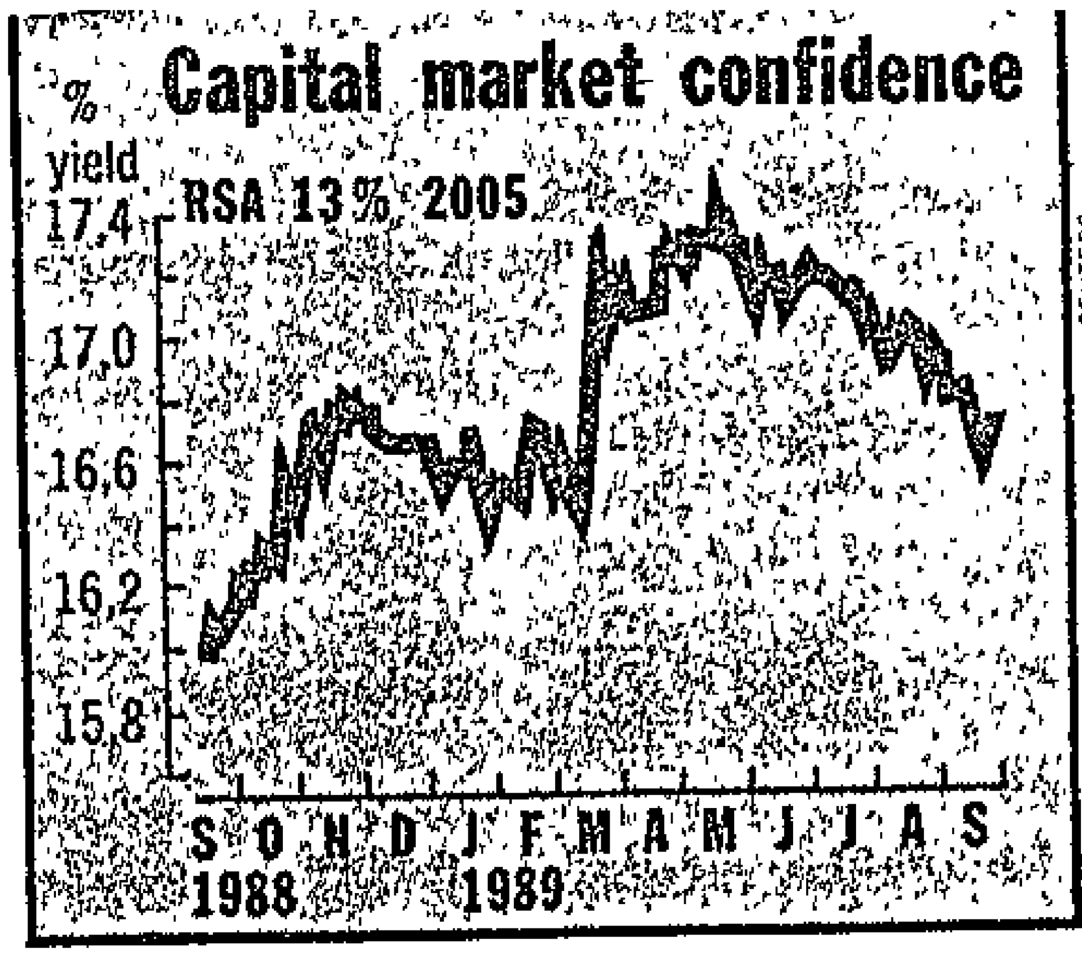
"This will include rationalising staff. There will be no retrenchments, but we will look very carefully before replacing vacancies." Kuun would not comment on hints that Saambou was involved in a property transaction which would produce more than enough profit to cover its R6,7m gilts losses revealed last year.

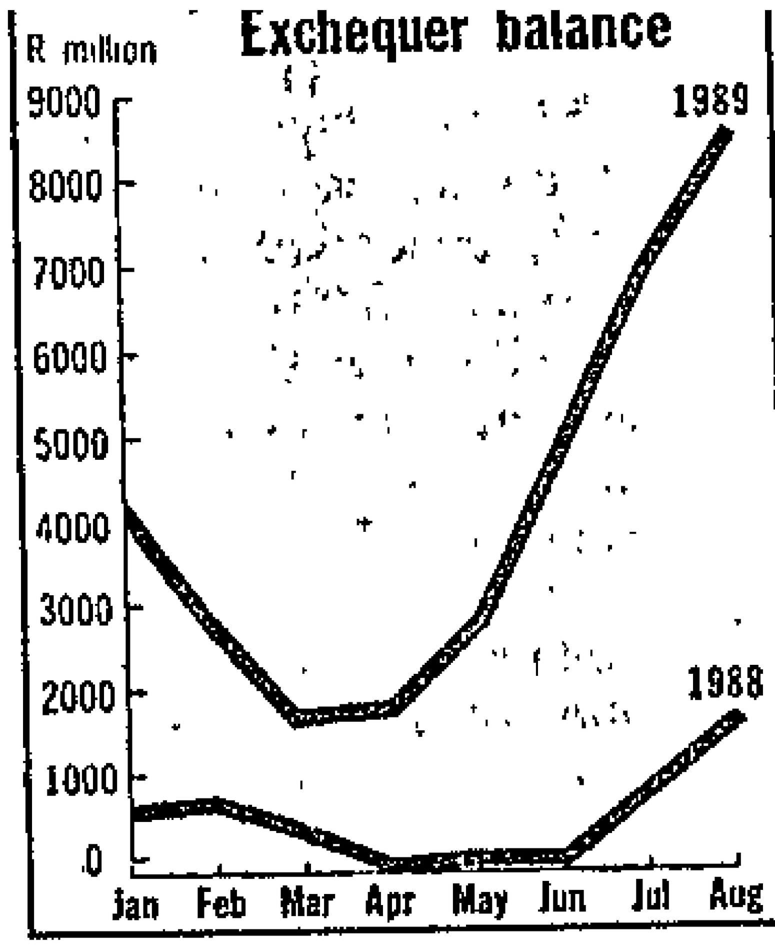
Kuun said: "restructuring would not cost anything, except for new senior staff promotions and appointments of Lourence Bester, Nic Campbell and Charles Minie."

Part of the restructuring meant the group's top management had to be "recomposed and strengthened," he said.

Saambou would move into a new group structure to implement its restructuring, said Kuun.

"A financial leg will be incorporated in the new structure, under which all the financial activities of the Bank and the Building Society will be grouped." He was not prepared to say what effect the restructuring could have on earnings.





Market indicators reflect confidence

B/Day 28/9/89 (58)

BARRY SERGEANT

GROWING confidence in the new style and substance of the government's economic management are reflected in a number of market indicators.

"For the first time in decades there are clear signs that the government is pulling together fiscal and monetary policy," says Leon Krynauw of stockbrokers Theron De Witt Morgan.

Standard Bank chief economist Nico Czypionka is less sanguine: "With the government's track record on continually overspending on the budget, we will have to see how the rest of the fiscal year pans out beyond the five-month figures."

The five-month figures show that the actual out-turn of government spending and revenue budgets continue to match estimates on a pro rata basis.

"The outcome," says Czypionka, "may be more favourable than expected because of strong increases in revenue, which may slow as the economy cools."

Market experts said yesterday there appeared to have been a clear break in the 30-year bear trend in long-dated bonds, reflecting increasing market confidence in the authorities' determination to control government spending, strengthen the balance of payments, restore exchange rate stability and beat down inflation.

"One of the main reasons for the new confidence," says Krynauw, "is that the outlook for inflation is good, which implies a belief that the government will get its house in order.

"This is reflected in the very high Exchequer balances and the discipline evident in government spending."

"Government," says Nedcor chief economist Edward Osborn, "is sitting on a mountain of cash, and there is no indication that its mopping-up operations will cease for some time."

Krynauw adds: "Short-term money market rates are moving sideways, fixed deposit rates at banks are moving up, capital market rates are coming off — all indicating that the government is exerting continuing pressure in those markets.

"The government is issuing more bonds than needed to finance its deficit before borrowing, showing its preparedness to support monetary policy.

"This pulling together of monetary and fiscal policy is something which has not been evident for a long time. In the past, strictly implemented monetary policy has been undermined by slack fiscal policy, particularly continual government overspending."

Meanwhile, Reserve Bank deputy governor Japie Jacobs has confirmed that the government's resurrected stabilisation fund has been taking in funds since September 1.

Jacobs will not put a figure on how much will be put into the fund, but the effect of the policy will be to take further money out of the system and sterilise it. This will help bring money supply growth under control.

No extra benefits, says Liberty Life

b | Day 28/9/89

58

LESLEY LAMBERT

CAPE TOWN — Liberty ~~Life~~ Joint MD Dorian Wharton-Hood has disputed suggestions that members of provident funds underwritten by mutual companies will benefit more from the abolition of tax on their investments than those whose funds are underwritten by equity-based companies.

Wharton-Hood was responding to a report earlier this week that members of funds underwritten by mutual life offices like Sanlam and Old Mutual were likely to benefit more because equity-based companies would have to consider both shareholders and policyholders when it came to passing on the benefit.

He said past performance surveys had shown that mutual companies did not necessarily have an advantage over their public counterparts. This was largely because they had to use policyholders' funds to finance administrative costs, whereas companies like Liberty Life also had equity capital to rely on.

Alexander Forbes's survey on guaranteed funds' annual bonus declarations shows that Old Mutual fund members earned 17,75% on untaxed investments for the year to June 1988 and 22,75% the previous year. Liberty Life members earned 19% for both years.

Saambou strengthens its services (58)

Star 28/9/89

Saambou is to change its format to meet the changing face of banking in South Africa

The group is to centralise and expand its banking and building society services to eventually offer clients one-stop banking and building offices throughout the country.

The group managing director, Mr Christie Kuun, says this step was necessitated by the disappearance of the traditional boundaries between banks and building societies and modern tenden-

Mr Christie Kuun

cies in the financial world.

This decision means that Saambou will expand its business activities considerably and eventually operate fully in the field of commercial banking. New services and products will be made available at all branches as soon as possible.

Mr Kuun also announced a new group structure for Saambou to implement this decision. A financial leg will be incorporated in the new structure, under which all the financial activities of the bank and the building society will be grouped.

An operations leg will be responsible for all operational activities of the two financial institutions.

Mr Kuun says that this restructuring also meant that the top management team of the group had to be recomposed and strengthened.

Two senior general managers have therefore been appointed to exercise control over the financial and operational activities of the group.

They are Mr Louwrence Bester, senior general manager (operations) and Mr Nic Campbell, senior general manager (finance).— Sapa.

Iscor shares warning

Argus 29/9/89

58

Political Correspondent

THE public has been warned not to buy Iscor shares with borrowed money or money needed for everyday expenses.

The warning comes from Dr Dawie de Villiers, Minister of Mineral and Energy Affairs and Public Enterprises. He was speaking at a ceremony at Tuynhuys where the first prospectus of the share offer which is being launched next week was presented to President De Klerk.

Dr De Villiers said he was delighted with the progess that had been made with privatisation to date.

Enthusiastic response

There had been an enthusiastic public response to the Iscor issue. The Iscor privatisation had been handled in a professional way with the strong support of management and staff.

Iscor was an excellent company with good long-term prospects and should be seen as a long-term investment, not one to make quick overnight profits.

Investors should be cautioned, however, that equity investment could be risky and that share markets fluctuated.

Dr De Villiers said the privatisation process had now been established and other excellent investment opportunities would be presented in the coming years as other State assets were privatised.

He cautioned Iscor workers not to forfeit their individual benefits which had been made possible by the government through an employee share-ownership scheme.

Mr De Klerk said the Iscor move signalled the start of a new economic era in South Africa.

He was pleased there was such great interest in the share offer and praised the professional way in which this had been handled.

INSURANCE (58) Fmail 29/9/89

Black empowerment

Plans for a "black Sanlam" are in the making. National African Federated Chambers of Commmerce & Industry (Nafcoc) hopes to buy a rural company — New Era Life Assurance (NLA) — and extend its operations. It is owned by the development corporations of independent and non-independent states.

FINANCIAL MAIL SEPTEMBER 29 1989

(58) Fmail

NLA administers these corporations' pension and provident fund portfolios, and those of government-related bodies in those states. If the purchase takes place the company will initially concentrate on the long-term market but eventually attempt to acquire a short-term licence. A Nafcoc spokesman says NLA will be managed by whites at first because of a skills shortage in the black community. He claims to have been on a "corporate head-hunting" spree.

Nafcoc president Sam Motsuenyane is waiting for a commissioned technical report expected within a few weeks. A market reaction study, by a leading black consultancy, indicates the market is ready but warns that several previous black initiatives foundered because of poor management.

Potential clients include Cosatu, whose provident fund is estimated at R500m, and other established informal and consumer organisations which, it is estimated, can provide business of close to R1bn — short- and long-term. On the short-term side the potential market includes Nafcoc affiliates spread all over southern Africa and the high-risk black taxi industry, worth R56,5m in premiums each month (an average R500 a month for the 113 000 taxis on the road). Most taxi organisations will support such an initiative, says Peter Rabali, of the SA Long Distance Taxi Association (Saldta).

This will not be the first time that a company consolidating contractual black savings has been mooted. Motsuenyane says it was conceived four decades ago and Nafcoc has previously tried, without success, to get one off the ground.

Motsuenyane

A lost opportunity was the disinvestment of American Sentry Life in 1985 when Nafcoc could not raise the R7m needed for a buy-out. Motsuenyane blames financial institutions for not providing guarantees.

However, this may have been expecting a bit much, because he was effectively asking them to finance a competitor.

Only practical business tactics will ensure the survival of this venture. If the undertaking is planned along the lines of the African Bank, support for which has largely stemmed from sentiment, the initiative will be at a disadvantage in a competitive market. The company will need more than a black face or black shareholders to become a force.

Has Nafcoc the vision to spearhead the growth of black business which (excluding the informal sector) is estimated to contribute a mere 2% to GDP? Given the highly competitive nature of the insurance business, and Nafcoc's track record, some doubts have been expressed. ■

BANKORP-TRUST BANK

At a turning point?

Bankorp hopes to use its rights issue funds in a drive for profits

A fortnight ago Bankorp announced a rights issue — to raise upwards of R340m — and a restructuring that includes the delisting of its subsidiary, Trust Bank. If all goes as planned this could be seen as the last major step in the full rehabilitation of Trust since its rescue by Sanlam about 16 years ago. It would also mean the establishment of Bankorp as a more effective contender among the top five banking groups.

The verdict on that will depend much on the success of management's new objective of focusing on profitability rather than market share (*Fox* September 15). Meanwhile, the market has reacted harshly, and Bankorp shares now trade at 350c each compared with 440c before announcement of the plans. Reasons include the cut in the 1989 dividend to 25c (34c); the hefty earnings dilution that will result from the rights issue; and the relatively low return on assets on disclosed figures.

In part, the market is taking a jaundiced view on the strategy of the past few years, when the group chased after volumes and market share at the expense of profitability, and on an overstretched balance sheet. Inadequate communication, with the accounts based on limited disclosure, did not help.

But this year has brought major changes for Bankorp, particularly in top management. After chairman Fred du Plessis' death in March the more communicative Chris van Wyk, former CE of Trust, was appointed CE of Bankorp. This week Gencor's highly rated chairman, Derek Keys, assumed the Bankorp chair. The influence of the earlier management changes in the latest announcements is not clear. It is apparent, however, that better profitability can't be achieved without an infusion of funds and Van Wyk does have definite ideas about how to improve returns.

A short-term impact on profitability should result directly from having the rights funds available. The amount received will depend on the response by Trust minorities to the offer of cash or Bankorp shares. Should all the Trust minorities accept shares, net cash made available to Bankorp, including the R200m to be injected into Trust Bank, will be R390m.

Van Wyk reckons that if the figure is only R340m the resulting saving in deposit costs would place the group well on its way towards lifting return on assets from the present 0,57 to the proposed 0,67. The capital ratio would be lifted to 4,25, which is still not impressive. However, it is based on the group's limited disclosure and takes no account of hidden reserves.

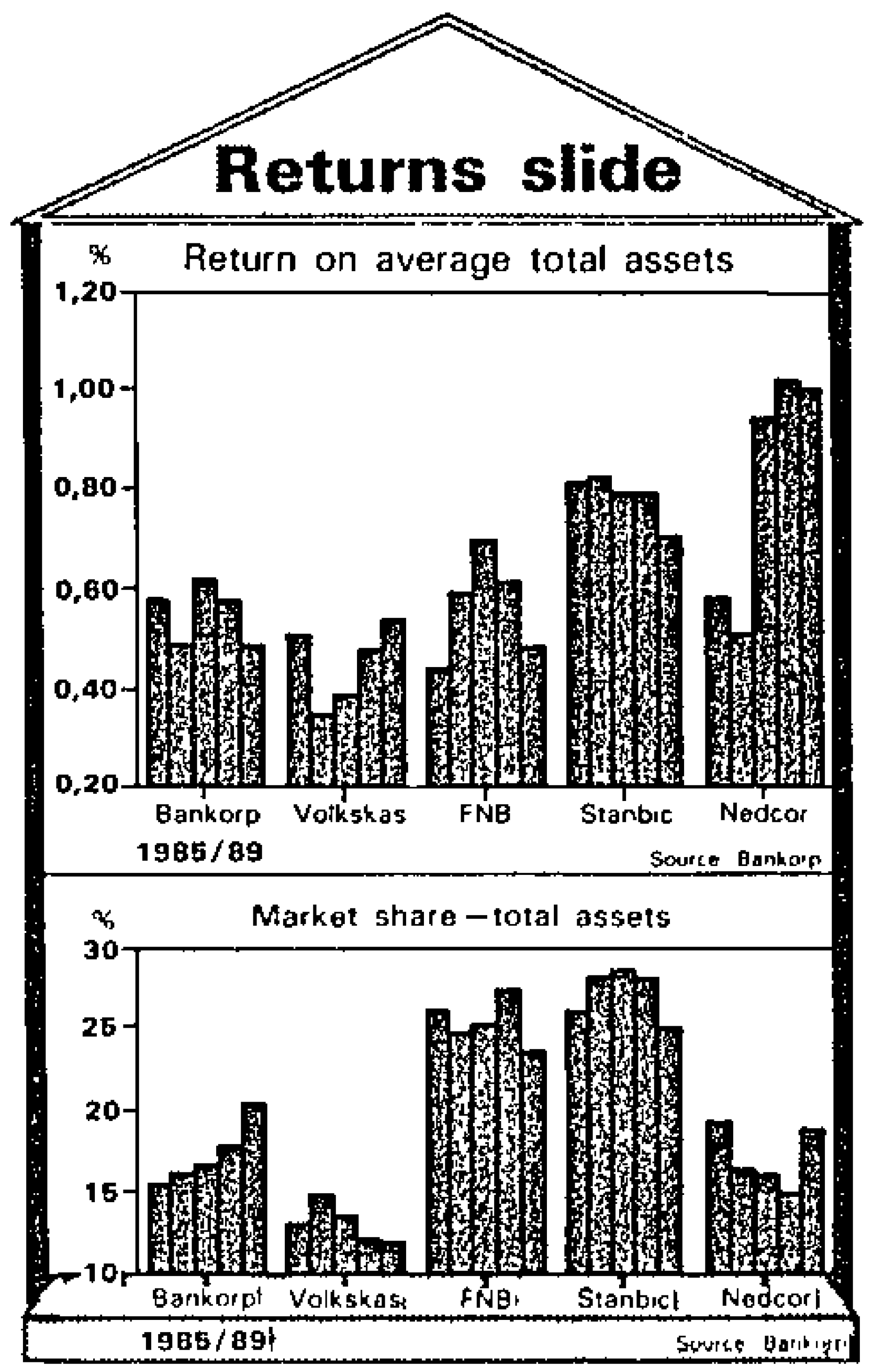
That in itself would not address the fundamental profitability of the business. Van Wyk stresses the single biggest contributor to the bottom line is the net interest margin. Considerable effort is being directed at a sustainable improvement in this margin, particularly in the two major banks.

Trust and Santambank deploy about 85% of the assets and 80% of the staff. In the year to end-June, Trust provided R66,4m — or 51% — of net income of R131,6m, while Santambank contributed R36,5m — 28%. Senbank contributed R24m — 18% — and R4,7m — less than 4% — was from Bankfin and others.

Another objective is to lift income from fees, commissions and trading activities. A third line of attack will be to expand non-banking financial companies. Management believes there is large potential to raise profits from these operations, though they would be rising off a low base and could have only a marginal impact on total profits over the next three years.

In the plan to widen the net interest margin the liabilities mix has a central position. Van Wyk notes that this does not refer simply to relative proportions of short-, medium- and long-term liabilities. Management is well aware that funding sources have been too narrowly focused. Trust, in particular, gains much of its business from the corporate sector, which can be prestigious but not necessarily the most profitable..

The retail sector has not played a large enough role. The proportion of total liabilities in cheque deposits and savings accounts has grown, but remains significantly below the levels of Bankorp's major competitors. As Van Wyk puts it, the group is still buying too much of its funds through money market and corporate sources.



This is partly why Bankorp has chased volumes and allowed total assets to increase by more than 40% annually over the past two years. A major reason was to gain market share and achieve critical mass; its share of the industry's total assets increased from about 15% to more than 20%. But the plan also involved growth in targeted market segments.

Van Wyk reckons that a campaign to acquire cheque accounts resulted in a doubling in the number of accounts over the past two years, and a 25% increase is targeted for this year. New products were launched, such as Super Trust, essentially a cheque account whose effectiveness depends on sophisticated technology systems.

Johan Howell, executive manager of Bankorp Management Services, says the group is also seeking to adjust its position in the retail market. It has traditionally been strongest in certain sectors of the upper-income group but several others are targeted. Target markets for cheque accounts at present include middle- and upper-income retail sectors and, in the corporate sector, listed and medium-sized private companies.

The purpose is to acquire cheaper and more stable sources of funds. Benefits would be considerable given the potential gearing effect of any containment or reduction in costs Van Wyk notes that the group ended the 1989 year with a deposit book of nearly R24bn. A reduction of 0,25 percentage points in the cost would add about R60m to pre-tax profits.

Means of achieving this include the assets and liabilities committees in Trust and Santambank, and extensive use of targets and budgets. Targets have been integrated with the management incentive systems — and this could be crucial, as the profit strategy will need an abrupt change in corporate culture The budget system extends to branches and the contribution each can make towards the liabilities mix.

Another area of emphasis will be management of costs, which also forms part of the budgeting system. The overall operational cost ratio — total costs as a percentage of total assets — has been brought below 3%. Van Wyk says that a range between 2,8% and 3% is seen as a long-term target. "That means doing a few things right," he says. "It's important, for example, that we get the correct ratio of people costs to non-people costs."

(58) Finweek 29/9/89

Labour turnover, based on all employees, has been averaging about 20%-22% a year. The objective is to reduce this to 15% annually in three years. Trust is budgeting to achieve the figure by the 1991 year-end and Santambank during the next year. Productivity and quality systems in use in these banks have also indicated improvements.

Van Wyk says that the succession plans have proved their worth. When Du Plessis died all the resulting Bankorp management appointments were completed in two days. When Derek Cohen walked out of Trust two years ago with eight specialists his replacement was announced the next day.

Asset and risk management is another key area. The limited disclosure policy has left outsiders sceptical and unconvinced that bad debts have yet been reduced to acceptable levels. Management states that all past skeletons have been aired and written off — Van Wyk believes the bad debts profile is not out of line with the average in the banking and financial services sector.

More emphasis is being placed on managing the asset mix for the best balance between risk and margins. Home loans, for instance, a growth market, are seen as low-risk and stable but with fine margins — though these customers are tied to the bank and can be offered other products. But assets could be increased in areas seen as higher-risk but carrying a higher interest margin, such as instalment finance and personal loans.

Bankorp believes that it is under-exposed in fees, commissions and trading activities — including foreign exchange and gilts trading. It believes the risk management system is effective enough to allow the exposure to be brought safely into line with that of competitors.

In the retail sector, risk management is geared partly to electronic early warning systems which have been developed in Bankorpdata, the technological services division. These are designed to alert the inspectorate or branch management before accounts go sour. Electronic systems are considered less effective in the corporate sector but Van Wyk cites the recent Sterns case as evidence that there are other systems which work.

As Howell puts it, the aim is to identify and manage risks with responsibility assigned to specific managers. "Over time that should reduce our bad debts experience in relation to average assets," says Van Wyk. "The ratio has been declining over the past five years, though the trend was influenced by the fact that there were still a lot of non-banking risks which we had to write off. We now have a clear picture."

Management of liabilities, costs and risks will depend partly on the efficacy of the electronic systems. Bankorp has a real time on-line computer system which has been continually upgraded. Howell reckons that, whereas three years ago the group was installing technology to reduce operating costs, it is now making the systems work as a management tool. It is also investing in a third phase to provide more support for specialists.

Capital expenditure on technology went over a hump about two years ago. Management believes the benefits are being felt. Parts of the Hogan system have been installed, apparently with success. Capacity usage on Hogan improved 50% last year, according to Howell, and volume growth has enabled declining unit costs.

Brokers' analysts agree that the group's technology systems are a relative strength, and some are heartened by the improved levels of disclosure — though these need to go further. Management is gaining points for good intentions but seeking to achieve a structural, long-term change.

Given the history of Bankorp, most analysts are tending to take a guarded view. The market clearly has not forgotten Bankorp's rights issue of a couple of years ago when the funds went towards plugging holes left by Mercabank. One leading banks analyst says bluntly that the return on assets has simply been too low relative to those of Stanbic and Nedcor, which are seen as the core holdings in the banks sector, and he recommends that shareholders should not follow their rights and Trust minorities take cash.

Like last year's issue by Federale Volksbeleggings — whose rights issue was held at only R3 a share — the timing of the Bankorp issue is unfortunate. The funds will be expensive.

On the other hand, much spadework has been done in Bankorp. The management changes could, indeed, presage a turning point. After about three years at Gencor, Keys' reputation is riding high. It is unlikely that he would have taken on the chairmanship unless he were satisfied a full recovery could be achieved. Some investors may see the stock as an interesting long-term recovery situation. Even on that view there is little point just yet in chasing the stock.

Andrew McNulty

Investec launches Supreme Court action today

Cape Times 29/8/89

58

By BRUCE WILLAN

INVESTEC has announced it has submitted an application to the Cape Town Supreme Court contesting the legal ownership of Mercury Trust shares held by the Board of Executors in terms of the Companies Act.

Due to the anticipated time it will take the Court to reach a decision, Investec has subsequently extended the date for acceptance of R27,50 cash offer to Mercury Trust shareholders to October 30, 1989.

Informed sources say the papers submitted to the court argue that the purchases of Mercury shares, approximately R790 000 acquired by the Board since August 1989, are void.

A court ruling in favour of Investec would indicate that the Board's shareholding will be drastically reduced and that it is in fact a subsidiary of Mercury Trust and will remain as such.

In addition the shares would have to be returned to their previous owners.

Investec CE, Bas Kardol declined to comment on any possible outcome. He explained that the object of the court action was not to set aside shareholdings by BOE management in Mercury.

Mercury contends that it holds 40% of BOE; at issue is whether loan stock in BOE held by Mercury would be considered equity share capital.

Corbank deal

● In a separate development it is expected that negotiations between Corbank and Investec will be concluded later today.

A deal would lead to the creation of a joint merchant banking entity with assets of R5bn on- and off-balance sheet, virtually evenly divided between on- and off.

The entity will embrace traditional merchant banking and corporate finance activities.

According to Kardol the likelihood of an agreement is great.

Rumours in financial circles of Investec wanting to use Corbank as a vehicle for listing one of its own operations have been denied by Kardol.

Thieves raid city golf club

Crime Reporter

Gunmen grabbed R24 480 in a lightning raid on Houghton Golf Club yesterday, police said.

A spokesman said four gunmen held up Mr Peter Madimetja (35) at 11 am and grabbed the cash.

They fled in an orange Chevrolet with a false registration.

No one was injured and no arrests have been made.

The Bookie's Bet

Turffontein tomorrow: Best bet — Sani Pass, race 9. Best each-way — Divine Princess, race 8.

Surprise as new Sanlam chief quits

STAR 29/9/81 (6.7) 58

By Derek Tommey

Dr van der Walt . . . spent only six months at the top.

Mr Abie van der Berg . . . potential chairman.

Speculation is likely to be intense in the days ahead about who will be the next chairman of Sanlam, one of the most prestigious jobs in the country, following the surprise resignation of Dr Tjaart van der Walt after six months in the post.

Dr van der Walt was appointed chairman of Sanlam following the death in a car accident of Dr Fred du Plessis. Dr van der Walt is to head the Human Sciences Research Council. It is understood that Dr van der Walt, who is a gifted academic, was not particularly happy in the more instinctive world of business.

FOUR EAGLES

Speculation about who will assume the new chairmanship is bound to centre on Dr du Plessis's four eagles — the men who have done much to make Sanlam the strong and aggressive operation it is today.

They are Mr Marinus Daling, who runs Sanlam's industrial investments, Mr Derek Keys, who heads Sanlam's mining interests, Mr Pierre Steyn, who is in charge of the insurance side of the business, and Dr Chris van Wyk, who heads the banking division.

However, all four men are doing a good job where they are and it would be extremely invidious to promote one above the others.

Senior Sanlam staff have also said that the group no longer needs an executive chairman. The job in any event would probably be too much for any ordinary individual.

As a result, it is believed that Sanlam's new chairman will be chairman of the board rather than the chief executive. In looking for the man with the qualities to fill this position, therefore, one starts looking in other directions.

This opens the field considerably, but Sanlam already has on its board a man capable of filling this post.

He is the acting chairman, Dr Abie van der Berg.

A technical man, with a BSc from Stellenbosch, he is a director of several of Sanlam's insurance, mining and industrial companies so has his finger on the group's pulse.

Investec extends Mercury offer 58

INVESTEC has announced it has extended the date for acceptance of its offer to Mercury Trust shareholders to October 30. This is a prelude to intended court action concerning the legal ownership of Mercury Trust shares held by the Board of Executors.

The terms of Investec's offer remain the same at R27,50 per share. Investec executive chairman, Bas Kardol, said it would be inappropriate to comment further at this stage due to the legal proceedings. Papers were filed in the Cape Town Supreme court yesterday.

Star 30/9/87

FINANCE – GENERAL

1989 –

OCT →

Goodies in store ... Syd Muller and product demonstrator Linda [illegible]

Investec's Corbank attempt unsaddled

S Times 1/10/89

By Ian Smith

INVESTEC'S proposed deal with Corbank has been called off.

But Investec executives still have to carry through a Cape Supreme Court action to prove the validity of their company's takeover bid for the Board of Executors.

High-level negotiations to secure some form of agreement between Investec and Corbank for closer co-operation and rationalisation fell at the last fence on Friday.

At one stage Investec officials were hoping for signatures on an agreement "within the hour". But their expectations were not fulfilled.

Officials of Investec and Corbank refused to talk about the outcome. They would say only that an announcement would be made in a few days — but it would confirm that negotiations had been broken off.

Sources say that both parties have signed undertakings not to divulge details.

The original intention was apparently to explore arrangements which could lead to more efficiency and opportunities for the banks to move into new areas of operation.

The banking sector in general is short of specialist skills and this is one area where there could have been mutual advantage.

However, early reports that Investec was about to take over Corbank ruffled feathers.

58

Path

Then disagreements extended far beyond the terms of the deal. Differences in the cultures of the two organisations surfaced.

Investec is on a strong growth path, and it has signalled its readiness for acquisitions by its bid for Board of Executors.

Corbank was established when managing director Laurie Korsten took over Hill Samuel's operation in South Africa in 1986.

Mr Korsten's aim to establish a speciality merchant bank was welcomed, but doubts surfaced when several senior executive left Corbank.

Results to March 31 this year showed a 43% fall in earnings from 25,4c a share to 14,5c. The cause was the sharp increase in interest rates and a problem with systems which meant management did not pick up unrealised potential losses in time.

Corbank's share price has been languishing barely above its low of 95c last June — down from 170c in November 1988. It added 15c this week to trade at 125c.

Investec Holdings stood at 400c on Friday — well up from January's low of 145c. Investec closed the week at 700c after peaking at 715c on Wednesday.

Investec has extended the date for acceptance to October 30 of its offer to Mercury Trust shareholders in the bid for BOE.

This is a prelude to the intended court action concerning the legal ownership of Mercury Trust shares held by BoE.

S/Times 1/10/89

(58)

Investment brakes off as prescribeds go

By Robyn Chalmers

ASSURERS, insurers, pension funds and friendly societies are no longer required to invest in prescribed assets.

The Financial Institutions Amendment Act comes into effect today. The insurance sector's investments are now governed by guidelines which impose upper limits on investments in a particular category.

Deputy Registrar of Pension Funds Piet Badenhorst said in Johannesburg that the new regulations were intended to ensure a prudent spread of investments within a certain maximum and encourage expertise.

Mr Badenhorst said from a macro-economic point of view, the guidelines should benefit the pensions industry in three ways:

- Supply and demand in the allocation of scarce capital resources would take place on market principles. It would avoid the captive market brought about by compulsory investments which normally caused interest rates to be lower than they should be.
- Assets were now valued at market value. A free and active market providing liquidity at competitive prices for investments in public and private stock could develop further.
- Investors who put their savings in institutions would benefit by no longer being penalised by low rates of return.

Fedlife investment manager Dennis Paizes said the new freedom to invest allowed to pension funds would bring greater responsibility.

Greater volatility in the market, increased variance of performance by individual pension funds and a higher risk profile in portfolios was inevitable.

Mr Paizes said: "In order to reduce risk profiles and maintain performance, it will be essential to use financial derivative instruments. This adds a whole new dimension to portfolio management and unless managed prudently, derivative markets will be an even greater cause for concern than the risks which they are supposed to reduce."

The new regulations would provide for more efficient markets. Far more money would be able to be switched from one market to another. Markets would have to be able to cope with these changes.

Shepley & Fitchett senior partner Peter Milburn-Pyle welcomed the requirement, inherent in the guidelines, that the actuary would advise on the suitability of the investment portfolio relative to the liabilities of a group retirement fund.

He said it was a logical implementation of the principle that a fund must be able to meet the benefit payments due to its members as and when they arose.

Cape Times 2/10/89

Iscor sees 20,6% rise in div

Own Correspondent 58

JOHANNESBURG. — Iscor, which is to be listed on the JSE on November 8, has forecast a 20,6% increase in dividends per share in the year to June 30, 1990.

Iscor's prospectus, published today offers the public 150m of 1,85bn ordinary 200c Iscor shares in issue.

The forecast increase in dividends per share is slightly ahead of the 20% increase in earnings forecast for the year, revealed in Iscor's annual report last week.

The Iscor prospectus, the first in government's multi-billion rand privatisation programme, shows dividends forecast of 17,6c an ordinary share, 20,6% ahead of the historic 14,6c.

In the prospectus, the directors say they intend maintaining dividend cover of "approximately three times".

Moreover, the directors say that it will be policy to declare two dividends each financial year.

The first dividend will be declared in February and paid in March 1990. It will be pro-rated from the date of the closing of the offer (October 25) to December 31.

The directors say it should "be noted that historically the first six months of the Iscor group's financial year do not produce results on the same level as the second six months and earnings for that period are usually markedly lower than earnings for the second half of the year".

Iscor's earnings yield on the offer price of 200c is 26,3%, way ahead of the 14,6% in the Steel and Allied sector of the JSE.

Again, Iscor's dividend yield on the issue price of 200c is 8,8%, more than double the 4,1% in the Steel and Allied sector.

Given Iscor's solid financial position, as disclosed in its prospectus, this suggests that the offer price of 200c a share is conservative.

The prospectus provides information that potential investors can use before they decide whether to apply for a minimum 100 shares (at R2 each) in the offer of 150m shares made to the public.

The main body of the prospectus covers some seven and a half pages, with the balance given to appendices, such as the auditors' report.

The prospectus says that as Iscor had been "developed and is managed in accordance with the norms applicable to the private sector, it would be the first major privatisation by the state."

Moreover, "the results of the Iscor group contained in this prospectus confirm the decision of the state."

Corbank-Investec talks off

ROBERT GREIG

SILENCE has descended on the deal between Corbank and Investec, which has been in on-off mode for the past week.

A Corbank-Investec cautionary announcement today says negotiations were "unsuccessful" and have been called off.

The surprise announcement follows reports on Thursday that barring minor details still to be approved, mainly by Corbank, the deal was on.

At the weekend further reports suggested the deal was partly scuppered by premature reports based on interviews with Investec chairman Bas Kordol about its success.

Yesterday Investec's CEO Bernard Kantor would not confirm or deny this, saying that the situation was "very delicate".

Investec and Corbank had been negotiating an arrangement that apparently sought to marry their respective banking functions. (58) (282)

Throughout negotiations both parties have been at pains to avoid suggestions that the contemplated arrangements would be a takeover.

The deal was initiated partly in terms of Investec's aim of growing organically and by acquisition. B/Day 2/10/89

The same principle led to Investec's bid for the Board of Executors (BOE) and both reflect Investec's and others' conviction that success in the specialised banking sector depends on securing and retaining skilled and therefore expensive staff.

Though of different sizes, Corbank and Investec operate in complementary niches of the merchant banking and corporate

☐ To Page 2

Corbank-Investec (282) (58)

☐ From Page 1

finance markets. B/Day 2/10/89.

☐ Our Cape Town correspondent reports that Investec filed papers on Friday in the Supreme Court in its contested takeover bid for BOE.

A spokesman for Investec's attorneys said the matter had been set down for Wednesday.

LESLEY LAMBERT reports that BOE MD Bill McAdam said at the weekend the papers had been served on the company late on Friday afternoon

He said the company would respond to allegations in the papers in a full announcement this week.

McAdam said BOE and Mercury Trust would be releasing their results on Wednesday evening.

Corbank and Investec call off negotiations

CAPE TIMES 2/10/89

Own Correspondent

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B/Day 2/10/89.

FINANCE

58

Rates continuing to crawl crabwise

IN THE MONEY MARKETS

Harold Fridjhon

THE crablike crawl of money market rates continues with the predictable month-end uptick. The only slight surprise was the extent of the Saturday uptick.

The settlement on Saturday morning brought a higher-than-expected increase in the market shortage, that is the market's borrowing through the Reserve Bank's rediscount window at rates related to Bank rate. It soared to R4,588bn, compared with R4,024bn at the end of August.

To borrow through the "window" the banks may only use liquid assets such as Treasury bills (TBs), Land Bank bills, liquid bankers acceptences (BAs) and liquid government stock. Talk in the market during the month was that banks were short on these assets and that borrowing in excess of around R4bn would mean borrowing at penal rates of 21,5% against the pledging of non-liquids. It would appear that this talk was somewhat overdone and that the banks had managed to accumulate sufficient liquids, bolstered by enough call money to carry them over the hurdle.

Big swing

The wholesale Big Money call rate on Thursday and Friday did indicate that some banks had to pay dearly for the cash help they received from the lenders. Rates ranged between 18%-19,25%, although some of the larger banks claimed that they had not paid more than 17,5%. If this was so, the marginal amount borrowed by the smaller banks, including the merchant banks, could not have been punitively large.

One of the strains on the banks is the continuing increase in the note issue which reached R8,1bn on Saturday, slightly above the August peak. There is more than a R1bn swing in the banknote issue between the mid-month level and that at the end of the month. Rates in the market show almost no change.

The TB rate remained at 17,11% in a poorly supported tender in which R40m was bid for the R20m bills on offer. The BA rate edged up again from 17,30% to 17,35%, possibly reflecting a slight easing of demand after the previous rush for bills to build up the holding of liquid assets.

As far as can be gathered there has been no creation of longer-term negotiable certificates of deposit (CDs). Some elements suggest the notional rate for 12-month CDs should be 18,05%, but generally the feeling is that 12-month paper should be 17,95% with six months at 18%.

☐ Trading in the bond market last week was heavily influenced by the oscillations of the dollar-induced gold price, affecting mainly the bellwether Eskom 168. Yields on this easily traded stock ranged between 16,59% and 16,805%, closing the week at the previous Friday's 16,62%. The underlying mood remains bullish.

Except for the usual flurry on Thursday to square positions to meet settlement obligations, trading turnovers on the JSE floor have been modest, while screen traders report long periods of boredom.

Interesting is the differential between the two liquid RSA stocks, the 10,5% 1991 and the 14% 1992. The 1991 is trading, sporadically, at 15,90%, and the 1992, for which some stocks are on offer, at 15,5%. The banks are said to be holding quantities of these issues for their liquid asset status. The holding costs must be heavy.

In the case of the '91s, one questions whether the holders are looking to offset the carrying costs by the capital gains they will recoup if interest rates fall by a sufficiently large margin between now and the redemption date.

Unit trusts report impressive returns

STAR 3/11/89 (58)

Finance Staff

Unit trusts continued their good performances in the third quarter this year, with some funds reporting annual returns of over 50 percent.

UAL Unit Trust gave its unitholders a total return of 55,57 percent, which it ascribed to its policy of reducing its stake in the JSE gold sector.

Over the quarter it sold its complete holding in Western Deep and bought into blue-chip groups Amic and Richemont.

A similar trend was evident in UAL's Mining and Resources fund, which sold out of gold counters Western Deep, Randfontein and Vaal Reefs, and acquired stakes in Northam, Vansa and SA Manganese. The fund reported an annual total return of 53,4 percent.

UAL Selected Opportunities fund, which focusses its investments on more risky but high yielding stocks, provided unitholders with an annual return of over 40 percent, while the highly specialised Gilt Unit Trust fund's return was 17,25 percent for the year.

Syfrets's Growth Fund marginally increased liquidity from 11 percent to 12 percent for the September quarter, while the total portfolio itself increased fom R149 million to R167 million.

Total return on the units over the 12 month period was an impressive 51,32 percent.

A breakdown of the equity portfolio showed that 52 percent (48 percent in June quarter) was invested in industrials, followed by 20 percent in mining finance and eight percent in diamonds.

The Syfrets Income Fund has grown to a market value of R52 million, representing an annualised return of 21,5 percent.

Commenting on the share market, Syfrets cautions that the share market was entering a period of consolidation, which might even see some share prices dip.

Metfund increased its liquidity ratio from 12,45 to 18,42 percent over the September quarter, but the managers anticipate that this will be reduced through its investment in the Iscor listing.

NBS Hallmark assets jump 35%

B Day 4/10/89 (58)

LIZ ROUSE

THE NBS Hallmark Mutual Fund's assets increased by 35% in the September quarter to just under R6m as a result of a strong inflow from sales, helped by a 7% increase in the selling price. The total income and capital return to investors over the 12 months to September was 47%.

NBS Hallmark Management Company MD Ken Burns reports that liquidity was slightly reduced from 27% at the end of June to 25% at the end of September.

The bulk of the cash flow was invested in existing holdings and two new counters in Driefontein and SA Druggists.

At the end of September, the portfolio in property and property trusts was increased to 12% from 10% at the end of June. At the quarter end the portfolio was spread between mining and mining financial shares (46%), insurance and financial (2%), property and property trusts (12%) and industrials (40%).

A dividend of 22,77c a unit has been declared. The annualised dividend yield for the 12 months ended September is 7,1%, the highest among the general equity unit trusts.

US banks reschedule $1,7bn debt

Opt-Trafs 4/10/89 (58)

From SIMON BARBER

WASHINGTON — US banks have reached long-term rescheduling agreements with SA for at least $1,7bn of the $2,4bn debt, US Assistant Secretary of State for Africa Herman Cohen told the Senate Foreign Relation Committee yesterday.

This figure is substantially higher than previous estimates, and according to administration officials, could itself be low.

Cohen said the remainder, $700m at the outside, was being carried on "a very short-term basis".

He believed that most banks had taken the so-called 10-year exit option and would therefore be repaid by 1997.

Supporters of financial sanctions have assumed that around $1,7bn of US bank debt remained to be rescheduled by June next year, when the second interim arrangements expire, and have been pressing the banks to use rescheduling as leverage on SA.

Demonstrations are planned for today outside Manufacturers Hanover in New York, as well as in London, Paris, Bonn and Zurich, where Natwest, Credit Lyonnais, Dresdner Bank and Union Bank of Switzerland will be the respective targets.

Cohen said US banks had no leverage. "From what the banks tell me, the terms are dictated by the SA government and they are happy SA is repaying."

Draft legislation now being circulated among members of the new Congressional taskforce on SA by Congressman Walter Fauntroy that would prohibit banks from taking the 10-year option and would require 15% of outstanding principle to be paid annually.

Such measures, Cohen argued, would force SA either to default or to reschedule unilaterally.

He added: "I fail to see how pressure would be exerted on SA through this method."

The Star

Finance

58

Sanlam trusts put up strong performances

By Magnus Heystek

After significant growth in the year to September most unit trust fund managers are taking a more hesitant view on prospects for the JSE in the months ahead.

Stafford Thomas, fund manager of Sanlam's five unit trust funds, is no different and warns that some kind of correction, especially in industrial shares, must be expected in the foreseeable future

Mr Thomas is sanguine about prospects of Iscor, saying he will be a net buyer of shares after the listing

As far as investment returns in the 1988/89 financial year are concerned, all five funds in Sanlam's stable recorded strong performances. The average total return for the five was 43,5 percent.

Important changes were made to them in the last quarter. The number of counters the trusts hold has been reduced, with strategy now favouring greater concentration. Sanlam Trust has been the most affected, with a net reduction of 20 percent in the number of counters.

Mr Thomas says liquidity is down somewhat in all the trusts. Liquidity levels, with those for the previous quarter in brackets, are: Sanlam Trust 15 percent (20 percent), Index Trust eight percent (nine percent), Industrial Trust 17 percent (21 percent), Mining Trust 21 percent (28 percent) and Dividend Trust 20 percent (21 percent).

"We are concentrating on companies with outstanding growth potential and financial strength."

The Sanlam trusts have continued a policy of having a relatively low direct gold exposure. Mining investments have, rather, remained focused on the mining houses and non-precious metal shares.

Income distributions from the Sanlam stable have continued to bound ahead. Sanlam Trust declared a 34,9c per unit distribution for the six months to September, a 56,1 percent rise on the same period last year. Sanlam's Dividend Trust's distribution was 11,8c per unit, an increase of 29,7 percent on September 1988.

In respect of total returns for the year to September, the trusts performed as follows: Index Trust 51,7 percent, Mining Trust 47,6 percent, Sanlam Trust 42,2 percent, Industrial Trust 38,2 percent and Dividend Trust 38 percent.

● The NBS Hallmark Mutual Fund increased its assets over the September quarter by 35 percent to just under R6 million. The total return for investors over the past 12 months was 47 percent, after slightly reducing liquidity over the quarter from 28 to 25 percent.

South - 5/10 - 11/10/89

Leadership tussle for Commonwealth

Who will take over as Commonwealth secretary-general next June when Shridath Ramphal retires after 15 years? There are two strong contenders for what is considered one of the most powerful jobs in the world, and the election could test the Commonwealth's tradition of taking decisions by consensus. DEREK INGRAM reports:

CHOOSING a successor for Commonwealth secretary-general Shridath Ramphal is proving a major headache for the 48-nation body.

Anyaoku

Fraser

After months of speculation and campaigning, the issue may only be resolved when the organisation holds its summit in Kuala Lumpur this weekend.

Many countries, especially the host country, Malaysia, had hoped that the election of a secretary-general would be settled well in advance of the summit so that the leaders merely had to rubberstamp the appointment. It is not turning out that way.

After several possible candidates were named earlier this year, only two remain. Former Australian prime minister Malcolm Fraser is being backed by his country, while Nigeria is sponsoring Ramphal's deputy secretary (political), Chief Emeka Anyaoku.

Anyaoku appears to have most support, but one or two major member countries, most notably Britain, are not showing their hand. The Australians claim that on a head count they are leading.

The situation has no real precedent. Since the Commonwealth secretariat was formed in 1965 there have been only two secretaries-general, the Canadian diplomat Arnold Smith, who served two five-year terms, and Ramphal, whose third five-year term ends in mid-1990. Ramphal has told governments he does not intend to stand again.

Smith was chosen out of seven candidates. At the 1965 summit in London when Commonwealth countries totalled 22 against today's 48, the British conducted the discussion in a committee of officials.

The official chairing the meeting finally asked the representatives of each country to write on a piece of paper which candidate they preferred. Smith was the easy winner.

For the Commonwealth, the procedure was unusual. The tradition is never to vote on any issue but to decide by consensus.

In 1979 a minor challenge to Ramphal's second term was brushed off at the Lusaka summit and in 1983, when the question of a third term was discussed by the leaders in New Delhi, Ramphal was quickly given it — two years ahead of time.

This time there has been a real contest, with both candidates lobbying governments, including prime ministers and presidents, around the world for several months.

Fraser began his campaign more than two years ago. Although he is a political opponent of the present Australian government — his Liberal government was defeated by Labour in 1983 — Labour prime minister Bob Hawke has given him the government's full support.

Anyaoku entered the arena late because he wanted to be quite sure that Ramphal did not intend to stand again. When he did declare himself a candidate he set about seeking support in a typically thorough way.

Question marks have remained over the position of Canada, Britain and even India.

The fact that the issue seems likely to go to the summit meeting shows that the traditional consensus system has not so far worked.

Some British officials still seem to be hoping that another candidate might emerge, but there is no sign of this happening.

White knight to BoE's rescue

STAR 5/10/89

58

By Ann Crotty

At first glance it looks like the most unlikely candidate to play white knight for a long-established Cape-based institution. At second glance it looks like the best candidate — by far.

Liberty Asset Management (Libam) is to acquire from Mercury Trust an initial holding of 27 percent in Board of Executors, at 525c a share — excluding the BoE final dividend of 17c a share for the year to September.

Probably the most important immediate effect of the deal is that it reduces Mercury's holding in BoE to 13 percent of the combined ordinary shares and loan stock in issue.

It therefore undermines Investec's chances of pulling off a successful bid for BoE.

Even if, as Investec argues, the BoE loan stock is not included as part of the equity base, the deal will see Mercury's holding in BoE fall to 26 percent.

This means that whatever definition of equity base is used, BoE cannot be deemed to be a subsidiary of Mercury. Therefore it is entitled to hold its 40 percent stake in Mercury.

BoE director, Tom Boardman, says that until there is a court ruling, the loan stock is deemed to be equity because it carries voting rights.

Given that the effect of the deal with Libam is the creation of a fairly secure control situation for both Mercury and BoE, and given the track record and reputation of this white knight, it is difficult to see Investec pursuing its hostile bid once the extended deadline for its offer has passed.

Investec could not be contacted yesterday for comment on the development.

The deal will result in Mercury holding 13 percent of BoE, Libam holding 27 percent, management and staff holding 24 percent and minority shareholders holding the remaining 36 percent.

Once Libam has acquired the BoE stake, the plan is for BoE to propose a scheme of arrangement to acquire 100 percent of Mercury — in essence the same as its August proposal.

In terms of this offer, BoE would acquire Mercury shares in exchange for BoE shares topped up with cash, or a cash-only option of R27,50.

The original scheme was that 4,4 million BoE shares that Mercury held would than be placed with institutions.

The revised scheme sees a slight reversal of this, as the shares have already been placed with an institution (Libam).

If the acquisition of Mercury by BoE cannot be effected by end-January 1990, BoE has undertaken to make all Mercury shareholders an unconditional offer for their shares, including the same option of shares and/or cash as above.

If this leg of the scheme is implemented, Libam will hold about 20 percent of the enlarged equity of BoE and will be entitled to appoint representatives to the board.

This defence strategy by BoE seems destined not only to defeat the Investec bid, but should enhance BoE's reputation in the investment community.

Most analysts had assumed that BoE would take the obvious and unexciting route, which was to bring in a Cape-based institution — there were reportedly many volunteers — as a white knight.

By bringing in a Transvaal-based player of major significance BoE has not only succeeded (probably) in securing its own control situation, but has also linked with a group that should help boost its already strong growth prospects in the Transvaal.

Because Libam will not be involved hands-on, BoE management is also guaranteed its independence.

Mr Boardman says the Transvaal has been a major source of growth for BoE and believes that the growth potential will be enhanced by the link with the Liberty group.

There is unlikely to be any overlapping of activities as Libam and BoE (Tvl) operate in different market niches.

BoE has announced its results for the 12 months to September (just five days after the close of the period). Helped by R1,4 million of retained earnings from associates, the company reports an 87 percent increase in EPS (fully converted) to 52,7c (28,1c). A final dividend of 17c (12,5c) has been declared.

Any temptation to suspect that reserves may have been raided to produce this sterling performance is knocked on the head by Mr Boardman.

Libam is unlikely to buy this sort of inconsistent accounting practice.

Liberty rides to the recue

CT Times 5/10/89

By AUDREY D'ANGELO

LIBERTY LIFE has come to the rescue of the Board of Executors, the city firm which has been fighting to avoid being taken over by Johannesburg-based Investec Bank.

The Board's holding company, Mercury Trust, announced yesterday that it had sold three million shares in the Board to Liberty Asset Management (Libam).

This will reduce Mercury's holding in the Board to 13%, giving Liberty 27%. Investec's attempted takeover was through an offer which would give it a controlling interest in Mercury Trust.

Board chief executive Mr Bill McAdam said he was "delighted to have Libam as a significant shareholder".

● Full report — Page 12

Saambou installs R10-m disaster recovery facility

STAR (58) 5/10/89

Saambou has joined forces with two major organisations to purchase the first joint computer disaster recovery facility in the country.

The concept of shared ownership of mainframe equipment for disaster recovery is a major development for the information technology industry and can start a new trend in the country.

A combined facility such as this enables the partners to implement a disaster recovery system which is not only cost effective but can also be made to work in practise.

The group managing director of Saambou, Mr Christie Kuun, says technological developments made major organisations increasingly dependent on computer systems.

"If the vast quantity of data stored in these systems should be lost, it could have serious consequences for such organisations.

"A disaster recovery system which safeguards such data is imperative for the security and peace of mind of Saambou and its clients.

"In the event of a serious breakdown of existing equipment Saambou will be able to continue its service to clients without delay," he said.

The acquisition of this system also provides an effective information centre which can be safeguarded under all circumstances.

The computer equipment for the disaster recovery system was bought at a cost of R10 million and has already been installed.

The system consists of a Persetel 8/90 mainframe with 60 gigabytes (GB) of disk storage, cassette drives and communications' equipment.

Mr Kuun indicated that the planning for a network between the three organisations was already at an advanced stage.

The system, after completion of the network, will be immediatelyavailable for disaster recovery purposes. When not in use for disaster recovery, the system will be utilised for research and development purposes.

Accountancy merger thrown into disarray

58

STAR 5/10/89

By David Canning

DURBAN — The proposed South African merger of accounting giants Deloitte Haskins & Sells and Pim Goldby has been thrown into disarray after a sudden pullout of the international merger by Deloitte in the UK.

Deloitte in the UK has abandoned its US colleagues — who will press ahead with the Touche Ross merger — and has decided instead to join Coopers & Lybrand.

The South African partners of Deloitte have convened a meeting to be attended by senior partner, Tim Curtis, after a conference in Paris.

There is speculation that the SA, Australian, New Zealand and other European firms might follow the UK lead by pulling out of the merger with Touche Ross (whose South African associate is Pim Goldby).

Such a move would represent a breakup of the Deloitte international empire.

It is understood the UK partners were unhappy with the proposed merger from the outset and felt steamrollered by the American firm.

Deloitte is one of the largest firms in SA and its options are now fairly open — it could still press ahead with the Pim Goldby merger or else link up with any of the other leaders, including Coopers.

Partner Martin Shaw says the Paris meeting between partners from Touche Ross and Deloittes was supposed to have been over three days — Monday to Wednesday this week.

However, the UK firm announced its withdrawal and its proposed link with Coopers, on Monday.

Ironically, the decision by Deloitte in the UK to pull out comes just one week after the collapse of talks between Price Waterhouse and Arthur Andersen.

Edward Kangas, head of Touche Ross International, says the proposed merger to create the new giant — Deloitte Ross Tohmatsu (DRT) — will go ahead with Touche Ross as the sole UK representative.

Mr Kangas says: "Firms in the US, Japan, France and the UK have agreed to become members of DRT. In most cases these agreements reflect national mergers between members of Deloitte Haskins and Sells International and Touche Ross International."

He says these countries reflect more than 75 percent of the total revenues of the two separate firms.

BD 5/10/89

BOE's white knight in share deal

58

Liberty steps in to fend off Investec bid

LESLEY LAMBERT

CAPE TOWN — Liberty Asset Management (Libam) emerged yesterday as the white knight to fend off Investec's bid for control of Board of Executors by acquiring a significant shareholding that could amount to control of BOE.

The Board and Mercury Trust announced late yesterday that Libam, the investment managing arm of Liberty Life, had acquired 3-million ordinary shares from Mercury Trust at 525c a share.

Libam manages funds for Liberty Life, the Prudential Assurance, Guardian National Insurance and three mutual funds administered by Guardbank.

BARRY SERGEANT reports that Investec directors said last night they were taken totally by surprise by Liberty's move.

Chairman Bas Kardol was in Amsterdam, but directors in Johannesburg said they would probably make an announcement after they had studied the terms of the statement made by Liberty, Mercury and the BOE. Last night there was an official "no comment" on the issue.

Commenting on Liberty's entry into the fray, BOE MD Bill McAdam said: "This is precisely in keeping with our planned intention of developing the company into a nationally based financial services and investment group.

"With the Liberty group's outstanding record of achievement, we are delighted to have Libam as a significant shareholder. Our two organisations are highly compatible and we believe Libam will provide even greater momentum to our future growth plans."

The announcement said the acquisition reduced Mercury's shareholding to 13% and gave Libam an initial 27% holding, which would be watered down to 20% if a proposed scheme of arrangement similar to BOE's initial offer to shareholders went ahead.

If Libam's stake were based only on 5,6-million ordinary shares in issue, rather than 5,6-million ordinary shares plus 5,6-million convertible debentures that shareholders would have the option of converting up to year 2001, the stake would become significantly larger. Before expansion of the capital base, it could amount to a controlling 56%, market sources said.

BOE undertook, in the same announcement, to propose a scheme of arrangment similar to its August offer to Mercury shareholders in which it was to acquire Mercury shares in exchange for BOE shares topped up with cash or a cash option of R27,50 a share.

Were this scheme not implemented by January 31 1990, BOE undertook to make all Mercury shareholders an unconditional offer for their shares, including the same option of shares or cash.

While Libam's entry into the fray might seem to solve BOE's battle in fending off Investec, executive director Tom Boardman pointed out: "The battle is not yet over." Investec's Supreme Court action to determine the validity of a large portion of BOE's holding in Mercury Trust is still

☐ To Page 2

Liberty

BD 5/10/89

58

☐ From Page 1

hanging over the company's head.

Ironically, the Libam transaction was probably being finalised at about the same time as Investec's urgent court application for an interdict against BOE was brought before the Cape Town Supreme Court yesterday.

The hearing was postponed until October 25 and the return date was extended with Board's answering affidavits to be filed by October 19 and Investec to reply by October 23.

The purpose of Investec's application was to determine the voting status of BOE's 41,8% holding in Mercury Trust. Investec's takover offer to minority shareholders in Mercury Trust was conditional on its ability to acquire 50% of the voting rights exercisable at a general meeting of Mercury shareholders.

Investec was apparently informed by the Board's legal team of the Libam deal yesterday and requested to withdraw the legal action.

It was not clear at this stage what kind of controlling interest Liberty would have, if everything worked out.

Business Report

Norwich NBS trust shows 52% return

Financial Editor

THE Norwich NBS Unit Trust gave a total return of 52% — capital plus interest — in its first complete year, which ended on September 30. A dividend of 8,45c per unit has been declared.

But John Bowman, MD of the fund, said yesterday that he expects a correction in the market, and liquidity has been increased to nearly 40% compared with just over 15% at the end of June.

Bowman said the fund's good performance during the past year was due to a strategy of building up a focused portfolio — which still numbers only 23 shares. The emphasis has been on selected mining and metal beneficiation shares and "emerging industrials in specific sectors."

He said the building up of liquidity during the past quarter, "as the market began to run out of steam", was a contributing factor to good performance.

The fund sold holdings in Associated Engineering (Asseng), Driefontein, Federale Volks and Q-Data, and reduced its holding in Anglos. New shares bought were Minorco, NBS, Ofsil and Zandpan, and some existing holdings were added to. At the end of the quarter the five largest holdings were in Safren, Sappi, Siltek, Sunbop and Unitrans.

Bowman said the substantial increase in liquidity was "an indication of the caution with which we are viewing the short term outlook for the market in general and industrials in particular.

Although he expects "the market to come down somewhat," Bowman said the amount of institutional investment would prevent it from falling as much as if it were dependent solely on fundamentals. "We are looking for a correction rather than a severe crack."

BOE boosts profits 114% to R4,5m

LESLEY LAMBERT (58)

CAPE TOWN — Favourable market conditions and strong performances from all its divisions helped the Board of Executors to boost attributable profits by an impressive 114% to R4,5m.

The results were announced just five days after the sought-after Board's September 30 year-end and simultaneously with the news of Liberty Asset Management's acquisition of a substantial stake in holding company, Mercury Trust.

They go a far way in justifying the substantial share gains which have followed Investec's takoever bid for Mercury Trust. B|Day 5|10|89

Earnings an ordinary share rose 114% to 80,4c while earnings for ordinary shares and loan stock rose by 87% to 52,7c.

A final dividend of 17c a share (12,75c) was declared, bringing the full dividend for the year to 25%, a 33% improvement. Dividend cover was lifted to 3,2 from 2.

Income before tax, loan stock interest and transfers to internal reserves rose 67% to R7,6m. But, a tripling of tax and associated charges to R1,7m, trimmed the growth in taxed income of R3,1m to 48%.

In addition to the improvement in attributable earnings, a substantial extraordinary item of R8,9m was transferred to general reserves. This amount was attributed. to proceeds from the sale of the Storeco holding and the cancellation of a management contract with London-based Oceana.

"The results are underpinned by excellent performances in all operating divisions, particularly in corporate finance and asset management," BOE MD Bill McAdam said yesterday. "Our Transvaal operation has shown very strong growth."

The company also benefitted from the unusual combination of a buoyant stock market and high interest rates, executive director Tom Boardman said.

McAdam stressed that BOE had maintained conservative accounting policies consistent with its previous financial reporting procedures. "The company has added significantly to its reserves and provisions this year," he said.

Chairman P W Wilson said the Board was well positioned to maintain strong future growth. The high level of earnings had been derived from a combination of recurring income from assets under administration and transaction based fees.

TAKEOVERS

Argus 5/10/89 (58)

White knight rides in with R15,75-m

From ANN CROTTY

JOHANNESBURG. — Liberty Life looks the best candidate by far to play white knight for The Board of Executors, the long-established Cape-based institution.

Liberty Asset Management (Libam) is to acquire from Mercury Trust an initial holding of 27 percent in Board of Executors at 525c a share in a R15,75 million deal, excluding the BoE final dividend of 17c a share for the year to September.

Probably the most important immediate effect of the deal is that it reduces Mercury's holding in BoE to 13 percent of the combined ordinary shares and loan stock in issue.

It therefore undermines Investec's chances of pulling off a successful bid for BoE.

Even if, as Investec argues, the BoE loan stock is not included as part of the equity base, the deal will see Mercury's holding in BoE fall to 26 percent.

This means that whatever definition of equity base is used, BoE cannot be deemed to be a subsidiary of Mercury. Therefore it is entitled to hold its 40 percent stake in Mercury.

BoE director Mr Tom Boardman says that until there is a court ruling, the loan stock is deemed to be equity because it carries voting rights.

Given that the affect of the deal with Libam is the creation of a fairly secure control situation for Mercury and BoE both, and given the track record and reputation of this white knight, it is difficult to see Investec pursuing its hostile bid once the extended deadline for its offer has passed.

The deal will result in Mercury holding 13 percent of BoE, Libam holding 27 percent, management and staff holding 24 percent and minority shareholders holding the remaining 36 percent.

Once Libam has acquired the BoE stake, the plan is for BoE to propose a scheme of arrangement to acquire 100 percent of Mercury, in essence the same as its August proposal.

In terms of this offer, BoE would acquire Mercury shares in exchange for BoE shares topped up with cash, or a cash-only option of R27,50.

The original scheme was that the 4,4 million BoE shares Mercury held would than be placed with institutions.

The revised scheme sees a slight reversal of this, as the shares have already been placed with an institution (Libam).

If the acquisition of Mercury by BoE cannot be effected by end-January 1990, BoE has undertaken to make all Mercury shareholders an unconditional offer for their shares, including the same option of shares and/or cash.

If this leg of the scheme is implemented, Libam will hold about 20 percent of the enlarged equity of BoE and will be entitled to appoint representatives to the board.

Most analysts had assumed BoE would take the obvious and unexciting route, which was to bring in a Cape-based institution. There were reportedly many volunteers as a white knight.

By bringing in a Transvaal-based player of major significance BoE has not only succeeded (probably) in securing its own control situation, but has also linked with a group that should help boost its already strong growth prospects in the Transvaal.

Mr Boardman says the Transvaal has been a major source of growth for BoE and believes that the growth potential will be enhanced by the link with the Liberty group.

BoE has announced its results for the 12 months to September. Helped by R1,4 million of retained earnings from associates, the company reports an 87 percent increase in EPS (fully converted) to 52,7c (28,1c). A final dividend of 17c (12,5c) has been declared.

58

5/10/89

Cape Times, Thursday,

'No need to force SA into talks'

MUNICH. — The Minister of Finance, Mr Barend du Plessis, says there is little point in using South Africa's debt position as a means of forcing the country into "ill-conceived schedules for negotiation".

Mr Du Plessis was reacting to statements by the US Assistant Secretary of State for Africa, Mr Herman Cohen, who warned that discussions on further economic measures against South Africa would be held if negotiations were not started soon.

Mr Du Plessis said: "I strongly reject claims that South Africa needs to be forced into starting negotiations.

"It is also quite inappropriate to lay down schedules and time limitations for negotiations on a matter so complex as designing, negotiating and implementing constitutional reforms in South Africa, and to link access to international financial facilities to progress in this regard," said Mr Du Plessis.

He also castigated "radicals" in South Africa for spreading "blatant untruths" about the reluctance of the government to negotiate and their efforts to encourage further financial pressure on South Africa.

Mr Du Plessis is in Munich, where he addressed a meeting of the Munich World Affairs Council on Tuesday night.

In his review of United States policy on South Africa, Mr Cohen this week told the Senate foreign relations committee that four specific South African laws needed to be repealed. He named them as the Land Act of 1913, the Population Registration Act, the Separate Amenities Act and the Group Areas Act.

He said he hoped the South African government was already working on mechanisms to repeal these laws before the opening of Parliament in February.

He said he hoped Mr F W de Klerk would use his executive powers to deal with issues that did not require parliamentary approval. These would include lifting the state of emergency, releasing political prisoners and unbanning restricted political organisations.

He said the Bush administration also wanted to increase aid to black South Africans, specially in education, and would be asking Congress to approve direct support of South African universities, previously off-limits as government-controlled institutions.

Senator Paul Simon, chairman of the Senate's sub-committee on Africa, said he was happy with the administration's position of "no new sanctions at the present time". He also supported Mr Cohen's call to Congress to lift sanctions against Namibia "immediately after UN certification of the November elections". — Sapa and Own Correspondent

Libam acquires 27% stake in BOE

Cape Times 5/10/89 (58)

By BRUCE WILLAN

THE Board of Executors (BOE) CE Bill McAdam has welcomed Liberty Asset Management (Libam) as a substantial shareholder in BOE — which has turned in record results for the year ended September 30, 1989 with a 114% increase in attributable profits to R4,5m (R2,1m).

According to a statement issued by BOE yesterday, Libam has acquired 3m BOE shares from Mercury Trust at 525c a share.

The deal reduces Mercury's holding in BOE to 13% and gives Libam a 27% stake in the company.

The shares acquired by Libam will not participate in the final dividend of 17c a share.

Commenting on the deal McAdam said, "this is precisely in keeping with our planned intention of developing the company into a nationally-based financial services and investment group."

BOE has undertaken irrevocably to propose a scheme of arrangement the same as its August 9 offer to Mercury shareholders. In terms of this offer, BOE would acquire Mercury shares in exchange for BOE shares topped-up with cash, or a cash only option of R27,50 a share.

Should this scheme not be implemented by January 31, 1990, BOE has undertaken to make all Mercury shareholders an undonditional offer for their shares, which includes the same option of shares and/or cash.

If the proposed scheme is implemented, Libam will hold about 20% of the enlarged equity of BOE and will be entitled to appoint representatives to the board.

Libam is the investment arm of the Liberty Group and acts for Liberty Life as well as Prudential Assurance, Charter Life Insurance, Guardian National Insurance and three mutual funds administered by Guardbank.

McAdam comments, "with the Liberty group's outstanding record of achievement, we are delighted to have Libam as a significant shareholder. Our two organisations are highly compatible and we believe Libam will provide even greater momentum to our future growth plans."

BOE's share price has had a strong rise since the Investec bid for the company and the announcement of record results lends support.

Earnings per ordinary share increased to 80,4c from 37,5c, while earnings per ordinary share plus earnings per loan stock unit went up by 87% to 52,7c (28,1c).

A final dividend of 17c a share has been declared, bringing the total for the year to 25c a share — an improvement of 33%.

Dividend cover has been increased from 2 times to 3,2 times.

Extraordinary profits of R8,9m have been transfered to general reserves.

McAdam says the results have been underpinned by excellent performances in all divisions, particularly corporate finance and asset management.

In addition, the Transvaal operation has shown a very strong growth.

● Yesterday, before news of the Libam acquisition became public, rumours swept financial circles that the Investec Supreme Court action contesting the validity of some Mercury Trust shares held by BOE was to be withdrawn. But, this was denied by Investec director Bernard Kantor.

He said the case was still going ahead and that October 25, 1989 had been set aside for a hearing.

Kantor also dismissed rumours that Investec had a substantial "shopping list" for further acquisitions in Cape Town.

BUSINESS

R13 000 or R300 000 home. Lenders can risk it

The risk in financing home loans is the same whether the house is in Houghton or Protea North — it's low-cost housing that has not seemed worth the risk for the private sector. Now a new housing finance scheme will change that. By HILARY JOFFE

AN innovative new housing finance scheme will bring tens of thousands of low-income black people into the housing market by mobilising more than R1-billion in home loans.

The scheme, announced yesterday by the Urban Foundation and the Mortgage Lenders' Association, involves the major banks and building societies, most of the large short-term insurance companies, local and multinational corporations and the British, German and Swiss governments.

It will provide home loans for houses priced in the R12 500 to R35 000 range, dramatically increasing the number of black South Africans who can afford to buy a house.

The problem has been that banks and most building societies have generally refused to grant home loans of less than R35 000, because these smaller loans are relatively unprofitable and are perceived as high risk. As a result, most property developers have not been willing to build houses in the below-R35 000 range, because buyers have not been able to raise finance for them.

The Urban Foundation estimates only 10 percent of urban black South Africans can afford conventional houses costing R35 000 or more — so the vast majority of the homeless have not been able to borrow from conventional private sector institutions.

The new initiative should increase the proportion who have access to private sector home loans to 43 percent. The UF estimates 127 000 homes a year will be needed by the year 2010. In 1987/88, only 45 000 homes were provided for black families.

The initiative comprises two main components: a Loan Guarantee Fund and a new financial instrument which will ensure banks and building societies grant home loans in the R12 500 to R35 000 range.

It is non-racial, although the vast majority of those who will need the loans are black.

Usually building societies or banks carry 80 to 90 percent of the risk on a home loan, since a borrower has to put down a deposit of only 10 or 20 percent of the price of the house. The new loan guarantee scheme will reduce the risk carried by the building societies and banks to only 60 percent.

Instead of having to pay deposits of 20 percent, home-owners will be able to put down as little as five percent, plus a one-off insurance premium, which can be capitalised to become part of the total home loan. On a R25 000 housing package, this premium would be about R280.

In turn insurance companies — such as Southern Life, Liberty Life or Sanlam — would insure the building society or bank for up to 35 percent of the price of the house. The society or bank would then be covered if a borrower defaulted on his bond repayments and the institution foreclosed and had to sell the house (a "sale in execution") at a loss.

Under the new scheme, the insurance companies would be reinsured by the Loan Guarantee Fund, a company to be set up by the Urban Foundation with capital of R20-million. About R8-million of this has come from foreign sources — from the British and Swiss governments, the German government via the Hanns-Seidel Stiftung and the Japan South Africa Fund. The rest of the money comes from corporations in South Africa.

NEED FOR HOMES BY BLACK FAMILIES (1989 - 2010)

Current backlog (1988)	- 800 000 homes
Projected new family formation 1988 - 2010	- 2 000 000 homes
Annual demand 1988 - 2010	- 127 000 homes
Current estimated supply 1987/88	- 45 000 homes

Supply of housing is falling way behind the massive need

Loan guarantee funds are common in housing finance in other parts of the world — for example in Britain and Australia — but unlike the UF fund, they are usually government, rather than private sector initiatives.

The effect of the UF fund will be to encourage the financial institutions — banks and building societies — to move "downmarket" in home loan lending by lessening the risks seen to be attached to this.

If the risks turn out to be high, the R20-million reinsurance will be much depleted by claims over the next three years. But if they are low, there will be little need for insurance or reinsurance and South Africa's banks and building societies will have discovered that it is possible to grant small loans, particularly to black people, on a commercial basis.

There is reason to believe the risks are perceived, rather than actual ones.

The Perm's Bob Tucker, president of the Association of Mortgage Lenders, said the Perm's experience — it has been the only building society willing to lend at levels below R30 000 — showed only two criteria were relevant in assessing risk on home loans. One was the size of the home loan relative to purchase price of the house; the other was the monthly bond repayments as a proportion of the borrower's salary.

He said home loans in Houghton could be as risky for financial institutions as home loans in Soweto — risk was not related to race or house prices.

The banks and building societies also have the problem that smaller loans are relatively unprofitable, since the administrative and legal costs of issuing a bond are the same regardless of its size.

Legally, the banks and building societies are constrained by capital adequacy requirements: banks have to maintain a certain ratio of capital to assets, building societies a ratio of capital to liabilities. Given the limits, they choose the more profitable, sizeable home loans of R35 000 upwards over the less profitable smaller loans.

But the initiators of the scheme announced this week have negotiated with the Reserve Bank for a new class of capital to be issued applicable specifically to home loans in the R12 500 to R35 000 range.

This will help the financial institutions meet their capital adequacy requirements and so expand their home loan books. But the money released through the introduction of this new financial instrument will be set aside for the smaller loans. Thus low-income borrowers will not be competing with high income ones.

Once the new scheme comes into operation — expected to be in the first quarter of 1990 — the banks and building societies which are participating will raise R50-million in primary capital, which will give them the capacity to lend R1-billion. The short term insurers involved will be able to cover 35 percent of this total, backed up by the reinsurance provided by the Loan Guarantee Fund.

The aim is to provide finance for an initial 40 000 new homes, assisting an estimated 250 000 people into homes of their own, the UF said

The banks and building societies have committed a further R2-billion to smaller home loans — although the Loan Guarantee Fund is not large enough at present to provide insurance at that level.

The key limit will, however, be the building industry. Once houses are affordable for a whole new class of home buyers, the property developers will find themselves racing to keep up with the demands of this market. Said Matthew Nell, managing director of the UF's Residential Development Division: "The rate at which these funds can be absorbed will depend on how fast the private home building industry can develop the capacity to provide these lower cost more affordable homes."

Nell said the key issue was the availability of suitably serviced land.

Housing schemes: No place for the very poor

THE Urban Foundation's new housing finance scheme will only raise from 10 percent to 43 percent the proportion of the urban black population which can afford conventionally financed houses while providing for those who can afford less expensive "starter homes".

But the scheme does not address the needs of those who cannot afford even a R12 500 house. The UF divides these people into those who cannot pay anything at all towards housing (about 19 percent of urban blacks), and those who could afford "incremental homes" (38 percent) — for example, buying a serviced site and building a shack.

At a press conference in London, UF chairman Jan Steyn said the new initiative announced yesterday "should be seen as a further and very significant step in greatly increasing access for poorer people to low-cost formal housing".

But he said the UF was working hard for a breakthrough in providing access to shelter for those who could not afford a R12 500 home. "The key objective would be to facilitate access to serviced land and finance for those living in shack areas and informal settlements in South Africa," Steyn said.

"To this end, state subsidisation would have to be redirected towards the very poor, making it possible for them to obtain secure tenure over serviced stands and provide themselves with permanent homes, even if on an incremental basis."

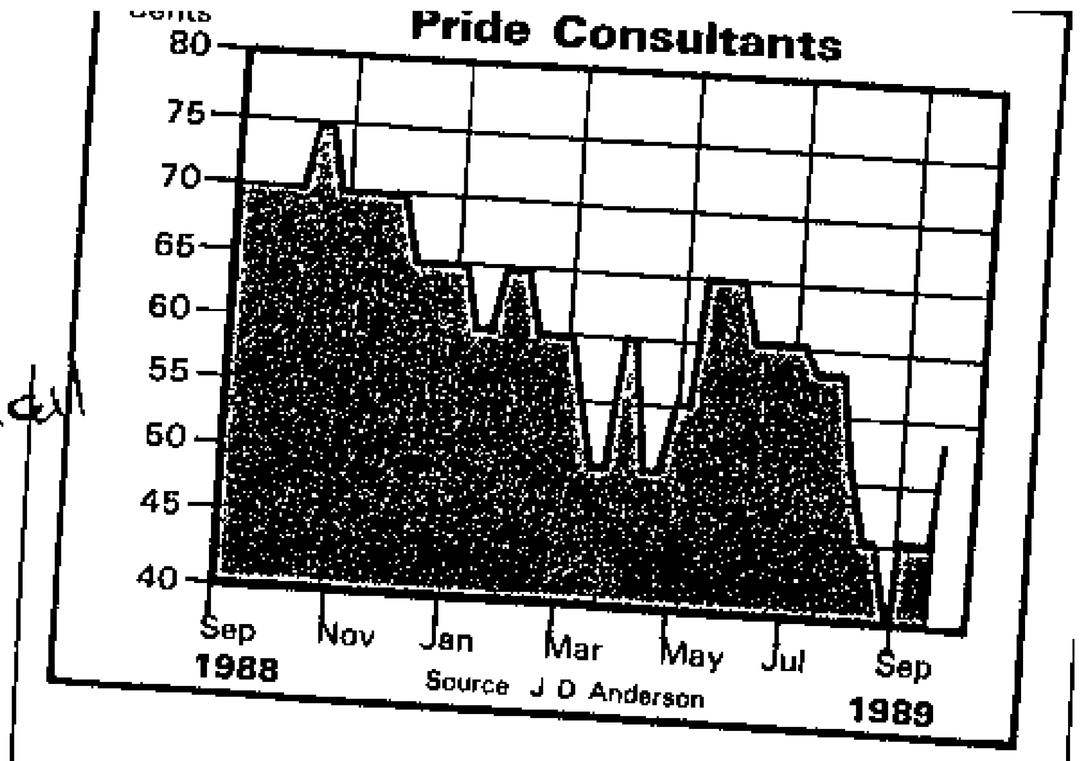
The UF sees the initiative announced this week as the first phase in a longer-term strategy to widen home ownership, says executive director Sam van Coller.

There are three more phases to the strategy: the UF plans to lobby for the government to provide a capital subsidy to cover the cost of land; it is piloting a project aimed at supplying very small loans, through stokvels and savings clubs rather than through conventional financial institutions; and it is investigating the possibility of channelling funds held by pension and provident funds to investment in housing.

6/10/89

PRIDE CONSULTANTS

More investments



Activities: *Holding company whose subsidiaries provide specialist financial planning services.*

Control: *Columbia consultants has control.*

Chairman: *B B Herbert; joint managing directors: C Ash and B Hirsch.*

Capital structure: *28m ords of 1c. Market capitalisation: R14,8m.*

Share market: *Price: 53c. Yields: 10,4% on dividend; 24,2% on earnings; PE ratio, 4,1; cover, 2,3. 12-month high, 75c; low, 40c. Trading volume last quarter, 16 000 shares.*

Financial: *Year to March 31.*

Debt:	*'88	'89
Short-term (Rm)	—	1,0
Shareholders' interest	0,8	0,8
Debt cover	n/a	3,8

Performance:	*'88	'89
Return on capital (%)	41,7†	39,2
Turnover (Index: 1988=100)	100	113
Pre-int profit (Rm)	3,8	4,6
Taxed profit (Rm)	2,1	3,6
Earnings (c)	12,6†	12,8
Dividends (c)	2,5†	5,5
Net worth (c)	45,1	41,1

* 9,5-month trading period.
† Annualised.

In a year earmarked for expansion into "investment banking" activities, Pride Consultants maintained a healthy financial structure and deployed part of its cash resources in acquisitions.

However, the group did not maintain the high rate of growth achieved in previous years. Turnover climbed by 13% and taxed profits rose by 28% compared to 69% in 1988 and 62% in 1987. Chairman Bernard Herbert explains that the high earnings growth achieved in 1987-1988 was helped by the funds received from the 1987 listing.

Pride's association with holding company Columbia Consultants has provided access to a large client base and this helped the group to make investments in certain businesses. It bought a 30% interest in Jensen Electronics (Pty) for R2,6m cash and a 20% interest in East Rand Chemical (Pty) for R1,65m. The latter was acquired by subscribing for 50 shares of R1 at par and advancing R1,65m on loan account to East Rand. The loan is interest-free and has no fixed date of repayment.

Jensen distributes computer peripherals specialising in dot matrix and laser printers, coin and note handling equipment. East Rand has stakes in businesses which manufacture vitreous enamelled steel composite panels and synthetic body fillers for the automotive refinishing market. The rationale for the acquisitions is that these are seen as businesses which "offer exciting growth prospects and earnings potential."

At the beginning of the financial year, the group held R4m cash and an investment in redeemable prefs, worth R6m, was converted into cash during the period. In addition, there was a positive cash inflow of R1m from operations. At March 31, the cash balance stood at R7m and there was little debt, so there was still considerable funding capacity. Herbert says that an acquisition is being considered and a deal could be announced by the end of October.

The group remains active in its traditional financial businesses, which include personal investment planning, employee benefits, pension fund broking, liquidations and administration of insolvent estates. Herbert believes that demand for these services will continue to grow by 20%-25% a year.

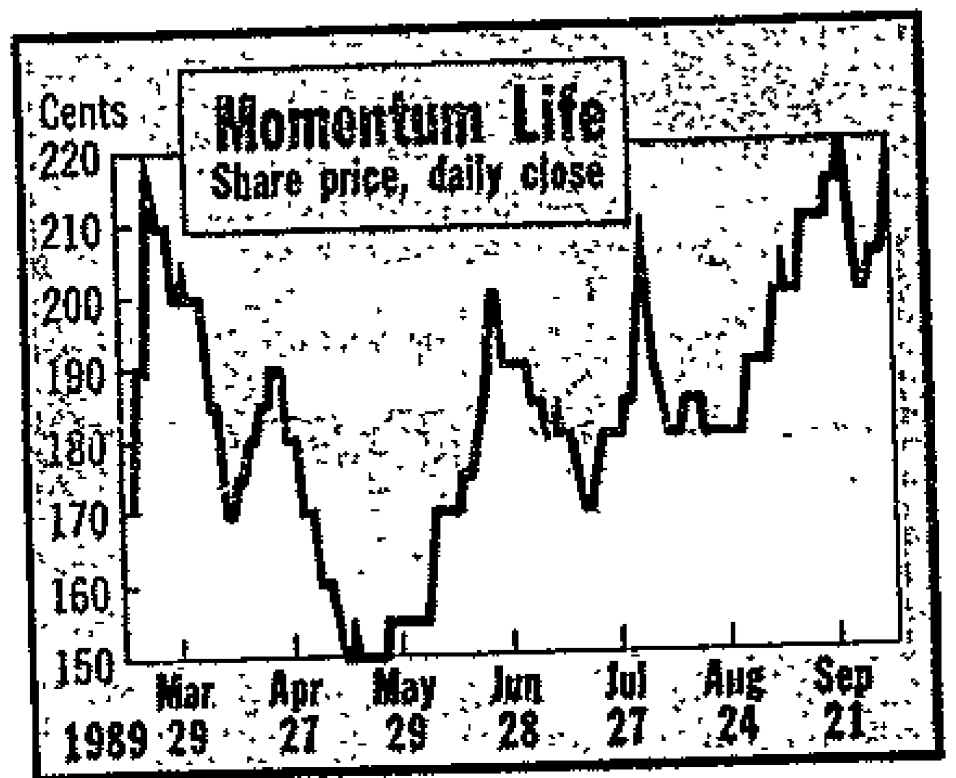
Herbert expects "substantial" growth in EPS this year. At 53c and on an historical p:e of 4,1, the share does not look expensive.

Jacques Magliolo

Momentum declares a surprise dividend

58

BDay 6/10/89



Graphic FIONA KRISCH Source JSE

KAY TURVEY

MOMENTUM Life, reflecting the successful absorption of its Lifegro acquisition in January, has declared an unexpected 4c final dividend for the six months to June.

At the time of listing in March, when the troubled Lifegro was delisted, no payout was anticipated. However, Momentum executive deputy chairman Blignaut Gouws says in view of better than expected rationalisation that has already taken place it was decided to allow for a distribution.

Total distribution for the year is 7,5c and Gouws remains confident the 12,5c dividend forecast in the pre-listing statement will be achieved.

The results, which give the first insight into Momentum since it swallowed Lifegro, show the group has concentrated on cutting costs rather than pursuing growth.

Gouws says the rationalisations should lead to a cost saving in management expenses of R23m in the current financial year and more in the following years.

The staff rationalisation project has almost been completed with the staff complement reduced by 900. A further 120 staff

☐ To Page 2

Momentum

BDay 6/10/89

58

☐ From Page 1

members are to leave in the current year.

MD Neil Krige says the cost of information systems should be reduced by 75% over the next two years as the group has moved away from large main-frames to less expensive medium-range processors.

Additional cost savings will be effected when a tenant for the old Lifegro head office in Sandton is found. The majority of staff are now housed in Momementum's Verwoedburgstad new head office.

The results show total premium income for the six month period at R452m. Gouws says only R110m of this was in single premium income. It was Lifegro's rapid growth in this less profitable area of the market that contributed to its demise.

Lifegro's highly succesful investment team under Peter du Toit was retained and investment income of R239m was reported, giving a total income of R691m. Total assets are now R5bn.

Momentum shares which came onto the market at 170c in March rose 15c to 220c yesterday ahead of results. At this level the shares look fairly expensive on a PE of 18,9 ahead of Southern Life at 15,9 and Metropolitan Life at 12,7. However it would appear investors are buying for the future in the hope of further recovery as the shares stand on a forward PE of about 11,7.

6 | Day 6/10/89

Buoyant market reflected in Sage Group unit trusts

LIZ ROUSE

S8

THE sustained buoyancy in the equity market was reflected in further sound progress by the Sage Group's unit trusts in the September quarter.

Underlying performance produced total returns (capital plus income) for the past year of 43% in Sage Fund and 48% in Sage Resources Fund. Sage Fund's total assets at the end of September were a record R608,4m, 48% higher than in September 1988, while Sage Resources Fund's total assets at R48,5m were 58% above the level a year ago.

Sage Fund's SA liquid assets amounted to R86,93m (14,29%) with Sage Resources Fund's cash resources at R7,07m (14,56%).

Sage Fund's investment strategy was reflected in the disposal of Trans Natal 12,7% convertible debentures, FIT and Noristan, while partial sales were made in Randfontein, GFSA and Richemont.

In the Sage Fund foreign portfolio a new holding was established in Archer Daniels. The holdings in Reuters and RTZ were increased, the latter as a result of a capitalisation issue, and there was a partial disposal in Whitman Industries.

Sage Fund's 10 largest holdings at the end of the quarter were Richemont, Anglos, JCI, SA Brews, Remgro, Rembeh, Gencor, Barlows, De Beers and GFSA.

In Sage Resources Fund, the holdings in Trans Natal debentures, Lydex, Lydex options and Marievale were sold. Partial reductions were made in De Beers, Genbel, Vogels, Fedfood and Highveld, while holdings in Beatrix, Deelkraal, Driefontein, Keeley and JCI were increased. A new holding was established in Rusplats.

Sage Resources Fund's top holdings were Sappi, Anglos, Gencor, JCI, Lebowa, Samancor, De Beers and Middle Wits.

Investec will press for court ruling

(58) BDay 6/10/89

INVESTEC will continue its quest for a Supreme Court ruling on whether BOE can vote its holding in Mercury Trust, in spite of yesterday's news of Liberty Life's rescue of BOE through its asset management company Libam.

The announcement of the deal preceded a sharp rise in BOE's share price; sharp criticism of BOE directors' conduct by Investec; and sharp questioning of the JSE's protection of affected minorities.

It was announced on Wednesday that Libam had taken what could ultimately be a controlling stake in BOE in a R15,75m deal: 3-million ordinary shares at 525c a share.

Dividend

Yesterday BOE's share price rose sharply by 75c to a new high of 625c on news of the Libam rescue and simultaneous release of BOE's final results.

BOE reported attributable profits up 114% to R4,5m, declaring a dividend of 17c a share (12,5c), making a total dividend payout for the year of 25c.

Since early September, when Investec announced its tender offer, BOE's price has risen from 410c. A year ago, BOE was trading at 275c a share.

Investec was reviewing its options yesterday and directors were saying nothing about possible moves, but in a statement issued by executive chairman Bas Kardol, Investec questioned the BOE's conduct in the Libam deal.

LESLEY LAMBERT and ROBERT GREIG

Kardol, who is in Europe, added that Investec's approach had been to pursue a business opportunity while it made economic sense to do so. "For the moment, then, our overall position is under consideration but we can see no reason, at this stage, to stop court proceedings."

Kardol described the Libam deal as a "poison pill". His statement noted:

- Liberty negotiations had not been disclosed in Mercury's recent takeover statement to minorities; and
- The advantages of the deal to Mercury and its minorities "as opposed to the BOE executive" were still "not clear".

Finally, Kardol added: "It is surprising that Mercury directors, knowing of Investec's interest, and being in possession of material facts, namely the BOE results, could have taken the decision to sell a major proportion of Mercury's investment in BOE without first talking to Investec."

One question raised by observers has been "the JSE's passivity towards minorities' rights" in the Libam-BOE deal.

Investec sources argue that the Libam deal amounts to a change of control in BOE, but no offer to minorities has been made, as Section Three of the JSE rules requires.

This view assumes that Libam is, in fact, taking control of BOE. Yesterday, a JSE

□ To Page 2

Investec quest

BDay 6/10/89 (58)

□ From Page 1

spokesman said it was "reserving its position on the question of minorities".

Libam and BOE have based the calculation of Libam's R15,75m stake in BOE on 5,6-million ordinary BOE shares in issue and 5,6-million convertible debentures which, according to the company's articles of association, have voting rights.

The status of the loan stock is, however, a debatable issue and one which Investec's court action against the board is seeking to clarify. If the court rules that the loan stock does not carry voting rights, Libam's stake will be based on the ordinary shares and those debentures which are converted into ordinary shares.

Holders of the debentures are entitled to begin converting each unit into one ordinary share from the end of the current financial year until 2001, after which they will automatically be converted.

Leading spokesmen from both Libam and BOE concede that until such conversion takes place, assuming that the court rules against the Board, Libam's R15,75m stake will be a controlling 56%.

The Board is not overly concerned about this, arguing that its management holds a substantial portion of the loan stock which, converted, would dilute Libam's holding to about 35%. However, it appears that conversion would only become a viable prospect once BOE's annual dividends (25c a share for the year to September 1989) were equal to the annual interest payout on the debentures (50c for the year).

Forecasts of a pause for breath

B/Day 6/10/89 (58)

LIZ ROUSE

THE equity market may well pause for breath shortly, say GuardBank unit trust portfolio managers.

They base their caution on the significant 39,4% rise in the all share index during the past year, which indicates a pause at some stage. Also, the growth outlook for the economy is somewhat sombre.

However, so many factors, both internal and external, influence the day-to-day movement in share prices that any forecast of the likely short-term trend in the equity market is fraught with danger, they warn.

They remind the public that unit trusts are only for the long-term investor, and that over the long term, unit trusts remain an excellent investment.

There were definite signs during the September quarter that measures introduced by the authorities to cool the economy were beginning to take effect.

High consumer expenditure started to abate, money supply growth showed signs that it had peaked, and overall activity in the eeconomy reflected a marked decline.

Because it is necessary to protect the somewhat precarious balance of payments the authorities are unlikely to take steps during the remainder of the year to reverse the current tight monetary policy.

Accordingly, short-term interest rates are likely to remain at or around their current levels, and business conditions will remain difficult during the coming months.

GuardBank Growth Fund and GuardBank Resources Fund both increased their liquidity levels during the September quarter, while GuardBank Income Fund's liquidity remained high.

GuardBank Growth Fund's liquidity rose to R142,86m, or 17,94% of total assets, from R113,65m, or 15,97% in the June quarter. Value of its equity portfolio showed a satisfactory increase to nearly R653,7m (82,06%) from R598,2m (84,03%).

Additions to the portfolio consisted of 1-million TSI and 100 000 Minorco shares while Premier Group and Gencor's holdings were augmented through their rights issues. The holdings in Kinross and AECI were reduced.

The fund's repurchase price showed a 7,59% increase over the September quarter and an increase of 41,14% during the 12 months to September end. Income distributions totaling 65,51c a unit have been declared during the past 12 months. The overall increase in the unit price during the period amounts to 47,06%.

GuardBank Resources Fund increased its liquidity to R13,3m (25,62%) from the June quarter's R8,7m (18,38%), reflecting the increasingly cautious view held by fund managers on the outlook for the natural resources sector. Value of the fund's equities was static at R38,7m, although the percentage of total assets dropped to 74,38% from 81,62%.

Including income distribution totalling 6,87c a unit, GuardBank Resources Fund's unit price increase during the 12 months to September amounts to 44,92%.

58 F Mail 6/10/89

ALLIED GROUP

Playing musical chairs

In the highly competitive financial services industry a medium-sized institution is vulnerable. It lacks scale for major economies and flexibility to move into niche markets. Given these disadvantages Allied Group, which is determined to preserve its independence, is encountering additional problems.

The first building society to open a bank, and the first to merge building society and banking operations, it has been plagued by staff friction. Now, it seems, attempts to expand from basically retail business into the corporate market have met a major setback with recent departures from the corporate division.

However, MD Kevin de Villiers says Allied has never had difficulty attracting bankers. After newspaper reports of resignations last week he had eight applications for the positions. He is to announce the appointment of a new senior GM "in the near future" to replace Mike Henderson, previously of First National, who was fired last week. Henderson won't comment because he is "involved in negotiations" with De Villiers.

In the same department, divisional GM Clive Cook, previously of Nedbank, resigned several weeks ago and is now running a project financing company, Avfin Projects. His departure is thought to be more amicable than Henderson's but it is said there were conflicts in management styles.

Departures from other departments include Andre Latre, of the consumer division, and, earlier, several senior executives.

The immediate problem is finding people capable of putting together complicated corporate deals and keeping them long enough to see the deals through — an expensive process. Even before the latest departures a skills shortage in the corporate division gave rise to a proposal to separate it and merge it with a bank outside the group.

A likely candidate would have been Rand Merchant Bank (RMB), of which Allied owns 13%. This would have given RMB the skills of Cook and Henderson, who are regarded in the industry as highly skilled and experienced bankers. It would also have enlarged Allied's resources.

Where will Allied go from here?

De Villiers sees the disruptions within a broad framework. Reshuffling, he says, is to be expected when such structural changes take place in a company. He says two years ago the 60 most senior officials were familiar only with mortgage banking — and accustomed to operating in a non-profit environment. Now there are 25 bankers and 35 building society people, which "corresponds with the split in our business."

But speculation persists about unresolved problems.

Alan Tindall, MD of the former building society and now group executive deputy chairman, appears totally isolated in the Sandton offices. Decisions are said to be made in Allied Centre by what is described as "the ruling troika" of De Villiers and two ex-First National colleagues, Don Hunter, senior GM consumer division, and Fritz Rieseberg, senior GM administration.

But De Villiers says: "Everyone is happy with the arrangement — including Mr Tindall himself."

Tindall, 55 in February, will then qualify for early retirement in terms of the group's pension fund rules. Chairman Dennis Paxton is expected to be replaced at the next AGM in July when he will have hit retirement age of 70. So further (major) changes are on the horizon.

Largest shareholder Sage Financial Services, with 10% direct, must be concerned with the impact on its investment, though performance in the six months to September should be an improvement on last year's disappointing R51,3m after-tax annual profit. Interim profit is expected to be in the region of R30m. This may restore a measure of confidence.

However, should legislation expected next year open the way to larger single holdings, Sage may well build up its position, giving chairman Louis Shill an expanded power base. Given speculation of disagreements between Shill and De Villiers, subsequent developments could be interesting.

The cutting edge of change can be an uncomfortable place. Perhaps Allied has moved too quickly in efforts to expand and diversify. Natal Building Society which has changed at an easier pace, may have taken the right route. It has done exceptionally well while keeping a careful eye on its traditional business. ■

Investec pressing ahead with court action

Scope 6/10/99 (58)

By Finance Staff

Investec will proceed with court action against the Mercury Trust and the Board of Executors — in spite of the eleventh-hour sale of three million BoE shares to Liberty Asset Management.

In a statement released yesterday Investec's Chief Executive Mr Bas Kardol said the Liberty negotiations were not disclosed in the recent takeover statement to Mercury minorities.

Mercury's sale of BoE shares in the shadow of court action was one of a number of "Poison pill" strategies that could have been adopted.

"The advantage of the strategy to Mercury and its minority shareholders, as opposed to the BoE executive, however, is still not clear," Mr Kardol said.

"It is surprising that Mercury directors, knowing of Investec's interest, and being in possession of material facts, namely, the BoE results, could take the decision to sell a major proportion of Mercury's investment in BoE without first talking to Investec.

"What is perhaps even more surprising is that the shares were sold at the same effective price as Investec offered before the latest BoE results were known," he said. "We have not finally evaluated the detail of the Liberty deal or our position".

Investec's offer was prompted by the first BoE offer for Mercury at a price which has now been proved, by BoE itself, to be an unfair price.

Investec perceived a business opportunity and has consistently said that it would pursue its offer only as long as it made economic sense for it to do so.

"For the moment then our overall position is under consideration but we can see no reason, at this stage, to stop court proceedings," Mr Kardol said.

BoE's chief executive, Bill McAdam says that he is quite happy for Investec to go ahead with its action — they have every right to do so.

But he states that he is confident that the transaction with Libam does enhance the value of Mercury.

The initial feeling in the market is that whatever the legal aspects of the Investec bid, the introduction of Libam to the battle ground makes victory for Investec very unlikely.

It links BoE with a dynamic-Transvaal based institution which should enhance its growth prospects.

STAR 6/10/89. 58

The Star
Finance

Lifegro acquisition boosts Momentum

By Sven Lünsche

Only six months after Momentum Life's acquisition of the troubled Lifegro group, the rationalisation is already benefiting the life assurer.

In Momentum's profit announcement for the year to end-June, the directors confirm that good progress has already been made with the rationalisation of the group.

"The results for the year were better than anticipated and as a result a final dividend of 4c per share has been declared," they state.

At the time of the listing of Momentum in March, coinciding with Lifegro's de-listing, no payout to shareholders was anticipated this year.

The costs of the rationalisation have also been kept to a minimum. Direct costs as a result of the acquisition are listed as R11 million, while management expenses increased from the previous year's R12,8 million to R47,7 million.

Total premium income for the year of R452,4 million, which reflects the recurring and single premiums of Momentum for the full year and of Lifegro for the second six months, was well ahead of the previous year's R80 million.

This was bolstered by a rise in investment income from R52,2 million to R238,8 million, and left a net profit of R180,1 million after total expenses of R511,1 million (R68,1 million) were incurred.

Weighted average earnings per share improved from 7c to 11,6c.

Housing: private sector opens door for privatisation

B/Day 6/10/89

58

BARRY SERGEANT

EVERYBODY involved in the complex web of financial transactions backing the Urban Foundation's bold initiative to house hundreds of thousands of low-income earners will earn adequate returns, says NedPerm MD and chairman of the Mortgage Lenders' Association Bob Tucker.

There is a widespread perception that low-cost housing is risky, costly relative to the returns and expensive to administer. "The new initiative solves all these problems," says Tucker.

The Nedcor group, through the Perm, had the most experience in financing low-cost housing. "What we have learned is that risk is irrelevant to location, size of loan and skin colour."

The initiative is one of many aimed at attempting to solve the 1988 backlog of 800 000 homes for blacks and an unknown number for other low-income earners. A Business Marketing Intelligence report on the building industry (1987-1992) noted: "Despite the tremendous backlog in housing for blacks, only some 35 577 houses were built in SA in 1987."

It said "it is even more alarming to find that in SA, in terms of the percentage of the total investment of R498m, 40% was spent on upmarket housing and only 25% on low-cost housing."

Matthew Nell, MD of the Urban Foundation's residential development and construction division, concedes that the scheme is complex. "If there is any common denominator, it's cash flow."

Firstly, and most important, where will the R3bn cash come from?

The Reserve Bank, explains Tucker, has "correctly maintained capital adequacy standards of 5%, but allowed the creation of a special new instrument. Home loan institutions (see diagram) — for example, NedPerm — could issue R50m worth of convertible debentures into the market, at market-related interest rates.

"This would enable NedPerm to lend R1bn to new owners of low-cost houses. The cash will effectively be taken on deposit by us, as usual, and then on-lent.

"The Reserve Bank regards the 5% as adequate, in keeping with international attempts to maintain adequate capital standards," says Tucker.

At the top end of the scheme is a new body, the Urban Foundation Loan Guarantee Fund. Foreign governments and business enterprises are putting R20m into it. The R20m will be used to reinsure South African short-term insurers who insure the new class of homeowners.

"Perhaps the best way to understand what happens," says Nell, "is to consider what occurs on the day the property is transferred into the buyer's name."

In the example given in the diagram, of a property valued at R25 000, the homeowner needs to put down a cash deposit of only R1 250 (5%).

If this is all the cash he has, he will then pay two premiums to a short-term insurer:

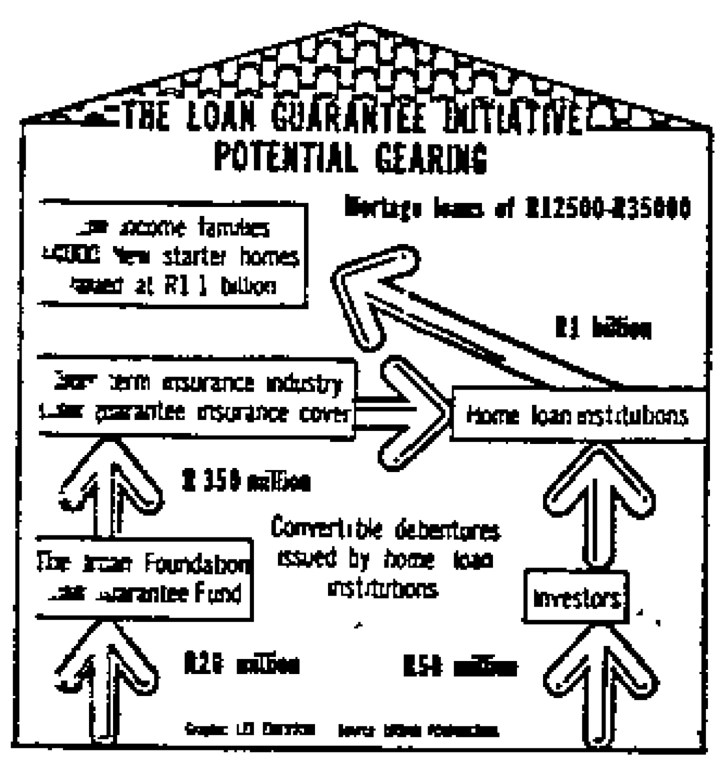
☐ R280 for deposit replacement cover, and;
☐ R375 for risk-reduction cover.

The amounts can be capitalised into the loan, so he need not pay in cash. "If he has paid these two premiums," says Tucker, "the financial institutions' risk is reduced to 60%. This is crucial, as it is far below the normal 80%-90%."

On the date of registration, the vendor (for example a property developer), is paid R25 000 in cash — R1 250 provided by the new homeowner and the balance by the financial institution. The homeowner's principal debt mortgage bond would then be R25 000, plus the insurance premiums, plus other possible expenses such as a life policy to cover the possibility of his death.

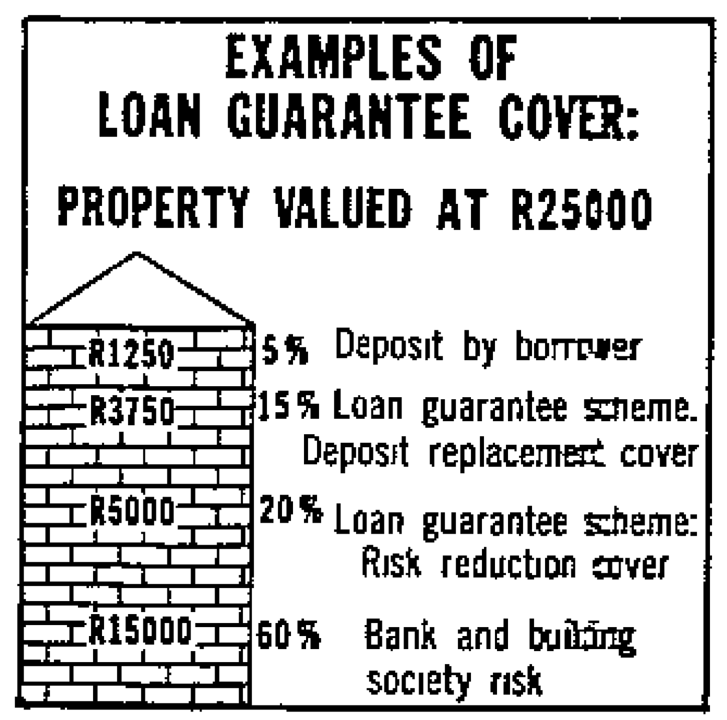
"The Loan Guarantee Fund," says Tucker, "should be seen as a catalyst. The range of support is wide. Three governments have put money into the fund, although most of the money comes from South African business.

"It must be stressed that throughout the scheme, all rates paid will be market-related. The financial institutions involved, and the short-term insurers, all have shareholders to answer to, and shareholders expect profits."



The Reserve Bank has agreed that the R50m convertible debentures will be classified as debenture capital. For tax reasons, the instruments are classified as debt. "This means the debentures are more tax-efficient than equity, because dividends have to be paid after tax," says Tucker. The convertible debentures will eventually be converted to preferential shares.

Nell says one of the more crucial aspects of the scheme is that most, if not all, new homeowners will qualify for the government's first-time home-owner's subsidy. "This means that in the example given, the monthly repayments will be much lower than would otherwise have been the case. The reduction is by roughly one third.



"The effect of the scheme is that 40 000 heads of household who did not previously qualify will now qualify for the subsidy."

In this year's Budget, government allocated R183m (1988-1989: R252m) for housing aid.

A separate amount of R280m (R231m) was voted for urban development and housing aid to blacks, which included an amount of R220m for addition to the capital of the National Housing Fund. And Simon Brand, chairman of the SA Housing Trust (SAHT), said in the annual report this week that the value of projects approved by the board almost doubled from R441m in February 1988 to R865m at June 30.

"These approvals are expected to result in the construction of 49 000 houses and the servicing of 38 000 stands. Since inception, a total number of 9 200 houses was constructed and 19 350 stands serviced through SAHT involvement."

The implications of the various initiatives in housing are immense. The construction industry, which has shown negative annual growth for the past decade, can look forward to better times. The economic multipliers affect dozens of areas: employment, transport, manufacturing, provision of bulk services ...

Johan Kruger, group manager, urban, of the Development Bank of SA (DBSA), comments: "The importance of the Urban Foundation's private sector initiative is that it allows a number of bodies — government, quasi-state and parastatals, such as the SA Housing Trust, provinces, Regional Services Councils and DBSA — to play their correct roles. This, we believe, is to enable the private sector to promote this type of initiative.

"It allows for the re-allocation of existing government resources from roles which can be performed by the private sector, and allows government to concentrate on its correct role, such as the provision of proper planning and bulk services.

"The implication is that it accelerates the entire urban development process. The Urban Foundation's initiative offers a glimmer of hope in solving SA's housing crisis."

Nell adds: "This is privatisation initiated by the private sector. Perhaps the most important aspect of this initiative is that it is economic."

LABOUR LETTER

LETTERS

(58) 6/10/89 F Mail

MYRON BERZACK

Making it big at last

Myron Berzack (40), Berzack's financial director, doesn't feel intimidated by the likes of the four Elcentre directors who join him and three others from Berzack on the new board of HJ Cables (still to be renamed).

The R725m merger will combine Elcentre's electrical goods wholesaling business with Berzack's plastics and cables businesses in a group with more than R1bn annual turnover.

The other Berzack board members are: chairman Maurice Berzack (74), Bennie Illman (70) and technical director Stanley Illman (43); from Elcentre there will be the existing executive board — the three brothers, Reuben (44), Nathan (40) and Chanania Mowszowski (38) — and Phillip Aginsky (36).

Berzack and Nathan Mowszowski were classmates and friends at King David Primary and High school. They saw each other socially and still do. He knows the other brothers and Aginsky well, which is not surprising since Elcentre is Berzack's largest customer.

He matriculated in 1966 and proceeded to Wits to study for a CA. But he wasn't there long. A message came from Bennie Illman which Berzack remembers well: "Stop messing around there. We need you here." The call was heeded.

Myron Berzack ... keeping it in the family

Berzack started work at Illmans as an accounts clerk. He has been there ever since and that is the section of the Berzack group (about 70% of its assets) which is going into the merged operation. It comprises the design and manufacture of cable, pipe, plastic profiles and injection moulding. He also runs Berzack's confirming house, which is not being included in the merger.

By contrast, Elcentre's Nathan Mowszowski collected a BCom and MBA (cum laude). Aginsky, four years Berzack's junior, pulled in a full house: BCom, CA, FAPA, MBA, H Dip Tax Law, H Dip Company Law.

Berzack is not fased. He, like the rest of the new board from both Berzack and Elcentre, opted for qualifications in the university of practical commerce. He says he consults experts on the finer details.

No one has suffered as a result. On the bottom line, Berzack's EPS have grown from 340,3c in the year to June 1986 to 2 380c (equivalent after a 20:1 share split) in the latest year, or seven times.

After his appointment in 1986 as financial director, Berzack is credited as the prime mover behind this high-growth trajectory, with Stanley Illman providing the technical input.

Berzack's father emigrated from London with no money in the mid 1920s and began business selling bicycles. Wolf, the Mowszowski's late father, escaped with some of his family from Lithuania before the Nazi persecution and came to SA after a period in Israel. Berzack was born in Johannesburg; the Mowszowskis in Israel.

The board will be entirely Jewish. Nathan and Reuben Mowszowski are deeply religious.

Berzack is a businessman to the core but his unassuming, youthful manner could temporarily obscure his talent. He says: "I'm 20 years in the business and I'm still 25. In case you haven't noticed, I'm very excited about the merger."

He's also no one's yes-man. "I think he's aggressive," Nathan Mowszowski interjects humorously, "and he thinks the same of me. We like it that way." Says Berzack: "I've always believed in a clean scrap."

Berzack is also credited with the higher profile the company has taken since 1986. He says Berzack had become large and confident enough to be compared with other major cables manufacturers.

It comes as a surprise when the friendly Berzack says he has great difficulty in delegating and trusting people to do the job correctly. Until two months ago, he didn't have an accountant. He believes, however, he's learning fast, but says: "When the buck stops with you, you've got to see it's done right."

Still, stress cannot be ignored, and he admits he hasn't worked out in years. When the rush is over he hopes to take a holiday and play tennis again.

He is something of a workaholic with no real outside interests. Moreover, there's been unabated pressure on him recently. There was the deal with Aberdare, in which a joint company was formed to make cable accessories, the much larger Elcentre deal and Berzack's own record results announced this week.

The rationalisation and division of duties which will accompany the merger, should ease his load.

Berzack has no doubts that the merger of what were until recently two essentially family businesses, will be successful. He has precedent for confidence in Berzack's successful merger with Illmans 24 years ago.

Berzack claims he always had big ideas but coming from a conservative background it was often difficult to implement them. He says his ambition throughout his career was to help create a big entity.

It seems in the merged group, projected to turnover more than R1 bn in the year to June 1990, he has done just that. ■

F·Mail 6/10/89

Complaints of life

"Misleading conduct" by intermediaries was the biggest reason for complaints by the public to life assurance ombudsman Judge Gerhardus Kotze in 1988. In his annual report, Kotze says most cases of repudiation by assurers, on the grounds of non-disclosure of information or giving misleading information in regard to the health of the proposer, were the fault of the intermediary.

Of 178 complaints in 1988 (1987: 170), 21 resulted from intermediaries' misconduct.

Complaints about low surrender values were also significant (16). Kotze says complaints by those who surrender life policies during the early stages are mainly because of misunderstanding over initial costs.

Most common other complaints in the 32 categories were:

☐ Disability benefit refused or allegedly not fully allowed (9);

☐ Non-disclosure of material medical evidence (9);

☐ Misunderstanding between assurer and assured (9); and

☐ Refusal to pay benefits (8).

Of 118 cases finalised, 76 were wholly or partly resolved in favour of the complainants while 42 went in favour of the life assurer. Sixty could not be dealt with — 49 because they were about assurers who did not regard themselves bound by the rules applying to the ombudsman and 11, who "fell outside the scope of the rules." ■

(58) FMail 6/10/89

JOHANNESBURG CONSOLIDATED INVESTMENT

Now for the next 100 years

Activities: *Mining house with interests in platinum, gold, base metals and minerals, diamonds, financial and corporate services, industry and property.*
Chairman: *M B Hofmeyr; managing director: P F Retief.*
Capital structure: *7,4m ords of R2. Market capitalisation: R6,48bn.*
Share market: *Price: R875. Yields: 2,5% on dividend; 8,8% on earnings; PE ratio, 11,3; cover, 2,2. 12-month high, R875; low, R455. Trading volume last quarter, 60 165 shares.*
Financial: *Year to June 30.*

	'86	'87	'88	'89
Investments:				
Book value (Rm)	308	476	700	1 063
Market value (Rm)	3 164	5 404	4 143	6 586

Performance:	'86	'87	'88	'89
Investment income (Rm)	134,7	191,2	234,9	294,3
Other income (Rm)	123,5	141,6	87,8	122,0
Attributable profit (Rm)	204,8	268,5	287,0	363,4
Attributable earnings (c)	2 778	3 641	3 892	4 929
— equity accounted (c)	3 472	5 123	5 434	7 727
Dividends (c)	1 200	1 500	1 750	2 200
Net worth (R)	484	778	616	964

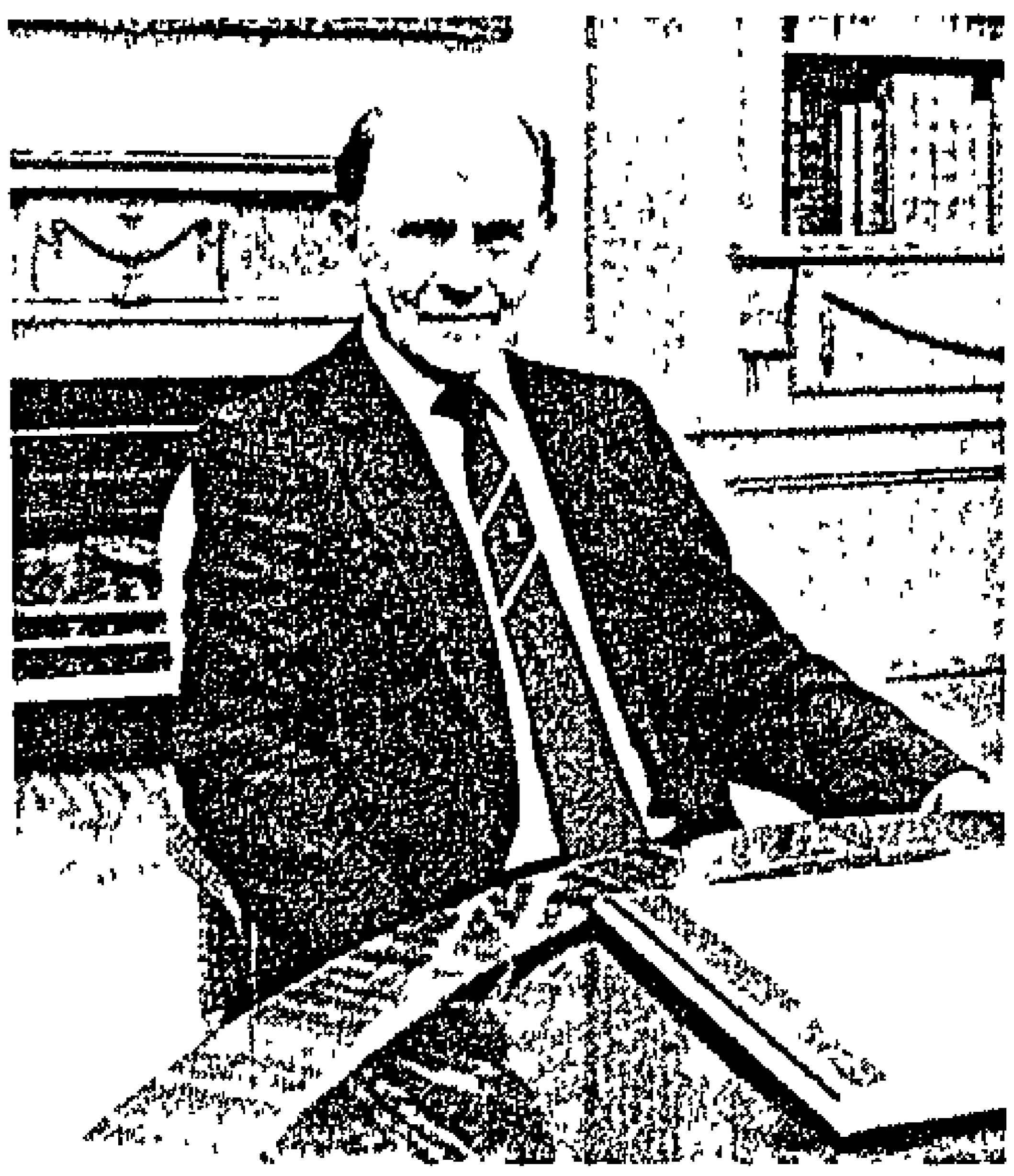
A possible share split and strong indications of expansions in the platinum and gold sectors are among bullish disclosures in the 100th annual report. Sellers of the share have all but disappeared and the price rose 8,4% last week from R830 to R900. This is double the 12-month low of R455.

Shareholders are to be asked to vote at the October 25 annual meeting whether the shares should be subdivided 20 for one. That would trim the price to R45 and could bring the stock within reach of a wider range of investors.

In 1989 earnings of associates were brought to account for the first time. Equity accounted earnings rose by 42% to R569,7m and attributable earnings by about 27% to R363,4m. The dividend is raised by 25,7%.

Though income from gold remains in the doldrums, and its contribution of R24,5m was only 4,3% of equity earnings, there were plenty of strong performances elsewhere. Platinum, up 53% at R199m, provided 35% of the total; industry, up 17% at R134,6m, 23,6%; while diamonds, up 59% at R75m, contributed 13,2%. Ferrochrome also did particularly well and was up by 164% at R50,2m or 8,8% of the total.

Good results were achieved by the two main subsidiaries, Tavistock and Lennings. Better prices for export steam coal saw Tavistock's taxed profit up 110% at R20,2m and engineering group Lennings' attributable earnings rose 53% to R20,6m, largely



JCI's Hofmeyr . . . progress at South Deep

owing to successful rationalisation.

The year saw the flotations of Barnato Exploration (Barnex) and Lindum Reefs. Barnex was formed to acquire an 80% participation interest in Randfontein Estates' off-lease gold exploration activities, while Lindum was formed to develop and exploit reserves in the old Randfontein section as a small, independently managed operation.

Investments included additional shares bought in SA Breweries for R65,5m, the total holding rising to 6,04m (4,94m) ords and 1,8m (nil) convertible prefs. The 36,2% stake in Barnex cost R29m, the 48,9% holding in Lindum cost R17,3m, and shares were bought in H J Joel for R36,6m.

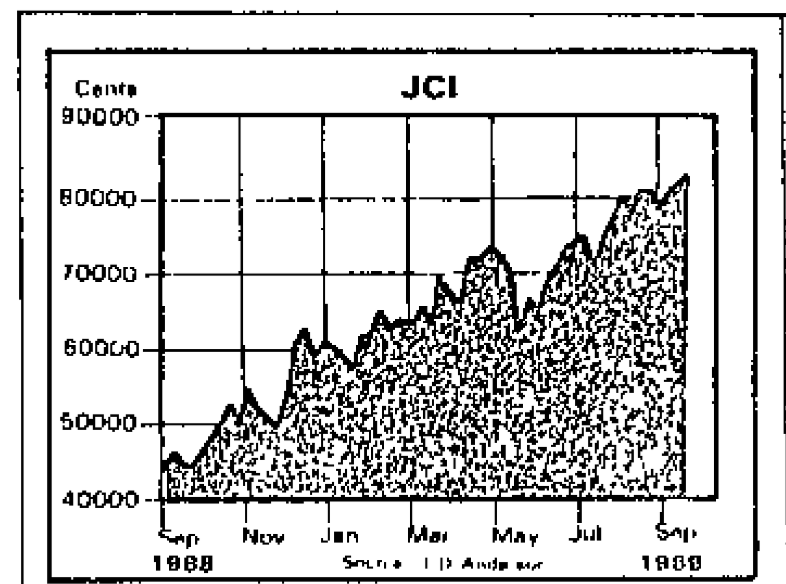
All are small beer compared with the potential effects of expansion of precious metals production. The largest will almost certainly be the South Deep gold prospect where chairman Murray Hofmeyr says work is at an advanced stage. Plans were revised to reduce the initial capital spending needs and boost the early flow of revenue (*Fox* September 29). This enhanced the financial viability and it is expected that a company will be floated this financial year.

The current estimate on which feasibility is based is 123 Mt at an *in situ* grade of 8,9 g/t. However the project is tackled it will be a large and deep mine. In the past brokers' estimates of the cost have run as high as R4bn. Even with the capex brought down, to perhaps less than half that, the venture will need a major funding exercise but JCI doesn't expect to have to call on shareholders for cash.

Evaluation of South Deep, which lies immediately south of Western Areas, is being undertaken on behalf of a syndicate whose major partners are Western Areas, JCI and Free State Development. I understand there are smaller participations by Anglo American, Gencor, Rand Mines, Gold Fields and Anglovaal, while a number of others are entitled to a participation in any new mine.

Another potential gold mine is the Doornrivier prospect, north-west of Joel and Beatrix, where evaluation should be finished by the end of this financial year. Drilling results so far confirm the widespread distribution of the Aandenk and Leader reefs across the property. Indications are that the property is underlain by ore-bearing grades comparable with those of Joel and Beatrix.

In platinum, both Rustenburg and Lebowa are planning expansions. Hofmeyr



says that contracts for the supply of platinum and other platinum group metals are under discussion with automobile manufacturers. Successful conclusion of any of these contracts will require a further increase in production (see next article).

Until more details of these expansions are known it is difficult to assess implications for JCI, particularly in terms of funding requirements. It could take upwards of five years before dividends are received from a venture such as South Deep. At year-end, the overall cash position had almost doubled to R1,28bn. Excluding group company deposits, though, net cash was in deficit by R128m (R28m), largely because of the funding of investments.

On the other hand cash generation should benefit with the start in the next couple of years of dividends from Joel, which should increase as full production is reached. Expansion at Rustenburg could be achieved at relatively low cost and in areas that have low operating costs. As Rustenburg had a cash pile of about R1,1bn at June 30 it will not need funding assistance.

Hofmeyr says the group is conservatively budgeting to maintain earnings in real terms. On 20% prospective inflation this suggests attributable earnings of at least 5 915c (ignoring any subdivision of shares) and a dividend of 2 640c. On that basis the R900 a share price offers a prospective yield of 2,9%. It discounts the present net worth, probably just over R1 070, by about 16%, which looks fair value given the growth prospects.

Andrew McNulty

Q Data aims for a growth rate of 25%

LIZ ROUSE

SOFTWARE and technological services group Q Data is confident that its budgeted 25% growth rate will be achieved in the current year, says chairman Piet den Boer in his annual review.

This growth will be achieved despite investments to be made in research and development and in exploiting new opportunities.

All companies in the group will continue to operate autonomously, while contributing towards the overall objectives of Q Data. The group's information technology professionals (staff has doubled to 500) place it in an ideal position to maximise both local and export opportunities in the industry, says Den Boer.

Knowledge Systems International (KSI) expects major growth in sales of state-of-the-art Oracle data base management systems and related products, while Q Data Management Control Systems (QMCS) is preparing for a strong thrust into the field of manufacturing and distribution.

Qubic is gearing up to aggressively market packages in the AS/400 arena as an authorised ISM agent. Q Packaged Progams (QPAC) has completed Phase 1 of its HurQles human resources package.

Q Data's substantially increased cash flow places it in a position for expansion. Its operating profit jumped 92% to R8,9m on a 121% rise in turnover to R52,3m in the year to June. Acquisitions of Comcon, Millsoft and KSI contributed to this record growth, but earnings were diluted by the issue of Q Data shares, resulting in a 45% earnings growth to 30,9c a share.

The annual report shows that Q Data's operations generated cash of R9,65m on R4,1m cash applied in operations. Cash used in investment activities jumped to R11,3m (R2,5m), with acquisitons of subsidiaries accounting for R8,8m.

The balance sheet shows short-term borrowings reduced to R617 019 (R1,64m), while cash resources increased to R2,6m (R2,1m).

Clothing makers will suffer next year, analysts believe

58

B.Dall

7/11/89

NEIL YORKE SMITH

CLOTHING manufacturers will suffer in the coming year, as the economy slows and high interest rates slash earnings, according to industry players and JSE analysts.

"Undoubtedly, manufacturers will be hardest hit," said one analyst. "Unlike retailers, manufacturers are in no position to down-gear, reduce stock and cut operating costs and overheads in the short term."

As a result they would bear the brunt of industry slowdown, while retailers would use their comparative flexibility to cut both operating costs and overheads, he added.

SEARLL ... reduced sales volumes

Seardel executive chairman Aaron Searll confirmed manufacturers were likely to record reduced sales volumes in the first half of 1990.

"There is a pessimistic feeling regarding the next 12 months," he said.

Searll said fashion-item manufacturers would suffer most. "Lower disposable incomes will see reduced demand for luxury semi-durables," he said.

However, Searll added, informal sector activity should not be under-estimated. "Sales to the informal sector continue to grow. We expect good demand from this sector."

He added: "The clothing sector does not hit an 'air pocket', although we could see volumes fall by 5% over the next year."

Another analyst said reduced, or even negative earnings growth could be expected from clothing manufacturers during the next financial year.

"Highly geared operators will suffer most; they face reduced demand on the one hand and penal finance charges on the other."

Retailers had already reduced stock levels in certain items, and were "significantly reducing orders for the post-Christmas period", he added.

"Manufacturers have been affected already, and their position will worsen."

"Hiccup"

Analysts said Christmas sales would be buoyant but added this should be seen as a "hiccup", not a break from the underlying trend.

"We expect marked declines in retailers' stock levels after Christmas. This will obviously affect manufacturers," said one.

He confirmed all manufacturers were vulnerable, but those with high gearing and fashion-oriented product lines would be hardest hit.

"However, groups involved in industrial garment manufacture, as well as consumer oriented products, will show some resilience."

He cited Conshu as one company which, because of its industrial garment and footwear interests, could show resilience.

"However, we remain sceptical of forecasts of significantly improved earnings from clothing manufacturers," he added.

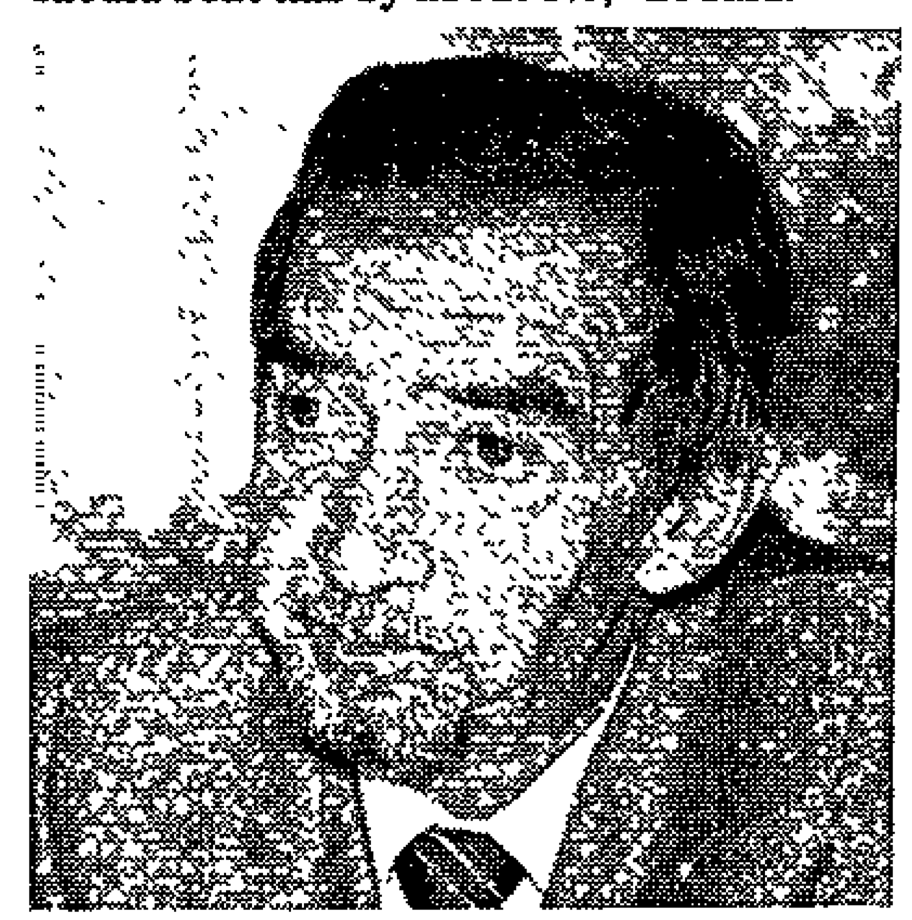
"We do not advise investment in this sector, given the current stage of the economic cycle."

Searll stressed the industry needed to improve operating margins. "Huge textile price increases, added to import surcharges, have put excessive pressure on manufacturing margins," he said.

He said the difference between margins earned by manufacturers and the much higher margins earned by retailers, was disproportionate.

Edgars MD Vic Hammond confirmed retailers enjoyed less vulnerability and more flexibility when faced with economic changes.

"I expect real growth of 1% to 2% in the clothing and footwear sector. Edgars should beat this by about 4%," he said.



HAMMOND ... less vulnerability

However, Hammond agreed high interest rates would significantly affect most retailer's bottom lines.

"We expect slower growth until about this time next year, but clothing should perform better than overall private consumption expenditure," he added.

Arwa MD Dennis Shepherd expressed concern regarding prospcts for clothing manufacturers.

"We expect an industry-wide downswing. Long- and short-term supply problems are expected, especially after interest rates reduce capital investment spending," he said.

Shepherd added all product types would record slower sales, although basic commodities would not suffer as much as the high-margin luxury and fashion items.

"The upside is that manufacturers will place greater emphasis on developing export markets," he added.

Knitwear manufacturers said they were expecting substantially reduced demand.

Filati director Mike Armstrong said he expected a suppressed first half of 1990, but easing later in the year.

Armstrong said Filati was susceptible to high interest rates as lengthy and expensive "carrying costs of production", meant high operating finance charges.

Turnaround

Adonis Knitwear financial director Steven Chaital said existing orders ensured the coming winter season would be successful. He added the group was expecting a highly lucrative Christmas.

"However, high interest rates will affect the industry and the threat of boycotts in the Eastern Cape, and possibly the West Rand, are creating negative sentiment."

Most analysts said a turnaround would only be reflected in the year ending June 1991 and after.

"The 1990 financial year will reflect the full impact of industry slowdown. Depending on external factors, companies reporting at June 1991 could reflect improved conditions as the reversal is expected to begin in the first half of that year," said one.

"In the meantime, manufacturers face a bleak year ahead," he added.

Beware — Big Brother at credit bureau is watching

Star 7/10/89

WHAT does Big Brother at the credit bureau know about you and to whom does he give this information?

These are questions South Africans may well ask following an article in the US publication *Business Week* which reported that computers hold six billion records about Americans — everything from credit information to personal habits. Almost anyone can get this information.

58

Credit file

A *Business Week* journalist, masquerading as a McGraw-Hill Inc editor who might be hiring someone, had no trouble obtaining a credit file on US Vice-President Dan Quayle. While there was nothing juicy in the data, the reporter did ascertain from which stores Quayle made credit purchases, the size of his mortgage and that his credit card number at a Washington bank was 16 digits long.

The reporter found that while the three leading US credit bureaus all guard their information it was easily bought. The credit bureaus in turn sell at least 300 variations of it, broken down by such categories as sex, age and income. In addition, credit bureaus sell their raw data to so called super-bureaus, a second tier of about 200 credit agencies that generally serve small customers ignored by the Big Three.

But what is the situation in South Africa? In spite of the lack of legislation regulating credit information in this country, it is very different to the US, say leading bureaus.

According to Mr Paul Edwards, chairman of the Information Trust Corporation, which stores information on more than seven million individuals and 450 000 businesses in South Africa, consumers' confidentiality is top priority.

While it is not ITC's policy to supply information relating to salaries they "store" sufficient information to allow the details of the credit seeker to be matched to their credit records.

Access to the information is carefully guarded, he says, and only requests from credit-granting institutions and organisations are permitted on a subscriber basis, he says.

"We deal mostly with banks, building societies and credit-granting companies and process about 4 000 million inquiries a year."

Information compiled on consumers was not used for any purpose other than credit vetting, he said. They were associated with a direct marketing company, Vision, but this company had its own data bank with its own consumer lists, compiled separately.

"The only service we offer to this and other direct marketing companies is to run a check on their lists and erase the names of anyone who has a bad judgment against them. Even when the adverse credit information on someone is supplied to us by the banks, they do not provide us with personal information on people," he said.

Mr Edwards said the service offered by a credit bureau was essential especially when people wanted credit immediately.

"It is no good telling them to come back in three days, and the service we offer allows the potential creditor to get that information in a couple of minutes. While what we carry is public information, our role comes in collating it and making a pool of information available to protect creditors from would-be clients who have a history of bad payment.

"Bad debt and slow payments affect prices and so it is in the interest of not only creditors but all consumers that bad payers are identified."

Mr J Brownrig, regional director of KriedItInform, which carries information on three million individuals and 175 000 companies, stressed that they too only provide information to bone fide credit-granting companies on a contract basis.

"We have strict parameters within which we work and we certainly do not provide information on a on-off basis.

"Neither do we carry income information about individuals or bank statements and information on bank financing as many as US credit bureaus do. Banks here do not provide magnetic tapes of their clients' bank records to the credit companies as they do in the US," he said.

However, he said that they did have salary information on about 1 percent of individuals on their lists. But this, he said, was supplied to them by customers who were seeking their service "so as to identify the correct individual". He conceded that there was nothing stopping a computer bureau reselling this information to someone else.

'More good than bad'

He said while individuals might raise objections to personal information being made available through credit bureaus, "they should accept the more good than bad is done".

"In one month alone slow paying (either underpaying accounts or late paying) exceeded more than R300 million in South Africa.

"Credit-granting companies have to fight this and the one way of doing so is to ensure that credit is not granted to those with bad paying records," he said.

Volkskas's performance delights group's MD

58

B. Day 8/11/89

BARRY SERGEANT

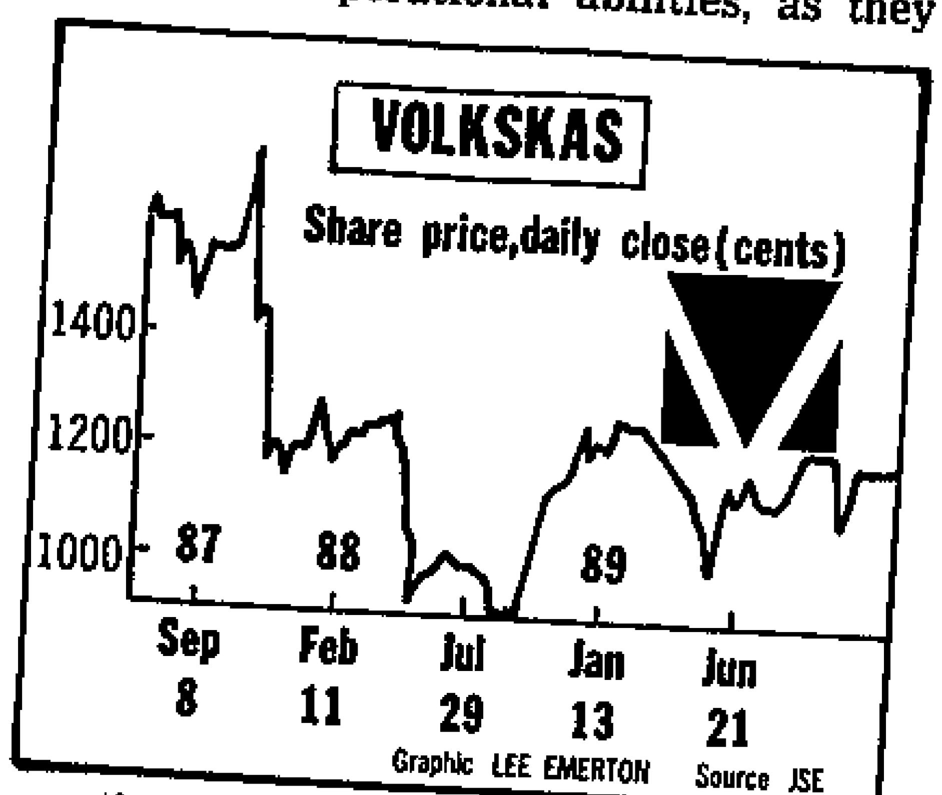
The Volkskas Group has increased interim earnings 26,6% to 117,7c and dividends 13,6% to 25c a share for the six months to end-August. Net income for the period increased by 26,6% to R39,5m.

Group MD Danie Cronjé says he is delighted with the results. He mentions advances in particular, which increased 24,4% on the previous year to R12,2bn. "We are making inroads in a highly competitive environment," he says.

Interim dividend cover has been increased from 4,2 to 4,7 times — against 2,74 for the full year to March 31. Volkskas traditionally earns 40% of its earnings in the first six months of the financial year, and its interim dividend comprises 30% of the full year's dividends.

Cronjé says that it is the group's objective to increase the full year's dividend cover to three times — something the group may achieve this year. The increase in dividend cover at the interim stage, which some shareholders may resist, indicates a determination to strengthen the balance sheet.

Cronjé says all balance sheet ratios are looking stronger at the interim stage, and a rights issue is not in the offing. The interim results are a useful measure of Volkskas's operational abilities, as they



are the first that cover a period when no significant financial restructuring was occasioned by strategic transactions.

According to Cronjé, about 25% of head office staff, or 450 people, including executives, are due to move from Pretoria to new offices in the Colosseum in Johannesburg by the end of the first quarter next year. "You can imaging how popular that makes me," says Cronjé.

The move is a direct bid by Volkskas to move aggressively into the corporate market. Given the right deals, this kind of business can deliver lucrative results.

But the backdrop, as given in comments by the board on the interims, is tough: "The period under review was marked by continued intense competition in the financial services sector which, together with a sustained high level of interest rates, kept interest margins under pressure."

On the outlook, the board says: "The anticipated downturn in the economy during the second half of the financial year, could place considerable pressure on the profitability of the banking sector. The monetary measures taken will reduce further the demand for credit, while credit risks will tend to escalate.

"The Volkskas group, however, foresees real growth in earnings per share for the financial year ending 31 March 1990."

Cit Times 9/10/89

Iscor share shuffle

R5,2bn from institutions?

S8

Own Correspondent

JOHANNESBURG. — Institutional interest in Iscor so far is 100% more than the shares available, the promoters have confirmed. Shares available for institutions total 1 308m of a total 1 850m shares on offer.

The offer price is 200c/share, indicating that institutions were prepared to invest R5,2bn in Iscor shares. Bernard Kaiser of Senbank, one of the merchant banks involved in the offer, said the high institutional interest in Iscor so far was informal.

While the indications were expressed in writing, the intentions were not legally binding on either the institution or government. But if institutions formally applied for the number of shares they indicated interest in, they would only be given 50% of what they wanted, if the allocations were pro rata.

Hennie van der Merwe, MD of Finansbank, the other merchant bank involved in the offer, said it was important to note that the institutional interest in Iscor in no way affected the 150m shares on offer to the general public.

"People should not conclude from the institutional interest that there's no point in them applying for shares," said Van der Merwe. If the offer to the general public, which closes on October 25, is oversubscribed, allocation would be made on a basis that would be announced on or about November 1.

Government has repeatedly stressed that the small investor would be favoured.

Kaiser said that some 350 institutions had expressed interest in Iscor shares. There was no easy definition of institution, but it generally meant financial institutions such as pension funds and life offices which held shares for investors on a purely discretionary basis.

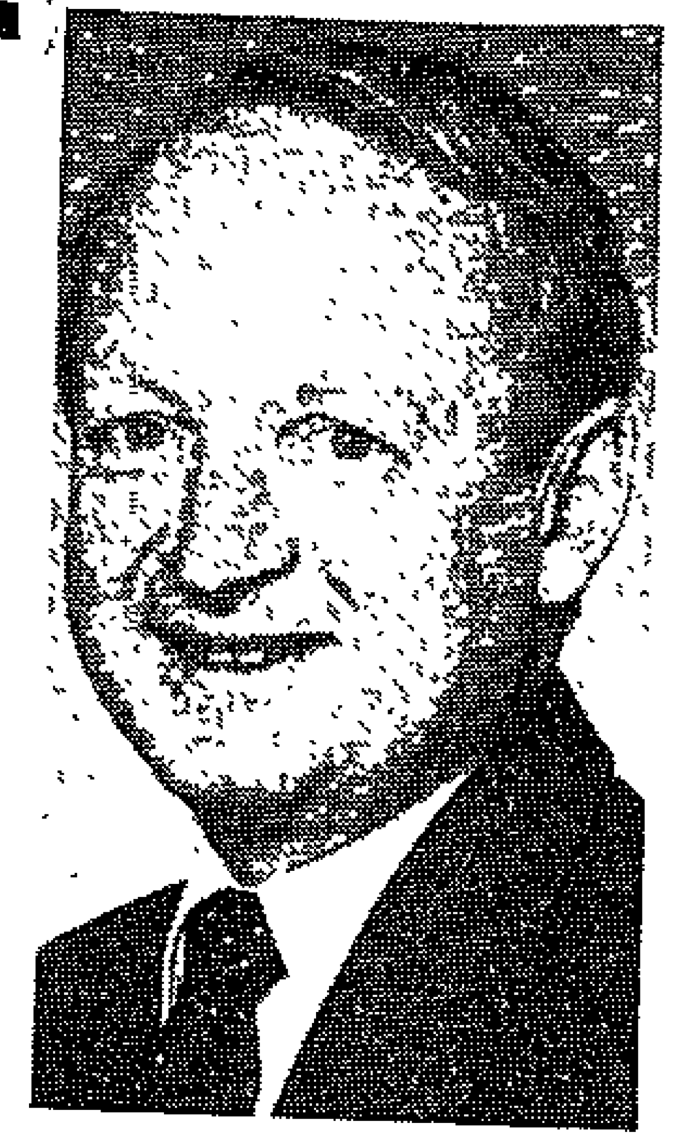
Meanwhile, institutions have given a formal undertaking that they will not be applying for shares on behalf of individuals. Kaiser said that it had been rumoured that some institutions were going to apply in their name for certain shares that would in fact be handed over to individuals.

"Rumours such as this could make government mad," said Kaiser, "so we asked for a formal undertaking that institutions would only apply for shares that would be held on a purely discretionary basis."

And news last week that assisted minors could now apply for shares is causing new controversy.

Members of the public may only apply once for Iscor shares. There is now speculation that the rule can be contravened by an investor applying through one or more children. "This misses the point," says Kaiser. "An investor who deliberately sets out to break the rules can do so in a number of ways.

"The Iscor experience has everyone on a learning curve."



John Meyer has been appointed sales consultant of Mashold's direct selling division, Family Selections. Meyer is the former MD of "It's a pleasure" and sales co-ordinator of "Golden Products".

United strategy keeps costs low

THE United has consistently undercut other banks on cheque accounts, both on interest charged and on the service fees — a bold strategy implemented during a period when upward pressure on money market interest rates remained relentless.

United marketing GM Tienie van der Berg explains the thinking behind the strategy: "Our problem has been breaking into banking when a building society is not a natural place to seek cheque accounts and cards.

Disincentives

"Also, the hassles of changing debit orders, credit orders and stop orders are strong disincentives towards switching cheque accounts. So to break into the market it was necessary to offer real benefits."

How does the United do it without taking a knock — and is the strategy paying off?

Says Van der Berg: "We are not involved in the highly competitive corporate cheque account market and do not have to subsidise these accounts with high charges on the retail side."

He adds the United group is "a very low cost producer" of financial services and is able to pass on low

TIENIE VAN DER BERG

costs to the United Bank.

Low costs are partly the result of a relatively small staff and previous investment in electronic delivery.

Profitable

"Cheques and other bank products are merely an addition to a profitable range of building society products and therefore it is only the marginal costs of supplying the service that need be taken into account."

Criticism has been levelled at the strategy with some other bankers saying the United will not keep up the low charge of its accounts.

These critics maintain once the new bank has built up a big enough book, its prices will rise.

Van der Berg, however, is adamant: "Upgrading electronic delivery systems by many banks will erode the current 'one account for life' benefit and then cheque accounts will be mere commodities which are bought on the basis of price.

Unlikely

"Little scope for differentiation will exist — so to maintain the competitive edge, it is unlikely that United will abandon its low-cost strategy for the foreseeable future."

He says the United is satisfied with the results of the tactic.

"The only dampener on opening new accounts has been dealing with the volumes thrust upon branches."

While currently targeting mainly the market for individuals' accounts, small corporates and businesses with turnover of less than R5m are also on the new bank's books.

In the longer term, the bank plans to focus also on the middle corporate market.

Volkskas move to up business

VOLKSKAS's drive to gain a larger share of the corporate banking market is behind the planned move by group top management to Johannesburg.

Says spokesman Willie Roux: "The bank sees an opportunity for expanding its customer base among the large corporates. The move to Johannesburg makes sense as most companies' head offices are there,".

Volkskas — traditionally perceived as a bank focusing on the individual Afrikaans customer — has a relatively small share of the corporate market. But this share is growing fast as the bank has shifted its focus away from its traditional customer base, which has been fully exploited.

About 25% of its staff based in Pretoria, or about 450 people, will move to the Johannesburg office in the Colosseum Building. The group has contracted to rent 12 000m² in the building for five years.

Another feature of the group's drive to gain a larger share of the corporate banking market has been a greater emphasis on electronic banking services.

The bank is the only one to offer corporates a facility which allows them to transfer money from one account to another between other banks.

Other banks providing the service only allow the transfer of funds out of the bank.

Fierce price wars mark increased competition

B. Day 9/11/89 57

FIERCE competition characterises banking today with an intense battle raging between the big five banking groups, the building societies and a growing number of small independent merchant banks.

The old cartel days where interest rates were jointly decided on have disappeared and intense price wars on the consumer and corporate side have been fought.

Pressure

Competition has seen margins slashed and the fight for market share has put profitability under pressure.

Only the fittest will survive in a market widely regarded as "overbanked".

The deregulation of banking legislation has seen building societies create banks and compete head-on with the big five for their traditional consumer business — personal loans, HP finance, cheque accounts, revolving credit and credit cards.

At the same time, banks moved in on the societies' traditional turf and became major players in the home loans market.

Consumers could pick and choose and as a result, banks' assets surged by almost 59% in the two years between March 1987 and 1989.

But two years after the "easy money" days of 1987, banks are becoming far more cautious about market share.

The price war for consumer business is, for all intents and purposes, over.

Long gone are the days of the "bond war" when banks and societies were going all out to slash interest rates on home loans to the lowest possible level.

With foreclosures picking up and the Reserve Bank leaning on banks and societies to curb credit extension, the focus of the battle has changed to a large extent.

With some exceptions, marketing has become product-driven instead of rate-driven with banks and societies vying to put together the best package for the personal customer.

Market share has become less important than maintaining profitability during difficult times. The one consistent factor has been the emphasis on user-friendly electronic banking.

On the corporate side, the price war has seen major corporates borrow at well below the prevailing prime overdraft rate.

Tightening

Commissions on Bankers' Acceptance finance have been cut to the bone. This price war has the effect of reducing the impact of a tightening in monetary policy on credit demand and imports. It also means consistent pressure on margins.

It is a high-cost market — corporates demand sophisticated electronic banking systems for cash management, as surplus cash cannot be allowed to lie idle.

Against this background, it is surprising that small merchant banks not only survive but thrive.

They specialise in niche markets, mainly derivatives but also financial services, and steer clear of the battle for a stake in the upper-end of the corporate market.

The small banks in the building society fold are also largely steering clear of this highly pressured business.

But they are also not in the derivatives markets. Instead they are going for the medium to small corporates. Surprisingly, some of them have been reasonably successful in building a corporate book.

The field of banking is further complicated by competition from "money brokers" without banking licences.

These firms, including trust companies, operate in the so-called "grey" or disintermediated market, where lending and borrowing take place without the intermediation of a bank.

Interest rates in this market are generally lower than in the banking sector, since the legislative constraints on banks are not a problem here.

Banks are compelled to hold cash deposits at the Reserve Bank equal to 5% of their short-term liabilities and 2% of their medium-term liabilities.

Expensive

These cash deposits do not earn interest from the Reserve Bank and consequently result in banks' cost of funding being more expensive than that in the disintermediated, or "grey" market.

But many banks, responding to the challenge of the market, are themselves taking part in disintermediation.

Collecting that commission is only one way of thriving in a market where traditional banking business is only a small part of the operation.

Allied has sights on corporate sector

THE Allied is an exception among building society-owned banks as it has targeted the corporate market since its inception and is striving towards offering a full range of services in that market.

As part of this focus, it has developed a foreign exchange dealing operation — an expensive move so far shunned by other small banks in the building society fold.

But Allied senior GM Cedric Becker, while acknowledging starting up was difficult, says the forex operation is "paying its way". It has built up a team which plays well in the deutschemark market and also deals the other major currencies, but leaves "the more exotic ones" to the larger banks.

"Starting up has not been easy, as it takes about three years to establish an adequate client base and get the international banking lines in place. But we are there now and as volumes pick up, profitability should improve," says Becker.

CEDRIC BECKER

He notes the bank does not see itself becoming a major player in the forex market.

"We don't have delusions of grandeur. Our approach has been that we have to offer this service if we want to be in the corporate banking market."

The idea is to offer a one-stop service to the medium-sized corporates specifically targeted by the young bank.

Unlike the major corporates, these companies are more inclined to do all their business with one bank. Where a huge company will spread a deal around town, shopping for the best price, the medium-sized corporate is said to be more of a "one-bank customer".

"Our customers prefer doing everything, their forex and their letters-of-credit and everything else, with one bank," says Becker.

Software

As part of this drive to offer "one-stop" services to the corporate customer, the bank's international division is developing its LC facility.

This entails developing and putting in place the right software for a service which is administration-intensive. Once this is complete, the client with international business will have access to a more complete service.

Settling affairs by dialling a number

VOLKSKAS and the Standard Bank are determined that your bank need only be as far as the nearest telephone. Both are making strides in "phone-banking".

Volkskas recently launched Banktel to give customers telephonic access to information about their accounts.

By dialling a number anywhere in the world, the customer can now settle accounts, make transfers, ask for a balance and order a new cheque book.

Banktel is similar to the Standard's Toni in that a tone generator is used to communicate with the mainframe.

The Standard Bank was the first to launch the service about a year and a half ago.

Says personal banking GM Bill Mansfield: "Initially most customers kept to the simple transactions, like requesting balances of their accounts, checking on the gold price and forex rates.

"But as they gained confidence, they started using the more complex transactions, such as transfering funds from one account to another, and paying their accounts electronically."

Volkskas's entry into this market earlier this month was followed by an improvement in the Standard Bank's service.

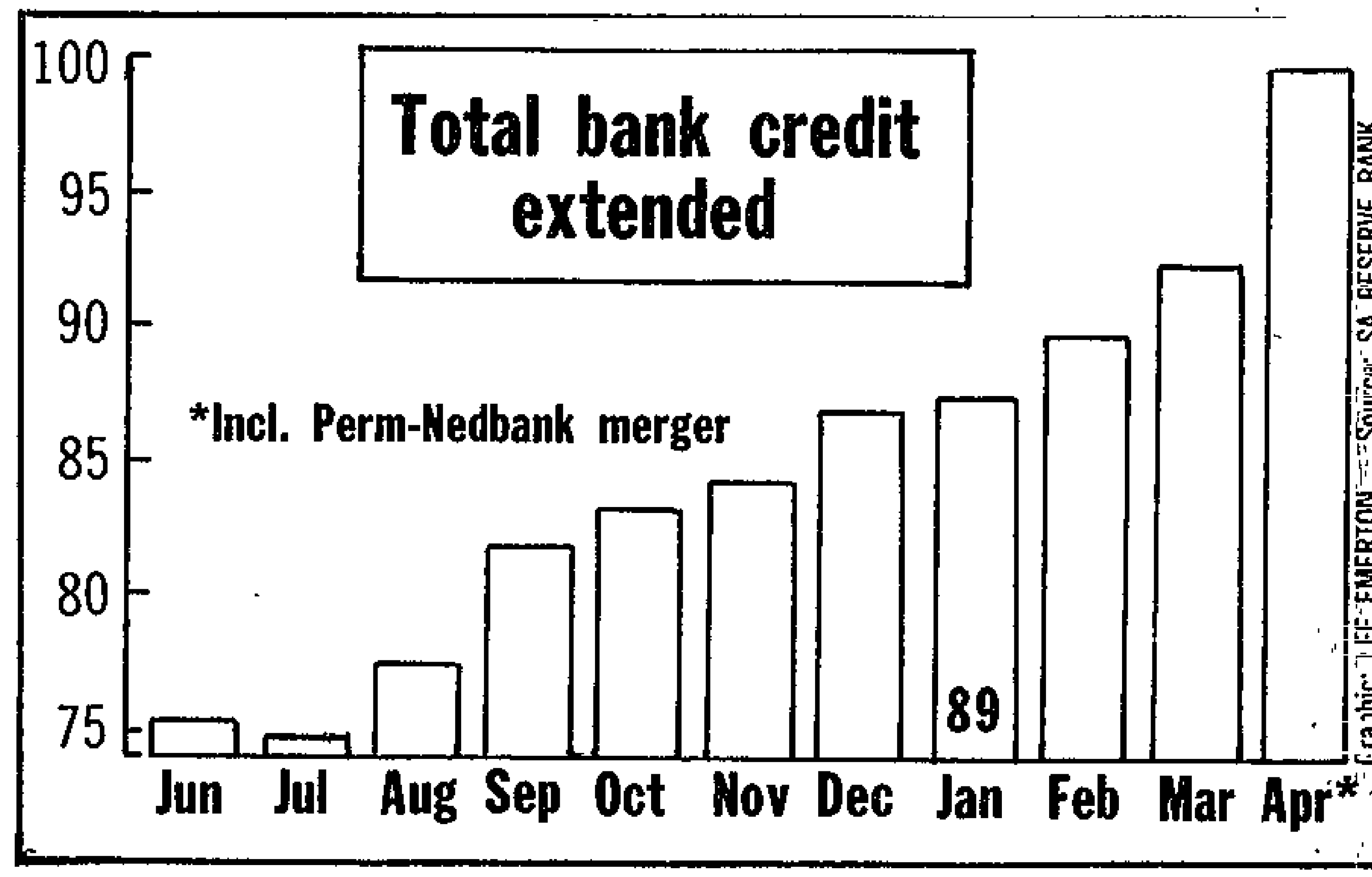
Two enhancements were made: One was a "fast forward" facility, providing a short-cut in completing transactions on the telephone, and the other was availability of electronic account details on AutoPlus machines.

The "fast forward" feature allows bank-by-phone users to bypass step-by-step instructions for the routine transactions, thus completing them more quickly.

Comparat

Business Day SURVEY

*It is often said SA is overbanked, that only the leanest and fittest can survive. Added to this has been the aggressive entry of building societies into the market. **GRETA STEYN** reports on an industry where intense struggle for market share has led to many innovations in both consumer and corporate banking.*



NBS grabbing its slice of Natal market

NBS's fledgling bank is quietly getting its slice of the Natal corporate banking market — surprising news from a bank thought to be geared towards the NBS building society customer base.

The bank's corporate book of R220m was built up over 18 months and beats the consumer book of R40m.

MD John Smale acknowledges the bank started off with the retail market as its main focus, with the corporate market "in the back of our minds".

"But the opportunity arose for us to gain a share of the corporate market in Natal and we took it."

Most of the bank's growth has been in the greater Durban area where, Smale says, the group "enjoys tremendous acceptance" because of the building society's good name.

Although it is also in the market in other important urban areas, the growth of the bank's corporate book flowed naturally from its standing within the Natal business community.

Smale believes the corporate market is "somewhat overbanked" in Johannesburg and the NBS is not planning a major effort to get a share in the Transvaal.

Extension

It is involved mainly in traditional general banking such as instalment and leasing finance, and also provides finance for commercial and industrial properties — a natural extension of the building society business.

Its target market is the medium-sized corporates and its customers are to be found in the sugar industry, manufacturing and retailing, especially among Indian traders.

"We are leaving the top end of the market alone where margins are thin, preferring to concentrate on the middle of the market," says Smale.

The bank will split the consumer and corporate side more formally by shifting the consumer book onto the balance sheet of the building society as "general advances".

Significant

This is only logical, says Smale, as the marketing and selling of consumer banking services is done through the building society's branch network.

It is significant, though, that the bank's balance sheet will in future reflect only the corporate side of its business — an indication that sufficient volumes are expected.

JOHN SMALE

What about plans to expand into other areas of corporate banking, such as foreign exchange dealing? Smale says the bank is not applying for a foreign exchange dealing licence.

"I don't see what it could achieve. We have the systems in place at NBS Treasury and both us and our customers are comfortable with the way we are running at the moment."

Slow-down

The slow-down in the economy is not likely to knock the bank too much. Smale notes it is "lean" with its overheads kept to a minimum.

"During a slow-down we do not have to worry about high fixed costs hurting us."

The group is happy to go it alone and is reluctant to talk about possible mergers.

The NBS's share of the Natal market could make it a prime target for a takeover but it is still protected from hostile bids by the Banks Act.

Record life pay-outs

STAR (58) 9/12/89

Finance Staff

Life assurance policy-owners received a record R7,7 billion in benefits in the twelve months to June.

This represents an increase of 18 percent over the benefits paid out in the equivalent period a year ago.

Figures released today by the Life Offices' Association (LOA) show that benefit payments to policy-owners amounted to R1 million every 15 minutes of every working day.

"These figures illustrate the important role that the life assurance is playing in the lives of South Africans," says Pierre Steyn, LOA chairman and MD of Sanlam.

"The benefit pay-out in the twelve months to June this year represents the average per capita income of about 1,4 million South Africans.

The amount is comparable to the total income for a whole year of all the people of a city the size of Johannesburg.

"Thousands of policy-owners or their dependants would have been destitute, or a burden on the state, had it not been for the service provided by the life assurance industry," he says.

Total premium income for the year showed a modest increase of 5,8 percent over the previous twelve months.

Mr Steyn says: "This is the smallest increase recorded by the industry in several years and in real terms — after allowing for inflation — this actually represents a decrease in premium income of about 10 percent.

"This was brought about by a dramatic decrease in single premium income, both in nominal and real terms. It reflects, inter alia, the effect of the LOA members' agreement to market investment policies for terms of at least five years. The agreement was entered into in October 1988.

"The decrease was limited to single premium income, which now only accounts for a third of total premiums. Recurring premium income, relative to the industry's bread-and-butter lines of business, increased by more than 20 percent," says Mr Steyn.

Bank rate up?

Cape Times 10/10/89 58

By AUDREY D'ANGELO
Financial Editor

MOST people in this country will find themselves poorer as a result of a 1% rise in the bank rate announced last night. It will go up tomorrow morning, from 17% to 18%.

This will inevitably mean higher interest on bank overdrafts, mortgage loans and hire-purchase charges, and will tend to push up prices as manufacturers and shopkeepers recover their increased costs.

The news was received with dismay by Mr Kingsley Loney, regional manager of the Natal Building Society, and Mr Brian Button, managing director of Syfrets Bank.

Both said the man-in-the-street was already struggling to meet his commitments, and a higher bank rate would make matters worse.

In recent months, newspaper advertising columns have carried long lists of sales in execution of houses and other property which have been repossessed. And recent surveys have shown that the economy is moving into a downturn, with a falling demand for bank credit.

Up further?

Earlier rises in the bank rate this year were intended to protect South Africa's balance of payments by reducing demand for exports.

But some economists have forecast that rising interest rates overseas might force the Reserve Bank to push up its rates further. This was the explanation given by new Reserve Bank governor Dr Chris Stals last night.

Last week several Western European countries, including West Germany and Britain, raised their bank rates. Dr Stals said last night that this had widened the margins between South African and overseas real rates of interest.

"This will put additional pressure on the capital account of the South African balance of payments, on the exchange rate of the rand and eventually also on the rate of inflation in South Africa.

"In view of the relatively low level of South Africa's foreign reserves and our existing commitments to repay foreign loans, and taking into account the relatively low price of gold at this stage, the country can ill afford any further pressure on its balance of payments."

Dr Stals said the latest economic statistics con-

To page 3

From page 1

Cape Times 10/10/89 (58)

firmed that the economy had turned down early this year and was now technically in a consolidation period.

Discussing the difficulties caused to home-owners, small business people and farmers by higher interest rates, Dr Stals said that schemes were introduced to help them when the bank rate was raised in May.

Mr Loney said he expected more people would now take advantage of the government's scheme under which mortgage interest could be pegged at 17% — even though this meant the repayment period would be longer.

"But 70% of house purchases today are subsidised by the employer. And when the bond rate goes up the subsidy goes up too."

STAR (74) 6/10/89 (58)

Bank rate increased

The bank rate is to be increased from 17 percent to 18 percent with effect from tomorrow, the governor of the Reserve Bank Dr Chris Stals announced yesterday.

Dr Stals says that the rate at which the Reserve Bank rediscounts Treauary Bills is to be increased from 17 percent to 18 percent, while other interest rates at which the Reserve Bank provides accommodation to the market will also be increased by one percentage point. Rates in respect of all forms of overnight loans will be raised by 1,25 percentage points.

The rate for overnight loans covered by liquid bankers' acceptances, for example, will be increased from 20 percent to 21,25 per cent.

Explaining the reasons behind the rate increase, Dr Stals said that the increases announced in the discount rates of a number of central banks in Western Europe and in the United Kingdom last week, widened the margins between South African and overseas real rates of interest.

"This will put additional pressure on the capital account of the South African balance of payments, on the exchange rate of the rand and eventually also on the rate of inflation in South Africa.

"In view of the relatively low level of South Africa's foreign reserves and existing commitments to repay foreign loans, and taking account of the relatively low price of gold at this stage, the country can ill afford any further pressure on its balance of payments."

Dr Stals says that the latest econmomic statistics confirm that the economy turned down early in 1989, and is now technically in a consolidation period.

Other reasons cited by Dr Stals for South Africa to maintain nominal interest rates at an appropriately high level are:

- Statistics for money supply indicate that in August, M3 still increased at a rate in excess of 24 percent over 12 months. This remains well above the target range of 14 to 18 percent for 1989;
- Increases in wages and salaries in excess of the rate of inflation create more inflationary pressures in the economy and also raise demand for credit. It is therefore necessary to counteract these effects by a more restrictive monetary policy;
- The làck of an inflow of capital from abroad makes it important that South Africans at this stage spend less on consumption and save more, as the country is obliged to finance its economic development entirely from its own reources.

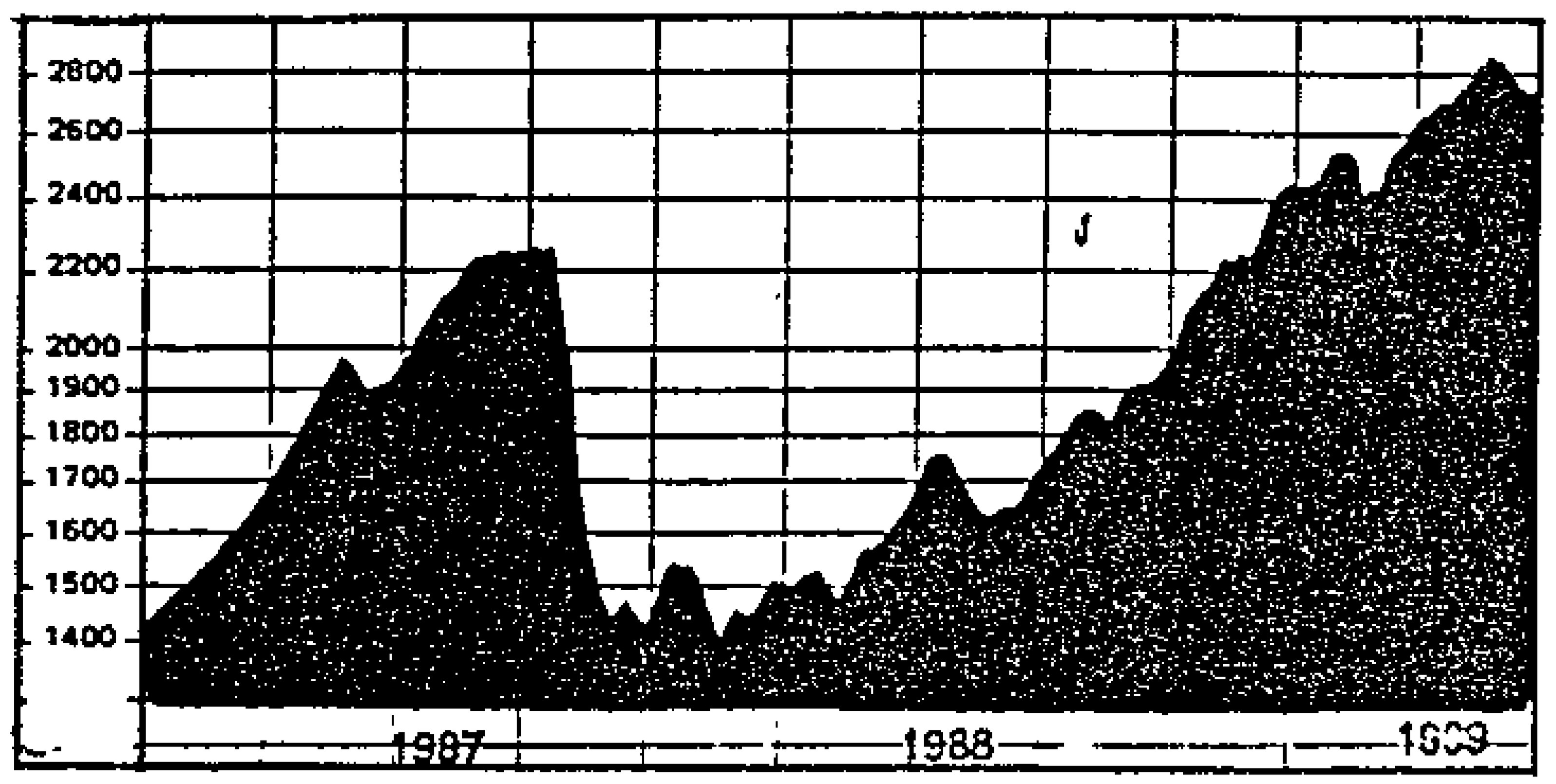
Share market entering period of consolidation

STAR 10/10/89. 58

The expectation that the economy is heading for a slowdown, rather than a recession, is acting as a positive factor in the share market, Syfrets analysts say, but caution that the share market is entering a period of consolidation, which might even see some share prices dip.

In the quarterly Unit Trust Matters, released this week, the analysts say the implication of a slowdown is that the better managed companies on the JSE will still provide further growth in dividends in the coming 18 months, "although lower than the 20-30 percent growth enjoyed over the past two years."

But the Syfrets analysts sound a warning about demands on the other major factor affecting the market — the continued channelling of the public's savings into the JSE via the cash flows of the pension and life assurance industries.



The industrial index has been steadily climbing all year.

Cash flows

"On the question of institutional cash flows, a point of caution must be raised over the ever increasing level of capital being raised on the JSE," says Anthony Gibson, portfolio manager of Syfrets' two unit trust funds.

"When combining rights issues, new listings and foreign disinvestment, an amount approaching R10 billion has already been absorbed from cash flows during the first nine months of 1989.

"It is inevitable that such large draws on institutional cash flows must materially limit the extent of further flows which will be directed into share investment.

"Given a scenario of slower economic growth, high interest rates, lower equity purchasing by institutions, and a strengthening of the financial rand, it is our belief that the share market will enter a period of consolidation for the remainder of 1989."

There could quite conceivably be some easing in share prices, Gibson says.

Listing negative market factors such as the sluggish gold price, high interest rates and inflation, and the depreciating rand exchange rate, Syfrets say that with the exception of the gold price, these stem largely from South Africa's growing economic isolation and the resultant pressure on foreign exchange reserves.

"It is therefore with guarded optimism that investors await some relief to this economic stagnation as our new State President and Cabinet attempt to release the political log-jam.

"This anticipation is clearly demonstrated by the recent strength of the financial rand during the past quarter".

Gibson points out that due to this narrowing of the "political discount" placed on investments into South Africa, a number of "rand-hedge" shares have noticeably underperformed the indices of late.

"This trend looks set to continue during the months to come as the expectations for political reform are maintained at what might be unrealistic levels."

Liquidity

Of Syfrets' two unit trusts the Syfrets Growth Fund marginally increased liquidity in the quarter to the end of September, while the total portfolio itself increased from R149 million to R167 million.

Total return on the units (capital growth plus income) over the twelve month period was a healthy 51,32 percent.

Syfrets Growth Fund income for the quarter was 1,75 cents a unit, making 6,06 cents for the year compared with 5,29 cents for the 12 months to September 1988.

A breakdown of the equity portfolio shows that the lion's share, 52 percent (48 percent previously) is in industrials, followed by 20 percent in mining finance and 8 percent in diamonds.

The Syfrets Income Fund, now one year old, has grown to a market value of R52 million.

During the past quarter, the medium dated RSA stocks were sold at yields approaching 16 percent realising a small capital profit, and a "singificant investment" was made into Government Issue Loan Levy Stock at a yield of 17,25 percent.

Portfolio manager Anthony Gibson notes: "We will continue to purchase longer-dated issues during the coming months at interest rates which offer attractive returns to unitholders. In the meantime the cash holdings continue to earn very attractive returns."

Income distribution for the quarter was 4,07 cents a unit. Combined with a capital appreciation of 1,38 cents this represents an annualised total return of 21,5 percent.

Increase in Bank rate explained (10) (58)

Net reserves at a perilous low — expert

B|Day 11/10/89

BARRY SERGEANT

TODAY'S increase in the Bank rate from 17% to 18% was precipitated by a perilous net reserves position, sufficient only to cover a few weeks' imports, says Nedcor chief economist Edward Osborn.

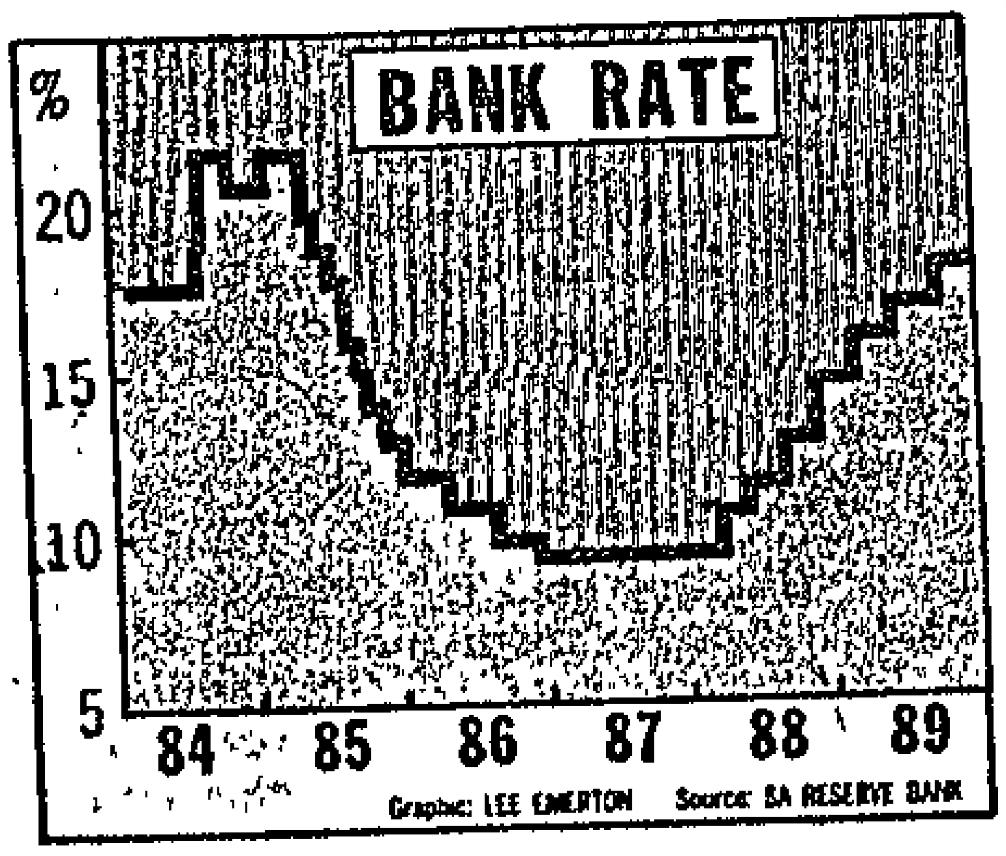
Finance Minister Barend du Plessis said it was a "tragedy that this technical adjustment is being forced on us, especially as interest rates have stabilised for a long time. Even if South Africans have to pay this 'painful price', it is in everyone's interests to make the sacrifice."

Announcing the hike, Reserve Bank Governor Chris Stals said SA could "ill afford further pressures on its balance of payments", given its relatively low foreign reserves, existing commitments to repay foreign loans and the relatively low gold price.

Compounding the net reserves problem were continuing high imports, in spite of import surcharges as high as 60%, and SA's "straitjacket" position in foreign debt repayment negotiations. The final straw was last week's increase in base rates by virtually every central bank in Europe, as part of their campaign to lower the price of the dollar.

The hike in interest rates will rip through the economy — home loan rates now at 19,75%, for example, are expected to increase to 21% or more. Osborn said: "There is little if any chance of relief for the foreseeable future."

Experts saw crisis signals two weeks ago when the Reserve Bank disclosed that a major commercial bank had supplied incorrect money-supply figures for four months. Restatement of the figures showed that the money-supply figures,



Graphic: LEE EMERTON Source: SA RESERVE BANK

which are critical in determining the country's monetary policy, were much higher than previously believed.

Osborn said: "The new figures were shattering. It was then seen as a high possibility that remedial action would have to be taken by government and the Reserve Bank."

Assocom CE Raymond Parsons said a combination of internal and external economic factors had made another increase in interest rates unavoidable.

On the macroeconomic front, the GDP growth rate is stable, but there is considerable momentum in the economy.

Osborn said: "There is a high level of capital creation which is showing in the continuing high level of imports.

"It is this pressure on imports, plus debt repayments, plus continuing outflows of capital, plus the perilously thin reserves position, that forced an increase in interest rates."

With as much pressure as possible being applied on the fiscal side, action could only

□ To Page 2

Net reserves low

B|Day 11/10/89 (10) (58)

□ From Page 1

be taken in the monetary context.

He said "The policy options are very limited. The screws must continue to be tightened."

The only possible relief in the short term would come from an increase in the gold price, and yet better export performance.

Capital creation is entirely domestically funded. To the extent that capital creation has an import content, it has to be funded by foreign exchange, which can only be funded by swelling exports.

Were it not for negotiations on repayment of foreign debt under the debt standstill, it probably would not have been necessary to hike interest rates.

◐ See Page 8

Argument for the rise in the Bank rate

BDay 11/10/89

Statement on interest rate policy by Reserve Bank Governor Chris Stals

SINCE the Reserve Bank announced the increase in its Bank rate from 16% to 17% on May 5 1989, relatively stable conditions prevailed in both the money and capital markets, and interest rates fluctuated within relatively narrow margins.

The discount rate for three-month liquid bankers' acceptances, for example, increased from 16,70% at the end of April 1989 to 17,35% on May 5 1989, and then fluctuated between 17,30% and 17,60% subsequently. The monthly average yield on long-term government stock reached a peak of 17,38% in May 1989 and then drifted down to 16,86% in September. On October 9 1989 the yield on long-term government stock was 16,86%.

Although interest rates may seem high in nominal terms, they are indeed lower than comparable rates in most of the Western industrial countries if account is taken of prevailing inflation rates.

In real terms, after adjustment for the rate of inflation, the prime overdraft rate of commercial banks in SA is only 3,9%, compared with the UK's 6,3% and West Germany's 6,6%.

The increases announced in the discount rates of a number of central banks in Western Europe and in the UK last week widened the margins between the South African balance of payments, on the exchange rate of the rand and eventually also on the rate of inflation in SA.

In view of the relatively low level of our foreign reserves and existing commitments to repay foreign loans, and also taking account of the relatively low price of gold at this stage, we can ill afford any further pressure on our balance of payments.

As far as the domestic economic situation is concerned, the latest available economic statistics confirm that the economy has turned down early in 1989, and is now technically in a consolidation period.

Total gross domestic expenditure, which increased by 7% in real terms in 1988 and by a seasonally adjusted annual rate of 6% in the first quarter of 1989, actually declined at a seasonally adjusted annual rate of 2% in the second quarter of 1989.

In addition to the concern about the continuing capital outflow in the balance of payments, the relatively low prices of gold and a further rise of 17,5% in the seasonally adjusted imports from the first to the second quarter of 1989, there are also a number of reasons arising from domestic economic developments which make it important for SA to maintain nominal interest rates at an appropriately high level.

58

Pressures

Firstly, revised statistics for the money supply indicate that in August 1989 M3 still increased at a rate in excess of 24% over 12 months. This remains well above the target-range of 14 to 18% for 1989.

Secondly, the rate of inflation remains high. The CPI in August 1989 was 15,5% above the level of a year ago, while the rate of increase in the PPI rose to 16,1% in August.

Thirdly, increases in wages and salaries in excess of the rate of inflation create more inflationary pressures in the economy, and also raise the demand for credit on the basis of an increase in the ability of of salary- and wage-earners to service additional debt. It is necessary to counteract these effects by a more restrictive monetary policy.

Fourthly, mainly because of the lack of an inflow of capital from abroad, it remains important that South Africans at this stage spend less on consumption and save more. The country is currently obliged to finance its economic development entirely from its own resources.

Against this background, it is even more important for SA than for Western Europe or for the UK to apply the necessary financial disciplines, and to maintain positive real rates of interest in its fight against inflation, and for the protection of the balance of payments.

After the usual consultation with the Minister of Finance, the Reserve Bank has therefore decided to raise its Bank rate — that is, the rate at which it rediscounts Treasury bills — from 17% to 18% with effect from Wednesday October 11 1989.

Other interest rates at which the Reserve Bank provides accommodation to the market will also be increased by 1% point as from October 11 1989, except rates in respect of all forms of overnight loans which will be raised by 1,25% points.

The rate for overnight loans covered by liquid bankers' acceptances, for example, will increase from 20% to 21,25% as from today.

When bank rate and other interest rates were increased in May 1989, Reserve Bank assistance was made available to the Land Bank to enable it to keep its short-term interest rates unchanged. Various schemes were also announced by the government to assist small businesses and home-owners in the lower income groups who were adversely affected by the higher interest rates.

Government has indicated the Land Bank and government departments responsible for these assistance schemes will reassess the existing facilities in light of this further upward adjustment in interest rates.

Where appropriate, further announcements will be made in due course by the Ministers responsible.

REVIEW

Loans from NBS before you buy

VAL PIENAAR (58)

AS RIVALRY continues between financial institutions, NBS is offering guaranteed home loans to prospective buyers before they choose a house.

According to public affairs GM Brian Short, pre-arranged home finance has been introduced in an attempt to simplify the process of buying a home.

"For the purchaser, the Home Buyer's Guaramtee removes much of the uncertainty from buying a home because the price range can be determined in advance. It also enables the purchaser to become a cash buyer and to negotiate from a position of strength, because the certificate is proof of intent and worth," he says.

Before choosing a house, the buyer completes an application form. This is assessed by the NBS and the buyer is allowed a home loan limit. The Home Buyer Guarantee certificate is then issued and is valid for three months.

"When the sale is finalised and the property details become available, the building can be inspected and approved. The loan is then processed in the normal way — resulting in a considerable saving of valuable time," Short says. B/Day 11/10/87

Higher rates 'will knock business confidence'

CM-Time 11/10/89 58

By AUDREY D'ANGELO
Financial Editor

OVERDRAFT rates, bond rates and hire-purchase rates are certain to rise in the wake of the 1% increase in the bank rate announced on Monday, banks and financial institutions confirmed yesterday.

Building societies must give at least one calendar month's warning — but banks may raise their rates as soon as they please.

The Minister of Finance, Barend du Plessis, said yesterday that rising interest rates in Europe had "forced SA to fall into step with countries with which it had strong trade ties".

But he commented: "It is a tragedy that this technical adjustment is being forced on us — especially as interest rates have for a long time stabilised."

Assocom CE Raymond Parsons warned that higher interest rates would have a negative effect on business confidence.

Calling for tighter control of government expenditure, he said the blow to confidence caused by the rise in interest rates "could be offset if the more decisive monetary stance is now accompanied by strict financial discipline leading to tax cuts.

"A blend of higher interest rates and lower taxes would be the best economic formula for SA to follow in the period ahead."

The move was seen by banks and building societies as inevitable, in order to retain capital in SA.

A spokesman for the United Building Society (UBS) said the rise was expected after British and other European bank rates went up last week.

But the fact that it had been announced the day before a public holiday made it difficult for his company to say anything immediately about its future plans.

He said demand for mortgage finance was low at present.

Standard Bank MD Mike Vosloo said that a decision on rates would be taken by his bank today.

Scott McRae, MD of Camdon's Nationwide, said that home loan rates, now averaging 19,75%, would increase to 21% or more.

The lower income groups and those on fixed incomes would undoubtedly feel the pinch and repossessions of homes would increase. Many people would have to accept a lower standard of living.

"The fact is SA now has one of the highest bond rates and highest tax rates in the world. It will probably remain that way until government addresses the problem of inflation, as bond rates are directly related to inflation."

McRae said he did not expect house prices to drop following further increases in the bond rate. They would continue to rise in line with building costs, which were increasing at a rate of about 24% per annum.

Iscor workers to sell free shares

Cape Times 11/10/89

58

JOHANNESBURG. — More than 9 000 Iscor workers will accept and immediately sell the 200 free shares offered to them by the steel giant, the National Union of Metalworkers of SA announced here yesterday.

The union had also negotiated a loan to allow its members to purchase the preferential shares allocated to them.

Rand Merchant Bank would underwrite the loan so that any drop in share price would not cost the workers anything, Numsa said.

These shares would then be sold immediately and any profit would be put into a workers' trust fund.

The fund would be controlled by Numsa members at Iscor and the use of the money would be determined by the workers collectively, the union said.

Each member would be asked to sign a mandate to transfer any profits on the sale of the shares to the trust fund.

The union decided to take this course even though it was opposed to the privatisation of Iscor — it deplored the "selling of the nation's wealth cheaply to major business interests".

The decision was taken after extensive discussions among its 9 500 members in Iscor, the statement said. — Sapa

Bankruptcies, repossessions may rise with Bank Rate

(58)

STAR By Magnus Heystek, Finance Editor 1/10/87

Homeowners are facing a bleak Christmas in the wake of Monday's shock announcement of another one percentage point increase in the Bank Rate by Reserve Bank governor Dr Chris Stals.

The prime overdraft rate of commercial banks will be increased by the same percentage today and mortgage rates are set to follow suit.

The surprise decision by the Reserve Bank also sent shockwaves throughout the business and investing community, raising fears of a serious recession next year.

For many hard-pressed homeowners, another increase in monthly mortgage repayments will be just too much to bear and could result in large-scale repossessions and sequestrations.

Since interest rates bottomed out in January 1987, the prime rate now has been increased nine times. Monthly repayments on a bond of R100 000 repayable over 20 years have increased from R1 136 to R1 679 a month calculated on a mortgage rate of 19,75 percent.

MOBILITY

Another one percentage point increase will raise the monthly payment to R1 763 a month.

While banks have the mobility to increase their mortgage rates immediately, building societies have to give their clients at least one calender month's notice, which means that any further increase in mortgage rates will come into effect on December 1.

A spokesman for a large building society expressed concern about the possibility of many homeowners, particularly blacks, who were in danger of losing their homes due to the steady upward spiral in the cost of home ownership.

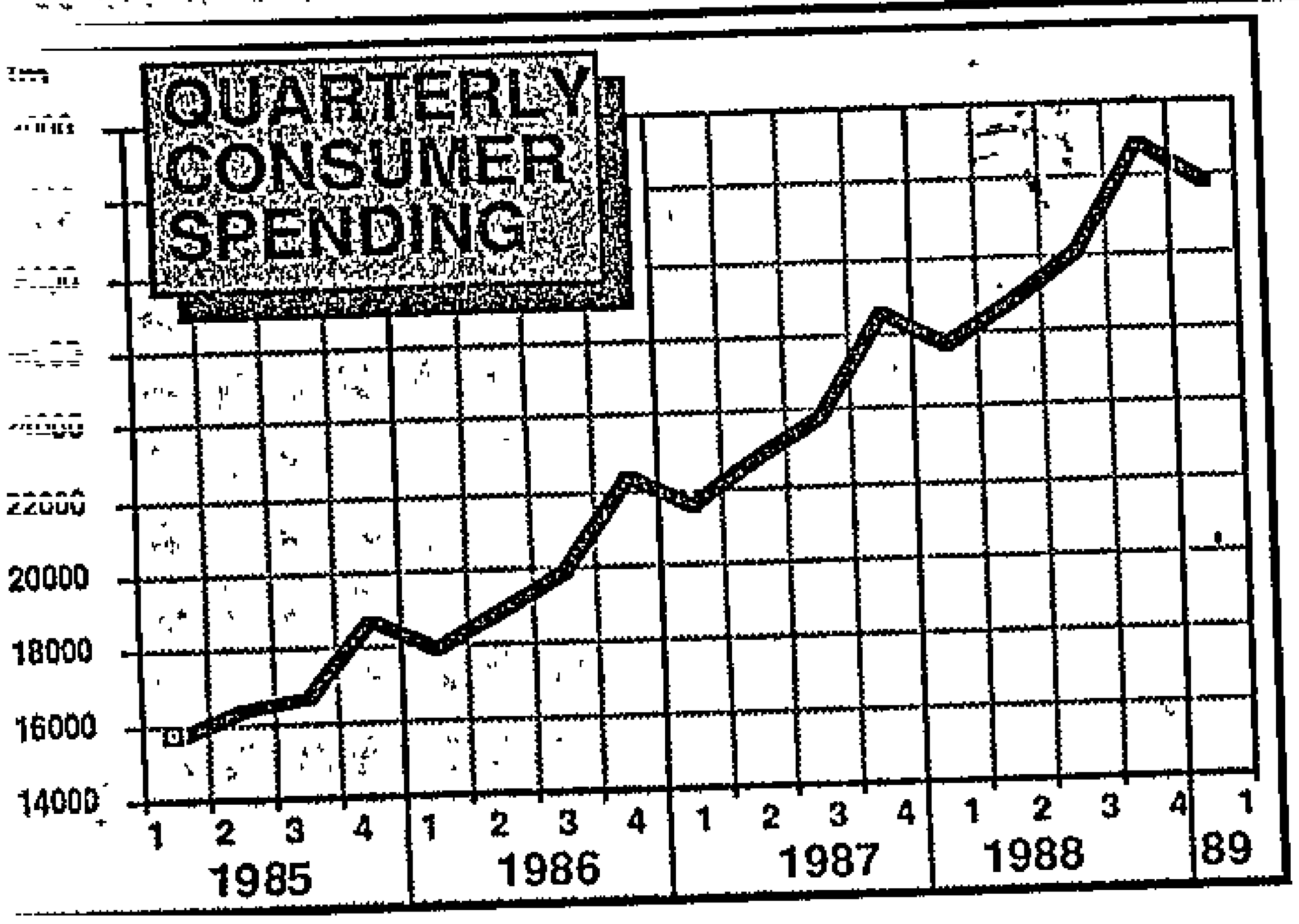
A spokesman for organised agriculture estimated the increase would cost farmers another R100 million a year.

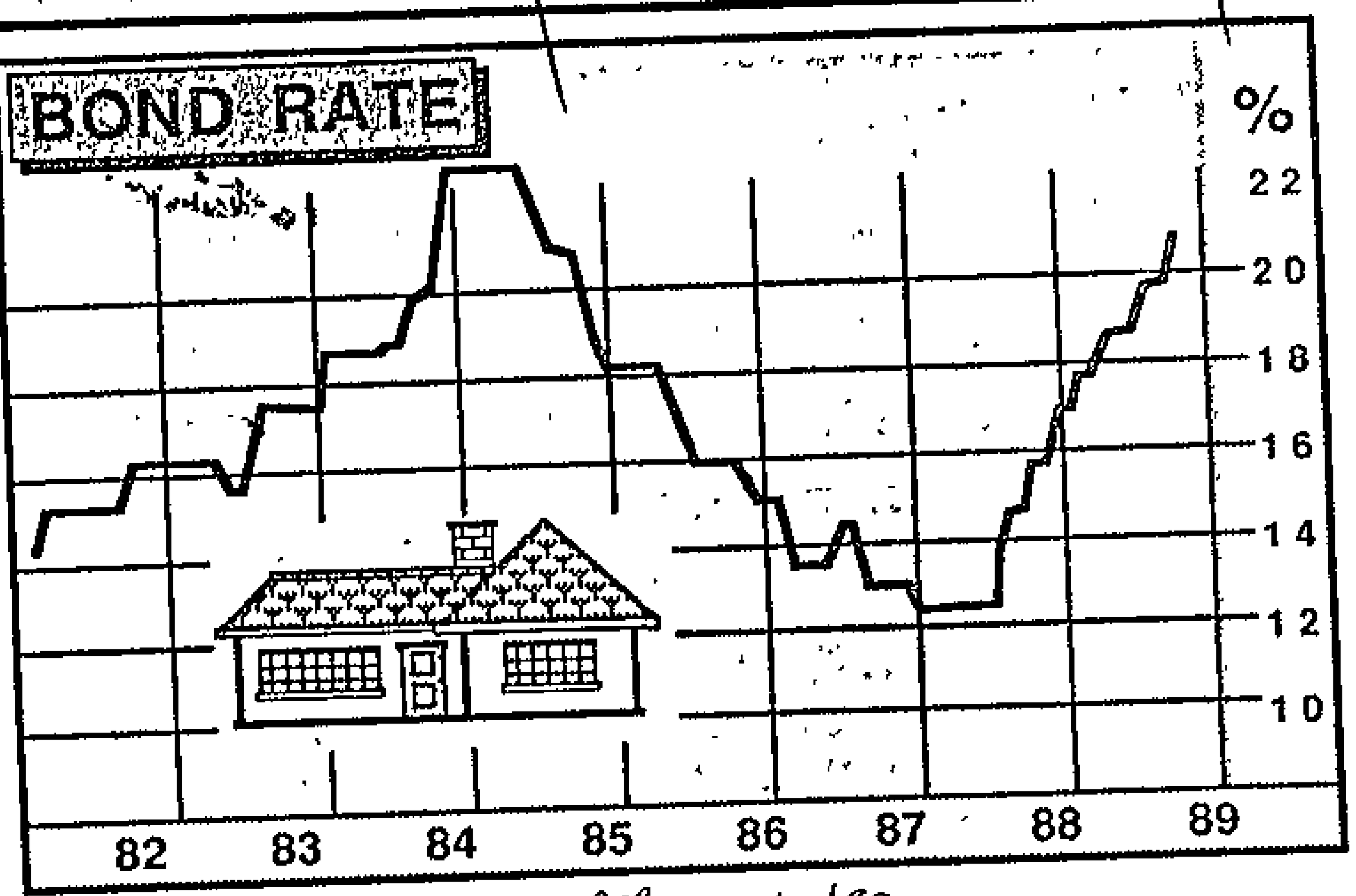
The increase in interest rates could also place a damper on the listing of Iscor, due next month.

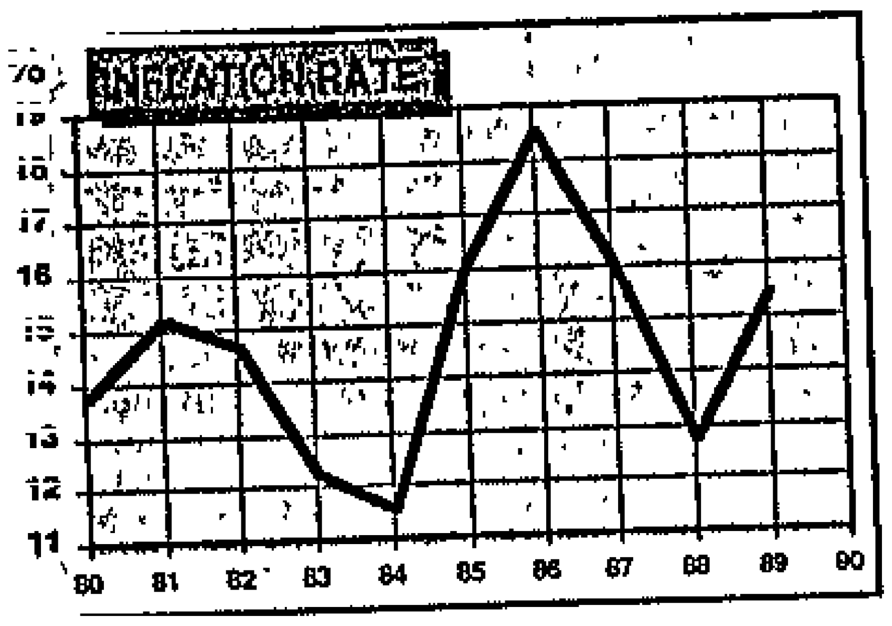
The Johannesburg Stock Excahnge can expect some selling of shares.

It now looks highly probable that the so-called soft landing for the economy is going to be significantly rougher, with bankers predicting a sharp upturn in bankruptcies, insolvencies and unemployment.

● See Page 20.





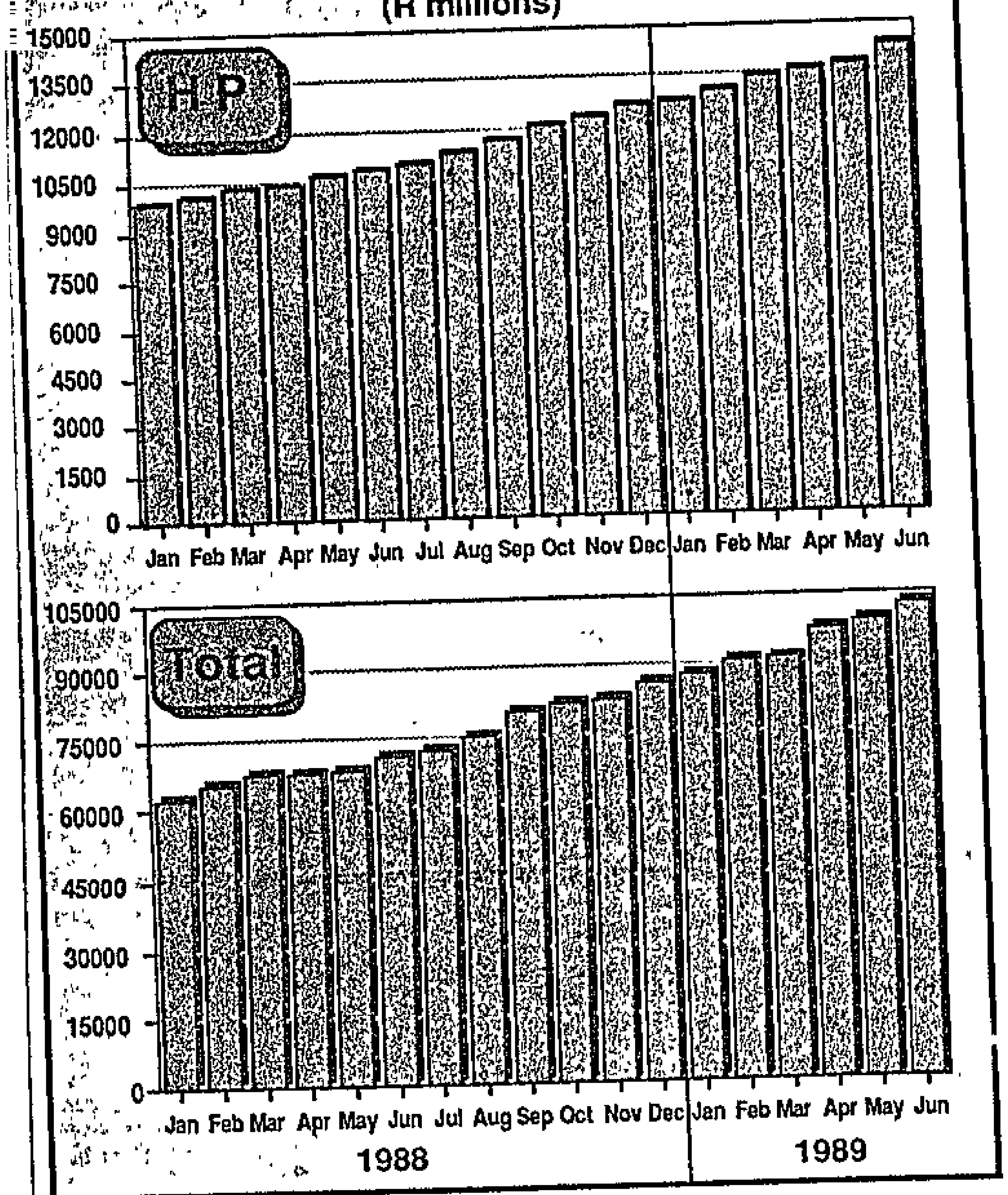


STAR 12/10/89.

Lean times for household budgets

(58)

BANK CREDIT TO PRIVATE SECTOR
(R millions)



By MICHAEL CHESTER

The shock rise in the Bank Rate from 17 to 18 percent, its highest level since mid-1985, sounded a warning siren to South Africans to batten down the hatches in readiness for economic winds that will lash most household budgets

Families carrying debt loads — from home mortgages to lease contracts or bank loans — will face the worst of the gales

The problems will be multiplied if they ignore austerity packages aimed at curbing spending and have relied on further credit

The high increase in the size of the debt burden which has been accumulated is shown in tables compiled by the Reserve Bank

They show that credit extended to the private sector by the banks grew from under R63 billion in January 1988 to an unprecedented R103 billion at the latest count

Credit out on hire purchase deals rocketed from les than R10 billion to R14,4 billion and cash out on leasing deals jumped from under R5 billion to almost R8 billion

Thousands of household budgets have been cracking under the load — and Mr Paul Edwards, head of the Information Trust Corporation, which monitors buying on credit, expects the casualty rate to worsen as new interest rate patterns crank monthly repayment bills still higher.

The average number of civil summonses for debt issued to private individuals was running at more than 66 000 a month, at the most recent count Courts were handing down judgments at the rate of over 33 000 a month.

HIGHEST ON RECORD

Worse, the monthly average total cash demanded in the judgments had bounded to nearly R80 million, the highest on record

More businesses have been going under, too. The number of company liquidations, which last year sank to little more than 1 500 as the economy picked up — down from a 1985 record of 3 000 — had thundered back up to 180 a month by the middle of this year

The new round of interest rate increases hits all home-bond holders Casualties are likely to abound among home-buyers who overreached themselves two years ago and bought houses beyond their means under the delusion that rates were going to stay at only 12,5 percent

The monthly payments on a R100 000 bond, agreed on 20-year schemes, which looked relatively modest at R1 140 at the tail-end of 1987, will cost no less than R1 778 with interest rates perched at about 21 percent

The bill on a R50 000 bond sweeps from R568 to R889 a month. On R125 000, it is up from R1 401 to R2 223.

Mr Edward Osborn, chief economist at Nedcor, warns "There is little, if any, chance of relief for the foreseeable future"

Why all the sudden upwards pressure on interest rates, when many seasoned observers had been convinced that rates had peaked and were due to begin a gentle decline?

Economic analysts have identitified four main reasons behind the decision of Reserve Bank Governor Dr Chris Stals to hoist Bank Rate — the basic guideline for all interest rate patterns — from 17 to 18 percent

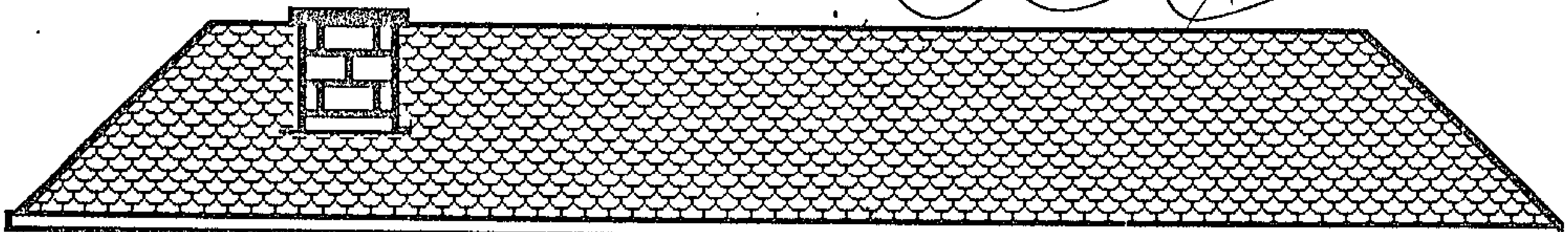
GLOBAL TRENDS

- South Africa's need to stay in line with global trends of increases in interest rates announced last week in Britain and its neighbours in Western Europe — basically to defend the balance of payments from a renewed exodus of cash caused by international investors seeking better returns and to leave elbow room to settle international debts.
- Shock revisions in official statistics which have revealed that the country has been increasing the rate of its money supply — printing new bank notes to meet spending demands — by a disastrous 24 percent a year.
- New inflation threats, worsened by wage and salary increases pushing ahead of the consumer price index and raising the demand for still more and more credit.
- The choking-off of inflows of new capital from abroad, part and parcel of political pressures to dismantle apartheid, forcing South Africans to slow down their spending and commit more of their incomes to savings to finance economic development

Though it may sound all bad news for the consumer, there are economists who support the Reserve Bank moves

Dr Azar Jammine, head of the Econometrix think tank, said yesterday "That the Governor of the Reserve Bank should have responded so promptly (to rises in overseas rates) to prevent an outflow of capital is refreshing and reassuring

STAR 12/10/89 58



BOND	12,5%	16%	19%	20%	21%
R50 000	R568	R695	R811	R848	R889
R75 000	R844	R1 043	R1 216	R1 274	R1 334
R100 000	R1140	R1 391	R1 621	R1 697	R1 778
R125 000	R1401	R1 737	R2 027	R2 121	R2 223

Going up ... home bond rates are going up to 21 percent as a result of an increase in the Bank Rate. The graph shows how monthly repayments have risen with increases in interest rates over the past two years. The repayments are calculated for a 20-year bond.

Auctioneers expect good times as rates rise

By Sue Olswang

An official confirmation of an increase in finance charges has not been announced, but it is likely to follow the recently increased Bank Rate, and while consumers brace themselves against a possible increase, auctioneers expect an increase in business.

"An increase in interest rates will certainly have an effect on our business because we will see more repossessed vehicles on the market," said a spokesman for a large auctioneering group which specialises in the sale of motor vehicles.

OVERALL PERFORMANCE

"Auctioneering is a strange business," he said. "We do best when everyone else is struggling."

However, the National Association of Automobile Manufacturers of SA (Naamsa) does not paint a gloomy picture for automobile manufacturers if there is an increase in finance charges.

"The demand for and sales of new motor vehicles are functions of the overall performance of the South African economy," said Naamsa spokesman Mr Nico Vermeulen.

"There is no doubt that higher interest rates are intended by the Government to reduce the aggregate level of domestic expenditure and obviously it must have some dampening consequences for new vehicle sales in time to come," Mr Vermeulen said.

"There is substantial pent-up replacement demand by the corporate and fleet-car rental sectors, underpinned by the strong earning potential of many companies, and this should cushion the effect of the increase."

Hire purchase sales and the entire domestic appliance industry will be affected by an increase in finance charges, according to OK Bazaars.

Mr Arthur Solomon, OK director of furniture and household, said the actual increase will not have a major impact on repayments but "psychologically it won't be a good thing".

Mrs Carolyn Tonkin, a Johannesburg public relations officer who is "fed up with inflation", is calling for support from other consumers who feel the same way.

Mrs Tonkin, who said she can no longer afford to pay for her house, eat or smoke cigarettes, has started a petition to protest against the high rate of inflation, the eroding of the rand, high bond and interest rates, and "the general lethargy of the Government".

"Please support us by starting a similar petition if you are also sick to death of ridiculous bond rates and soaring inflation," Mrs Tonkin said.

Petitions should be sent to PO Box 10181, Vorna Valley 1686.

●See Page 17.

Timeshare Dynamics under final liquidation

By Cathy Stagg

Timeshare Dynamics was placed under final liquidation in the Rand Supreme Court yesterday.

Leisurelife managing director Ms Sandra Ann Quinn said in papers that when Timeshare could not pay Lesisurelife for promotional and marketing services, a new agreement was made, resulting in the formation of a new company, Leisure Industry PR Association (Pty) (Lipra). STAR 12/10/89

Timeshare was not able to pay agreed amounts. Leisurelife was owed R166 939 for promotional services from June to August this year and also has a prospective claim of R3,4 million. Timeshare's debts were estimated to amount to R4,5 million and its investments in various timesharing properties could total R2 million.

Mr Justice E Stafford granted the final winding-up order.

● An urgent application by Standard Bank for the winding-up of World of Leisure Holdings Ltd was postponed until October 24. One of World of Leisure's subsidiary companies was Timeshare Dynamics Ltd.

Seven miners die in Bop

A runaway ore carrier killed seven platinum mine workers in Bophuthatswana on Monday. They were killed by a load haul dump unit travelling down an incline at Eastern Platinum Mine near Brits ...

have some dampening conse-

See Page 17.

Home buyers to find an additional R300-m

Star 12/10/89.

58

By Derek Tommey

House buyers will have to find an extra R300 million a year for mortgage repayments if the building societies increase their mortgage rates by one percentage point, as seems likely.

Since the Governor of the Reserve Bank, Dr Chris Stals, increased the bank rate by one percentage point on Monday, three banks and one building society have announced rate increases.

The UBS has increased its mortgage rate by one percentage point and First National Bank, Volkskas, Standard and Nedbank have increased their prime rates by a similar amount.

First National has also raised its mortgage rate to 21 percent from November 1.

MONTH'S NOTICE

Three other banks say they are considering increasing their bond rates.

Building societies have to give a calendar month's notice, and any bond rate increases they announce now will take effect only from December 1.

Mortgage rates have been rising steadily since the start of last year. The monthly cost of a R100 000 mortgage repayable over 20 years has risen from R1 136 to R1 679. It now seems set to rise again by R80.

The rise in the mortgage interest rate from 12,5 percent at the start of last year to around 20 percent has cost house buyers an extra R3 billion a year in bond repayments.

SHARE SLIDE

The increased Bank Rate, coming on top of a static gold price and strengthening financial rand, caused shares to fall sharply on the JSE yesterday, and at the close their market value had been reduced by about R10 billion.

See Pages 2, 17 and 18.

T THE

Investors shed shares after interest rate rise

STAR 12/10/89 **Finance Staff** (58)

The Johannesburg Stock Exchange was dealt a severe blow by this week's interest rate increases with shares shedding R10 billion in a hectic day of trading yesterday.

The crucial overall index tumbled by 2,5 percent, bringing its loss since the end of August to 8,5 percent.

Dealers pointed out yesterday that the rise in interest rates came on top of a weak gold price and a stronger financial rand, which deters foreign investors from investing their money on the JSE.

The JSE all gold index plunged by about 4,5 percent as gold fell as low as $360 in London yesterday.

But the rise in the Reserve Bank's bank rate, which was yesterday followed by a rise in the commercial banks' prime rate and certain bond rates, dealt a crucial blow to the stock market as investors shifted their money to more liquid assets.

FNB, UBS mortgage rates to rise

CM - Trip 12/11/87

58

FIRST National Bank (FNB) and United Building Society (UBS) have announced that they are to increase home loans rates, following the rise in the bank rate earlier this week.

They are the first major institutions to raise mortgage rates, but indications are that others will soon follow.

FNB will increase its home loans rate to 21% at the end of the month, the bank announced yesterday.

UBS managing director Mr Mike de Blanche said bond rates would increase by one percentage point from 19,75% to 20,75% for new borrowers effective from today. Existing borrowers would be notified of an increase before the beginning of November.

Other banks and building societies reported that no final decision on rate increases had yet been taken.

Bond rates inevitably follow a higher prime rate induced by a rise in the bank rate, institutions said.

A 1% rise in the bank rate was announced earlier this week.

The 1% hike will cost homeowners another R83 a month in interest payments on a bond of R100 000, according to the chairman of Information Trust Corporation, Mr Paul Edwards.

Still under discussion

Natal Building Society's general manager public affairs, Mr Brian Short, said bond rate increases had not been considered, but that the situation was being monitored.

A spokesman for Allied Building Society said an announcement could be expected within the next few weeks, but existing bond holders would be affected, at the earliest, only from December 1.

Building societies are required to give a calendar month's notice for mortgage bond rate increases.

Spokesmen for the SA Perm and for Standard Bank said the matter was still under discussion and further announcements would follow.

The Consumer Council chairman, Prof Leon Weyers, said the increase in interest rates could not have come at a more inopportune time.

"Many consumers have already had to forfeit their properties as a result of higher bond repayments."

● Some relief for struggling homeowners does exist whereby, according to a government scheme announced in June, they can apply for a reduction of the mortgage bond rate to 17%. The concession applies only to bond holders whose outstanding loan is less than R60 000 and whose property is valued at less than R80 000. — Sapa and Staff Reporter.

● Pressure on deposit rates — Page 10

● Markets 'reel under shock' — Page 10

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CAPE TIMES 12/10/89

58

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- Pressure on deposit rates — Page 10
- Markets 'reel under shock' — Page 10

Foreclosures jump by 200%

58

Bond rates: hundreds of homes lost

B/Day 13/10/89.

HOME loan foreclosures by lending institutions are more than 200% higher than they were this time last year, reflecting the squeeze of higher interest rates and living costs.

For some institutions, the number of foreclosures has risen by 300% year-on-year.

Perm senior finance and accounting GM Peter Hibbit sees the increased foreclosure rate as a replay of the 1984/85 recessionary conditions.

He also believes that as in 1984/85, the squeeze will accelerate structural re-adjustments in the home loans market as institutions relate individual lending to individual risks.

Weekly foreclosures have risen to 376 (week ending October 6) from 295 (September 8), with average foreclosures at around 275 for the month.

A year ago, the weekly average foreclosure rate for the equivalent period was around 120. Six months ago, it rose to approximately 140 — excluding banks.

In the week ending September 22 1989, when there were 244 foreclosures by institutions, the major foreclosing institutions were: UBS 55 (week ending September 23 1988: 37); Nedperm 132 (23); Allied 21 (21); NBS 26 (4); and the balance spread among 10 institutions.

These rates are based on Government Gazette announcements of sales in execution, which do not provide values. Financial institutions account for approximately 85% of these announcements.

ROBERT GREIG

No indications of race are given but it seems from neighbourhoods and surnames that the jump in foreclosures is largely, but not exclusively attributable, to blacks being increasingly squeezed by rates. Until now, the Perm says, there has been little racial differentiation in bond arrears.

Bank foreclosures are significantly lower than the building societies' and their increase is less pronounced.

But society spokesmen, including Hibbit and the UBS's GM Kevin McGregor, point out that number of foreclosures is no clue to amounts involved.

In addition, they say, banks, unlike building societies, are not legally bound to disclose the size of their home loan lending book which is often lumped together with other lending.

Different and undisclosed accounting definitions of "arrears" make comparisons of institutional risk impossible.

An estimated R38bn-R40bn is invested by financial institutions in home loans, of which an estimated R9bn-R10bn has been provided in recent years by banks, chiefly Standard and First National which tend to cater for the upper end of the market.

For this reason, says Hibbit, the few bank foreclosures may equate in value to many building society ones.

Institutions believe the rise remains within bounds of the acceptable and predictable, though they are obviously con-

To Page 2

Bond rates

B/Day 13/10/89

58

From Page 1

cerned about the social effects of foreclosure and try to avoid it.

Hibbit says acceptable ratios between unsold properties in possession (PIPs), where risks lie, and total lending can be between 0,25% and 0,5%.

Societies are reluctant to disclose these figures.

Hibbit says: "For the last six or seven years, losses and risk have been a fact of the mortgage lending business. When rates came off after 1984/85, there was an improvement but we have never returned to the risk patterns that existed before.

"The mortgage lending business has changed from a pattern where large borrowers paid high rates to a pattern of uniform rates.

"With the entry of the banks into the market, this has been changing with a trend towards building the cost of lending risks into the cost of borrowing.

"It's likely that this differentiation by market segment will be accelerated by what we are experiencing now."

AFRICAN LIFE

13/10/89 FMail 52

A step closer

Southern Life subsidiary African Life has taken a further step towards a JSE listing with publication this week of a prospectus as part of an offer of shares to policyholders and other associates of the group.

The offer to policyholders, explains MD Bill Jack, is one of the steps envisaged when the group started planning its eventual listing in 1986. At that stage the listing date was set somewhat arbitrarily for five years ahead, in 1991.

However, once the offer to policyholders is complete, there may be little if any reason to delay the listing much longer — provided stock market conditions remain bullish enough. That means the flotation could take place around the end of the 1990 financial year to end-March. Jack says that the prospectus has been drawn so that it complies with all the requirements for a JSE listing, and no further changes will be needed.

Assurance

Now, African Life is offering 7m ordinary shares at 110c each to policyholders, members of their families, employees and selected business associates. A further 18m shares have been offered to the holding company, Southern Life, at 110c a share.

There will be 52,6m shares on issue after the offer, which will bring in some R27,5m in additional capital. The funds will be used largely to fund expansion of the business. As Jack puts it, small life assurance businesses "tend to be cash hungry."

The group's total assets were R32,8m in 1982, reached R119,1m at end-March 1989 and are forecast to exceed R150m at end-March 1990.

The shares are being offered at attractive yields. EPS in 1989 were 8,3c and the dividend 6,3c, giving historical yields of 8,3% and 5,7%. The forecast dividend for the 1990 year is 7,8c — based only on shares in respect of which shareholders do not elect to take up capitalisation shares — giving a prospective yield of 7,1%. ■

FIRST NATIONAL BANK (57)

Post Hogan

FMail 20/10/89

There was a time when some customers wondered whether First National Bank (FNB) would ever get their accounts running smoothly after the problems experienced with changing its computer systems.

By and large, the problems have now been solved and the notorious "Hogan" system is up and running at all branches. Accounting is now back to at least pre-change levels of efficiency. But FNB has not spent well over R100m just to get a new system that is as efficient as the old one. Far from it.

Now that most of the bank's operational systems are in place, says information systems GM Mike Jarvis, FNB is concentrating on implementing information and marketing systems that will enable staff to develop new products faster and market them through the branches more effectively.

While the Hogan software is only part of the FNB's giant computer conversion project — it has also changed its mainframes, computer centres, networks, printing operations and automated teller machines (ATMs) — it is perhaps the most significant part as FNB is relying on the software to give it an edge in an increasingly competitive market. Jarvis, who has been retained by FNB for at least five years after his initial contract expires in January, says he is now more confident than ever that Hogan will be able to provide that edge. The main thing that Hogan does that other systems do not do is to put the customer account record at the heart of the system. Whatever different types of business the customer concludes with the bank can be examined at the touch of a few buttons, where previously, a customer's current account and, say, lease account were totally separate. Such integration of information will enable the bank to build up customer profiles and identify what different products and services should be marketed to individual customers.

"The power of the Hogan package is enormous," he says. "But we are going to have to do a lot of training in the branches to make sure they understand all it can do for them."

Because of what Jarvis calls the "harrowing" experience of changing systems, the consequent negative publicity and the fact that other banks — notably the UK's Midlands — have stumbled over implementing Hogan, there have been doubts that the system would ever deliver the promised benefits.

This perception is now being erased, says Jarvis. For instance, without even marketing it, Hogan in the US already has five buyers for the bankcard system that it is developing jointly with FNB.

"We expect to have the card system installed by the second quarter of next year," he says.

Jarvis

Will other SA Hogan users be able to buy the system? Yes, says Jarvis, though the co-development agreement with Hogan specifies that FNB will have exclusive rights to it in SA for at least 18 months "to get us up and running with a system into which we have put a lot of work." ■

MOMENTUM LIFE FMail

Firm base

(68) 13/10/89

Since taking control of insurance giant Lifegro in January, Momentum Life has kept a low profile and it intends to maintain that image for at least the next year — despite producing bullish results for the year to end-June.

Momentum now has the financial strength to offer competition against the industry's giants such as Old Mutual, Liberty Life and Sanlam. At this stage it remains in the background while rationalisation continues. MD Niel Krige says this year is to be used to "bed down the two companies before adopting an aggressive marketing strategy next year."

In addition to the Lifegro acquisition, the insurance interests of Allianz Life and Rand Life were bought.

Chairman Herc Hefer says that the expansion programme has made meaningful evaluation of the group's progress difficult. If Lifegro's performance is excluded from Momentum's year-end results, total premium income rose to R98m (R80m) and total assets (at market values) to R545m (R501m). But the acquisition boosted total premium income to R452,4m and total assets to R5,1bn. Funds deployed in total investments rocketed to R4,9bn (R480m).

Rationalisation has cost the group R11,7m but benefits derived from the merger include a R23m decline in management expenses. The retrenchement of 900 employees, with the introduction of technology, should reduce the cost of information services by 75% in the next two years.

Momentum now has 400 000 (100 000) policyholders and its marketing base has been broadened to include English and Afikaans speakers. Lifegro's individual life business has been phased out and its pensions division merged with Momentum's.

According to management, most of the problems associated with the merger have been resolved. Lifegro's unfortunate Fenton policies, which offered investment guarantees to policyholders, have been removed from the books. Krige says: "We have systematically worked through Lifegro's books, identified and weeded out all suspect schemes, including the Ciskei tax evasion policies."

Lifegro had been unable to control the amount of new business it accepted and liquidity problems resulted. "We are turning away new business and can easily handle the strain placed by new business on cash resources," says Krige. Cash reserves and other liquid assets are being maintained at 10%-15% of total assets. This enabled Momentum to declare a 4c dividend.

This year directors want to market recurring premium business ahead of single premium business. The capital base is to be reviewed and a rights issue is planned for 1990-1991 to improve the ratio of shareholders' to policyholders' funds. At present this ratio is low compared to market norms.

For the 1990 year the board is forecasting a dividend of 12,5c covered 1,5 times. At 220c that would offer a yield of 5,7%.

Jacques Magliolo

(69)

book of R750m for the year ahead. Having recently completed the Reserve Bank building in Pretoria, the SAB beer division HQ in Sandton, a R30m contract for Sasol and a new building for the Bank of Lesotho in Maseru, Stocks has recently landed a R44m contract for the Lesotho Agricultural Bank, also in Maseru, a contract for the Taung Sun in Bophuthatswana and a sizeable chunk of the Mossgas refinery.


Edwards . . . keeping critics at bay

Yet, despite the company's visible presence, Edwards prefers to keep a low profile. It's not that he's a chairman in name only or that he's shy and reticent; on the contrary, he's a robust, friendly and very much a hands-on manager. He personally flies a Commander turbo-prop between construction sites and actually returns calls personally — if need be — at 6 am from his car phone on the way to the airport.

"I believe in getting on with the job — but being humble about it," he says. "Over the years, we have tried to preserve our integrity while giving the customer a good deal."

Right now, however, Stocks is at the centre of the Robberg marina controversy which has been raging for the past two years. Environmentalists are adamant the area should remain as it is.

But Stocks intends pressing ahead with its proposed Robberg development which includes townhouses, shops and a small craft harbour. Conservationists argue the project poses a threat to the area's flora and fauna and they are prepared to contest the issue in court should the authorities give the go-ahead.

Edwards' counter arguments are well rehearsed. Having commissioned a comprehensive study of the effects it will have on the environment, he admits an area of approximately 500 m of coastal vegetation will be affected by the construction of a marina. However, he believes any impact will be minimal. He insists the extra amenity will benefit Plett.

Somewhat resignedly, he says the drawn-out protest is more a call to "keep Plett as it is" rather than a demonstration of genuine concern for the environment. Slogans describing the project as "the rape of Robberg," he claims, are inflammatory and unfounded.

"I deal in realities. I'm not mad about people who don't stick to facts or aren't sincere — perhaps I'm a bit naive."

Ironically, on another front, Stocks is arguing for the establishment of a 7 ha deer park, alongside a low-rise office complex, in the heart of Sandton. "Rather than put up any more townhouses in the area, a park would guarantee a green lung," he says. The Sandton town council has already expressed disapproval of the proposal.

Difficult times, he believes, lie ahead for the construction industry. Fiscal policy is likely to remain tight. To do well in these circumstances, presents an added challenge. While he welcomes moves towards deregulation, he says it's essential for SA to get back into the world economy.

Born in Germiston in 1937, Edwards matriculated at Christian Brothers College in Pretoria. He had no idea what he wanted to do, so he took his father's advice and studied quantity surveying at Tukkies. After graduating in 1957, he joined Roberts Construction (now Murray & Roberts) but soon realised he would have to wait for "dead man's boots" to get ahead. The small S&S operation offered better prospects for the young Edwards.

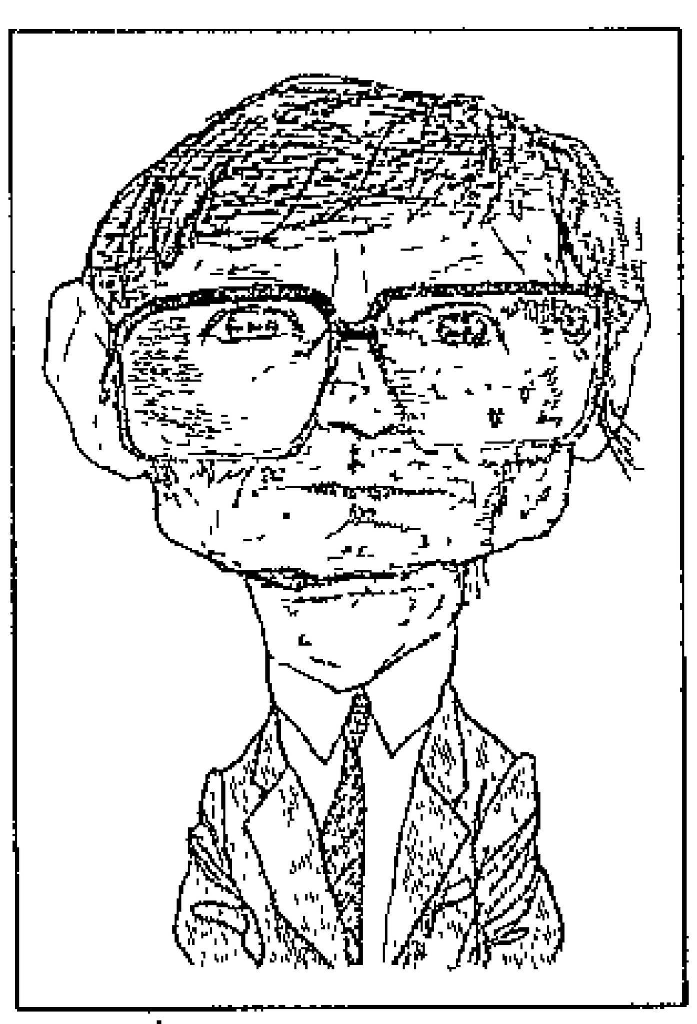
After Hugh and Mike Stocks died, the company was run by Edwards and Brian Stocks. Brian, Hugh's son, was always more interested in property development and left to start a successful timeshare operation. Edwards opted to keep the company name. "It has always been synonymous with quality building and Pretoria is a good base."

When time permits, Edwards spends his time sailing, playing golf, game viewing or snow-skiing abroad with his wife Ingé, a qualified teacher. He has two sons, Craig, a civil engineer, and Colin, a doctor. Laatlammetjie, Margo, is still at school. ■

LESZEK BALCEROWICZ

A daring novice

It took Leszek Balcerowicz and his wife, Ewa, also an economist, one day and the best part of the following night pacing their small Warsaw flat to decide whether he should take on the task of trying to set Poland's economy right.



Balcerowicz (42), an academic, had been offered the post of Finance Minister by the Solidarity PM Tadeusz Mazowiecki. All the arguments were for saying no. Besides the familiar ones, there was an additional consideration. The Balcerowiczs were about to go to the north of England for a 10-month lecturing stint which would have enabled them to buy a larger home.

A deputy premier's salary, though large by Polish standards, is not much greater than a coalminer's. Balcerowicz says that what made him accept the job was the challenge of squaring the circle of Poland's economic problems; but those who know him well add he was also impelled by a sense of duty to his country.

The offer came out of the blue. Balcerowicz, who had first studied and then taught at Warsaw's Central School of Planning and Statistics, was best known among academics as the head of a team which in 1980 produced the best blueprint available at the time for reforming a socialist economy. Both then and now he demonstrated little political ambition and had few links with Solidarity.

After martial law was imposed in 1981, Balcerowicz's interest veered sharply away from the search for a streamlined, efficient, State-controlled economy to free-market liberalism and the lessons the economic success of countries like South Korea might teach Poland. His view is that the supply of excess money to the economy must be choked off quickly if inflation is to be brought to heel.

He says his lack of experience in government means he can bring a fresh mind to the issues, while his academic involvement with international finance gives him the expertise he needs.

Balcerowicz was pushed, within weeks of taking office, into the goldfish bowl of the IMF and World Bank meetings in Washington. His presence, and the fate of the Polish economy, dominated the occasion. He outlined an extraordinary programme to transform the Polish economy, and, with it, made the inevitable and necessary request for Western money to help fund it.

Balcerowicz seems set to remove the bulk of remaining subsidies on food, imported raw materials and agricultural machinery this month. He also intends increasing the coal price by 100%. Only once prices are freed, says Balcerowicz, can fundamental changes like privatising and demonopolising the State sector, reforming taxes and the banking system and making the zloty covertible, be introduced.

As a fledgling politician he seemed astute, careful neither to embarrass those whom he was asking for support nor the Soviet leaders whose attitude to Poland remains critical.

He impressed those who met him in Washington by his combination of seriousness and optimism, though some were worried that even he might be underestimating the magnitude of his problems.

Balcerowicz is the first finance minister to plough up post-communist land; he cannot know how rough it will be. No one has been there before. Failure could lead, as Lech Walesa presaged, to civil war. If he wins, someone should build him a mansion. ■

FMail 13/10/89

58 FMail 13/10/89

JOHANNES HAMMAN & HENNIE VAN DER MERWE

Changing bank guards

Allied is not the only financial institution to have major management changes of late. It's been a case of musical chairs at Finansbank too.

Johannes Hamman, one of the bank's founders, returned last week to take over as MD from Hennie van der Merwe, who moves up in the world as GM of the bank's parent company, Nedcor Limited.

Hamman says his goal as Finansbank's new MD is to "keep the spark going."

Already a front runner among merchant bankers for the lucrative business of privatising State corporations, the bank has amassed a group of privatisation specialists currently working with Iscor, Eskom and Sats. Hamman says it's now up to him to "make the team work well."

Hamman and Finansbank go all the way back to 1970 when he and Piet Liebenberg, Leon Porter and Laurie Korsten, from the now defunct Trust Accepting Bank, founded the bank. He was 29 at the time and recalls the stunned looks from businessmen, Reserve Bank officials and Cabinet ministers that greeted news of their bold venture.

"Then it was totally unheard of," Hamman says. "It was a pioneering kind of thing. But we proved we were worth putting our trust in. We should have done it five years earlier."

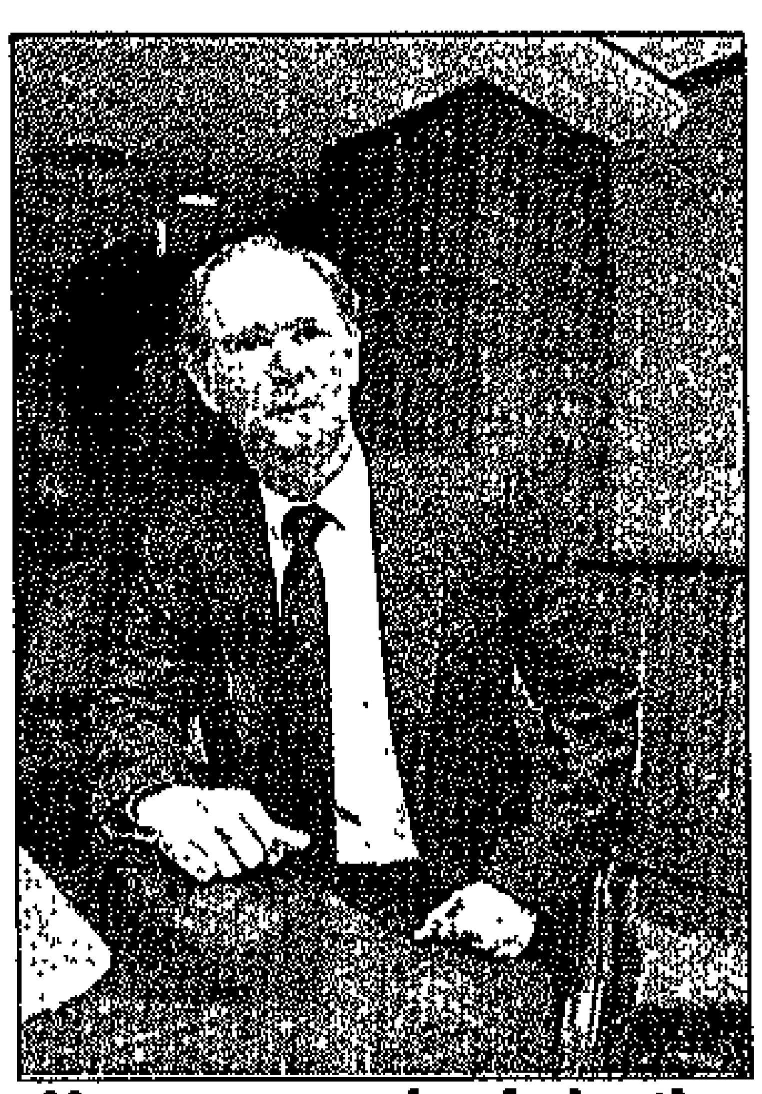
He held a number of positions with Finansbank, including serving as one of two MDs, until moving over to associate Fedbel as deputy MD. By 1987 he was CE of the group, a position he held for a year.

For the past year he has acted as a financial consultant, primarily for Finansbank, which is deeply involved as an adviser to government in the Iscor listing.

Hamman earned a law degree at the University of Pretoria but the world of business is where he really wanted to be. After stints in the office of the State Attorney in Pretoria, and as a legal adviser at the Atomic Energy Board, he joined the Industrial Development Corporation.

"I was never tempted to go back to law. After a while, you're a businessman. You leave your profession behind."

The combination of disciplines — legal advising, number crunching, marketing, investment counselling — and the variety of customers, is what make merchant banking so much fun for him.



Hamman . . . back in the driver's seat

Hamman, originally from Rustenberg, and his wife, Lorenza, have three children. Reading, music, tennis and swimming are his favourite pastimes and he says he "could die for crayfish and perlemoen."

He is anxious to get to work at the bank.

Van der Merwe . . . spreading his wings

In his previous career as an attorney, new Nedcor GM Hennie van der Merwe believed regular exposure to litigation was the best way to stay on his toes. So he ensured that at least 20% of his largely commercial practice took place in the courtroom. This gave him plenty of practice in making quick assessments, giving prompt responses — and generally thinking on his feet.

These skills have proved invaluable in his career as a merchant banker. His appointment as MD at Finansbank came in March 1988, a year after Liebenberg's departure for Nedcor. Under his guidance the bank turned in record before-tax profits of R11,2m in the year to September 1988 and interim earnings in the six months to March of R4,9m, which represented a 49% increase over the previous half-year.

Now Van der Merwe is following Liebenberg to parent company Nedcor where his responsibility will be "the development and co-ordination of business opportunities for the whole group." This could include the creation of subsidiaries and acquisition of new operations. "Regional and international development of Nedcor group interests will also receive much attention," he says.

Van der Merwe's move into banking evolved gradually during his stint in law. "I concentrated more and more on commercial law. I had a number of banking clients which involved me in listings and takeovers and large financing transactions."

These included Iscor, Atlantis Diesel Engine and Sappi Paper Mill.

Van der Merwe assisted in the establishment and structuring of Sasol Ltd and its listing in 1979. The lead merchant bank responsible was Finansbank so his role as attorney in the listing was the start of a fruitful relationship.

In 1983 he was offered an executive directorship at the bank. He soon became involved in listings, rights issues including that of Sasol 2, takeovers, mergers and the creation of ventures.

Later his emphasis shifted to the bank's own activities "like the acquisition of the Cape of Good Hope Bank in 1986."

More recently, with Finansbank acting for the State in the privatisation of Iscor, he has been involved in plans for its listing. Finansbank has also been appointed to advise Sats. In his personal capacity, Van der Merwe is advising Eskom. He has also recently been involved in the management-led buyout of the Tradegro and Frasers stakes in Rusfurn.

Van der Merwe (42) was born in Calvinia in the Cape.

After completing his military service he studied law at Stellenbosch and graduated in 1970.

He followed this up by practising law for 12 years in Johannesburg and obtaining a masters degree in tax law from Wits, conferred in 1984. He is married to Anne-Marie Claassen, a schoolteacher, and they have four children. ■

REG EDWARDS

Taking stock

Chairman of Stocks & Stocks (S&S) Reg Edwards is not one to let an opportunity slip by.

Twenty-five years ago he saw a gap and joined S&S, then a tiny operation with a staff of only 500 (small in construction terms). He made a conscious decision to work hard and "grow with" the business.

Today, S&S ranks with the top four construction firms in the country. It employs 12 000 people and, after a year as a listed company, boasts a turnover exceeding R1bn — a 42% rise over the previous year.

The future's looking pretty rosy too. Despite tough competition and relatively low profit margins, the group has a solid order returning. Already notes had fallen to R7,9bn Saturday.

"But about R1bn is still unexplained," a dealer says. The Bank confirms some forex payments were made at the end of September and it sold small amounts of Bank stock — which could form part of the missing R1bn.

The 0,5% rise in September PPI also has negative implications. Inflation, as measured by the consumer price index, will probably rise too, making it harder to achieve positive returns at present interest levels.

"If Stals is serious about positive real interest rates, he may decide to increase rates." But rates haven't reacted yet as the market waits for the return of participants.

□ The bankers' acceptance held steady at 17,35% Monday. Friday's Treasury bill tender rate fell two points to 17,09% (R60m applied, R20m allotted) while the Land Bank tender rate rose six points to 17,27% (R135m, R100m). ■

DERIVATIVES

FMail 13/10/89

Premiums decline

Market direction in the coming week could be determined by movements in the finrand, which weakened slightly from Friday. "If gold rallies," says a dealer, "the indices might pick up and premiums in futures may increase again."

The Gold Share index crashed 60 points on Friday with the strengthening financial rand. Monday the indices all slid further. Futures followed.

Premiums on equity futures have declined. The December All Share future is at spot and March and June 1990 are only 10 and 30 points above spot, respectively. All Gold futures are at reduced premiums above spot: December at 25, March 1990 at 50 and June at 75 points. In contrast, the December All Gold was at a 70-point premium last week.

For those who foresaw this, there was money to be made. In three days, December All Gold futures dropped 100 points, so 10 contracts could have returned R10 000.

"Premiums will probably stabilise at these levels," says a trader, "and even possibly move to a discount."

Eskom E168 futures were tracking spot and last week picked up slightly on the weaker gold price and stronger dollar. "The market is back into more neutral territory after being overbought," says a dealer.

There were some reasonable buys in sporadic trading on options on equity futures last week. Puts and calls in March and June were equally bought. People were wary of low volatility and therefore concerned they might be writing options too cheaply. ■

FINANCIAL FUTURES

	Closing prices October 6 1989 Bid	Offer	Mark to market	Open interest at close contracts 29/9	6/10	Week's volume at close contracts 29/9	6/10
All share index: 2 668							
December	2 680	2 690	2 685	702	699	625	1 033
March 1990	2 665	2 700	2 682	7 359	7 312	3 146	4 649
June 1990	2 690	2 725	2 708	160	220	123	330
All gold index: 1 558							
December	1 570	1 580	1 575	1 064	1 287	2 209	2 936
March 1990	1 596	1 605	1 600	1 163	1 293	1 875	1 689
June 1990	1 610	1 650	1 630	40	90	50	170
Industrial index: 2 694							
December	2 680	2 710	2 695	482	439	556	504
March 1990	2 655	2 705	2 680	540	526	681	353
E168: 16,7075%							
November	16,72	16,70	16,11	4 980	4 954	150	518
February 1990	16,73	16,71	16,72	1 261	1 354	460	273
Notional Medium-Dated Bond							
November	16,56	16,63	16,54	—	1	—	1
3 Month Liquid BA: 17,35%							
November	82,71	82,82	82,76	188	188	43	—
February 1990	83,32	83,52	83,42	75	71	15	12

Interest on Safex Trust = 16,95%
Source Rand Merchant Bank

FLOOR TRADING

F Mail 13/10/89

Green light for pits

Since the previous survey in about May the number of companies prepared to move on to the new trading floor in the JSE annex has fallen by almost 20%, the Bond Market Association (BMA) and SA Futures Exchange (Safex) trading floor subcommittee finds. This means a shortfall of R300 000 of the estimated R3,1m needed for start-up.

"But the floor is on," says Stuart Yates, of the subcommittee. "We've got more than the critical mass needed to get it going. The financial community has shown it is prepared to put up most of the funds." He is hoping to raise the rest from volunteers. Yates says: "We will have to cut down slightly on initial operating expenses," but is confident rising volume will cover the underfunding.

Of 75 potential users canvassed, 41 say they will take space. Eight banks withdrew, to be replaced by one new one, and two JSE brokers who left were replaced by two others. So the tally is 10 banks, 27 JSE brokers and four others: two issuers, an investor and a futures trader. This translates into 144 traders of whom 58 will trade both bonds and futures, 47 bonds only and 39 futures only.

The number of bond traders rose from 96 in the previous survey to 105, while futures traders dropped from 144 to 97.

"This arises from a misunderstanding of the way futures will be traded," says subcommittee Safex representative Michael Henegan. "If the futures market works as it does in the rest of the world, brokers will realise they need more futures traders, so we expect the number to increase when final trading procedures are developed."

Yates reckons the R5 000 fee for futures traders as against R3 000 for bond traders may have had some bearing on the response.

Those not taking space say the floor does not fit into their mode of operation. The rest have decided to wait and see either if prices will come down as more people join or if they'll qualify to trade at all under the new regulations from both the BMA and Safex.

Provision has now been made for "locals," who make up 25%-35% of the floor of established markets overseas. A local deals only for his own account. He has to lease facilities and deal through a member.

"This group will be actively encouraged," says Henegan. "Locals provide liquidity and are thus an essential element of the market." And yes, they too will have to pass the exams before they can deal.

A floor plan has been drawn up but can be finalised only when Safex agrees procedures and trading rules. The rulebook will be approved by current clearing members this month and should be ready for submission to the Registrar by end-November.

Each bond and futures pit will have its own price recorder. As prices are heard they will immediately be put on the relevant multicontributor Reuters screen, ID code PITS.

A typical JSE broker with four traders, four in bonds and three doubling in futures, may take a 30 m² office and a 5 m² booth. He would pay R119 000 during 1990, R75 000 as a redeemable once-off capital sum and annual costs of R44 000, says Yates. Add to this a Safex seat for, say, R35 000 per membership, R10 000 for provisional membership of the BMA, screens, terminals, faxes and telephones, and it will cost something over R200 000 to be in both markets. ■

ART

Fading bloom

Van Gogh's *Irises*, supposedly the world's dearest picture, is back on the market two years after Australian magnate Alan Bond bid US$53,9m (including buyer's premium) for it at Sotheby New York.

This news hails from two Swiss collectors invited to buy it by a director of Sotheby London last month in a private treaty sale. They declined but passed on details of the offer (there was no firm price).

In fits and starts Sotheby admitted last week that Bond borrowed from it 50% of the purchase price — the most it will lend. Contrary to widespread reports he is not behind on payments but the picture, briefly exhibited in Bond's Perth head office, is now back in secret storage under Sotheby's control.

Diana Levitt, a Sotheby spokesperson in New York, says Bond has repaid "significantly more than half" the loan. She adds that of the top nine artworks auctioned at huge prices, only *Irises* was financed.

Sotheby says Bond is selling Manet's *La Promenade* in New York next month. It is expected to raise $10m-$14m.

What follows? Suppose Bond, even after ploughing in the proceeds of the Manet, still has to sell *Irises* to ease his strapped finances. The value of a picture with a reputation like *Irises* has acquired since 1987 is

FOREIGN EXCHANGE 58 FMail 13/10/89

The Fed is the key

Dealers see the Federal Reserve's plans as the key to the dollar this week. US retail sales and producer price data will be released on Friday. Sentiment is the Fed could ease rates, but not until it digests the information.

The dollar was momentarily nonplussed when the Bundesbank opted for a 1% hike in the Discount and Lombard rates, says Standard Bank. The move was immediately followed by others throughout Europe.

However, none of this depressed the dollar. It has not traded below DM1,86 for a week and a half, DM1,85 being the level thought to satisfy the G7.

Weaker-than-expected September US jobs data last Friday exerted downward pressure, prompting speculation that the Fed would ease credit policy to rein in the dollar further.

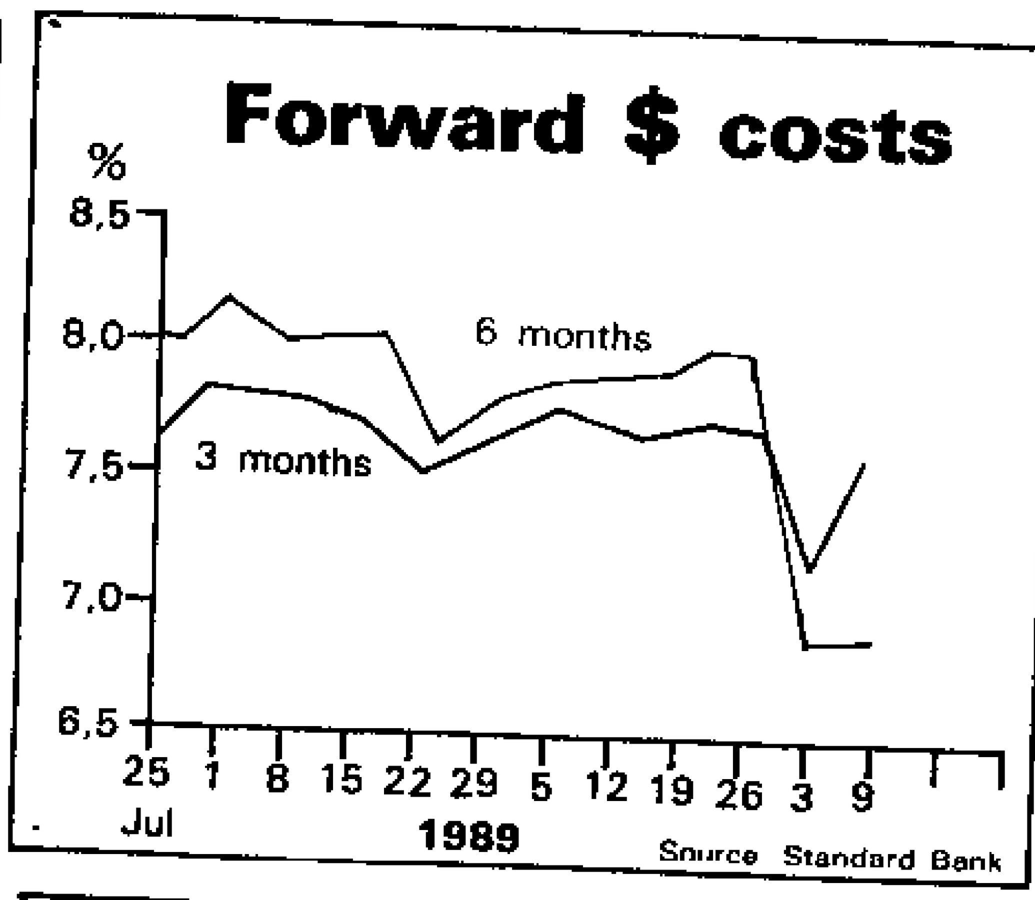
Dollar forecasts: Standard: DM1,87-D1,92; Volkskas: DM1,86-DM1,915.

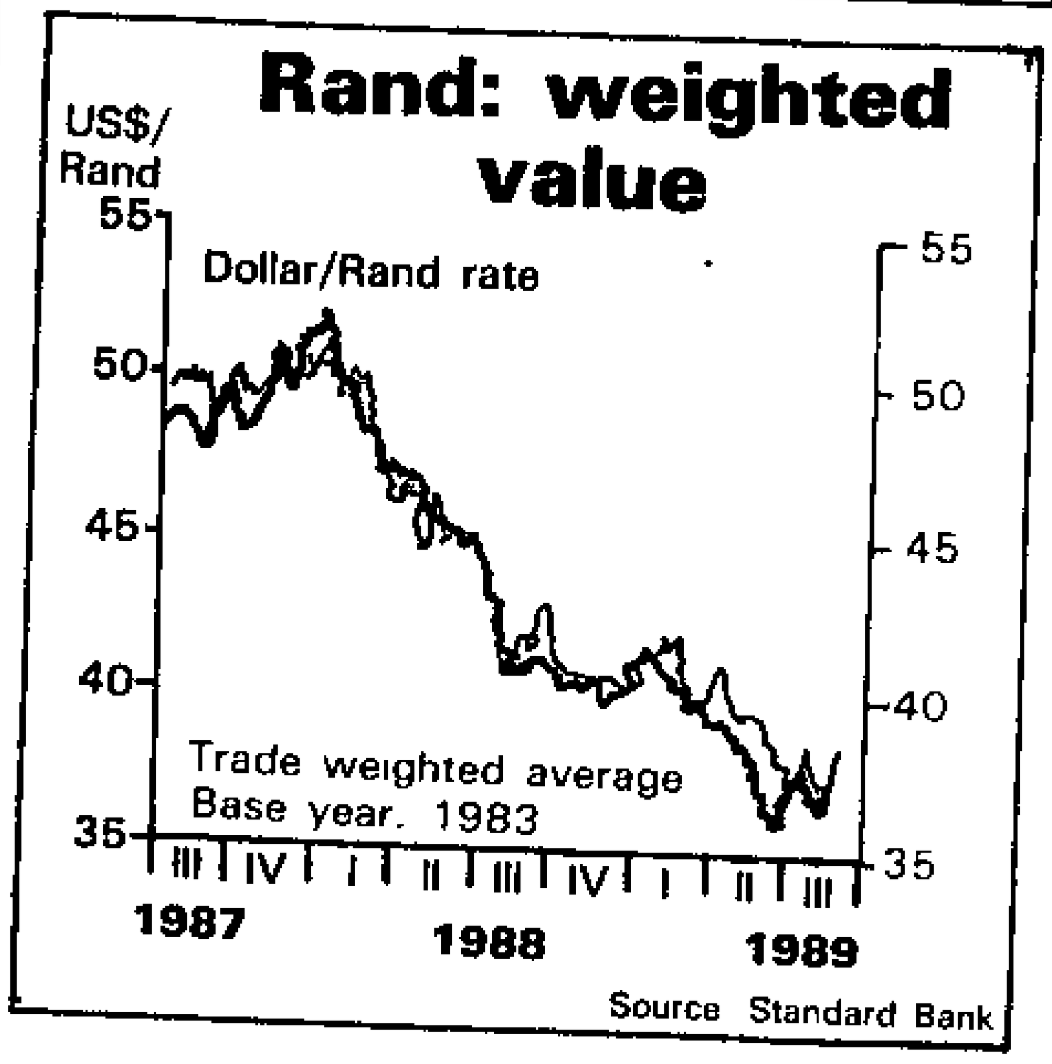
Repeated Bank of England intervention failed to offset bearish sentiment for sterling. As the pound threatened to break through DM3, the UK put up base rates 1%. But sterling is still weak and inflation in the UK ran at an annualised 7,3% in August.

The rand was relatively stable against the dollar last week, aided by Reserve Bank intervention. It advanced strongly on the crosses. The Reserve Bank's *Quarterly Bulletin* confirms the persistent problems within the economy, all of which have negative implications for the rand, says Standard.

The rand was hardly changed at Monday mid-session. Trading was quiet ahead of Kruger Day while activity abroad was subdued ahead of holidays in US and Japan. At midday it was R2,70/$, slightly weaker than Friday's close of R2,6950, but had gained sharply against sterling to R4,2670 and was holding up well against the crosses.

Forecast trading ranges against the dollar: Standard: R2,68-R2,75; Volkskas: R2,66-R2,73. Standard's trade-weighted average for Monday was 38,88. ■





RAND'S PRICE

Oct 9 1989

	R1 equals	One foreign unit equals (R)
SDR	**0,293**	**3,414**
	0,310	3,229
ECU	**0,337**	**2,971**
	0,360	2,777
UK £	**0,230**	**4,356**
	0,234	4,281
US $	**0,370**	**2,706**
	0,402	2,487
Canada $	**0,434**	**2,304**
	0,485	2,062
Switzerland Fr	**0,606**	**1,650**
	0,632	1,582
France Fr	**2,360**	**0,424**
	2,534	0,395
Germany DM	**0,696**	**1,437**
	0,743	1,346
Japan Yen	**52,505**	**0,019**
	52,625	0,019
Italy Lira	**508,970**	**0,002**
	554,005	0,002
Zimbabwe $	**0,814**	**1,229**
	0,751	1,332
Austria Schil	**4,900**	**0,204**
	5,210	0,192
Holland Guilder	**0,786**	**1,272**
	0,837	1,195
US $ value of SDR	1,296	**1,266**
US $ value of ECU	1,115	**1,098**
Financial Rand		
Cost per US $	4,060	**3,865**
Discount (%)	38,806	**30,000**

Year ago figures in light print.
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved
The above rates are for guidance purposes only

BOND MARKET 58 FMail 13/10/89

Upward correction

Action moved from the dealing rooms to the golf course, the beach and Newlands. Those dealers at work say trading was "particularly quiet" and volumes very low.

At the beginning of last week, institutions, issuers and overseas investors held back while jobbers moved rates down slightly — to as low as 16,635% Wednesday — as they covered short positions. But Eskom E168 crept up Friday to 16,70% and was 16,74% Monday. "It's a technical correction," one says. "The trend is more up than down."

Though there were hardly any participants Monday, Finance Minister Barend du Plessis' statement that interest rates could be under pressure is thought to have added impetus to the upward move. Wednesday is expected to be the day of reckoning.

An upward correction of 25-35 points is expected. "This needn't mean a bear market," a dealer says. "After the correction, we could see a bull run again."

Overseas investors are thought to hold the key to movements in the next few months. With R4bn or more bought by foreigners this year, selling would have a big impact. "They could sell to pay for Iscor shares," one says.

The strong finrand may have encouraged some foreigners to turn sellers. "If they decided not to sell, they've also decided not to buy," a dealer says. Some say the finrand strengthened on funds moving in to finance the Urban Foundation housing scheme. ■

MONEY MARKET 58 FMail 13/10/89

Unnerving news

Dealers have been feeling nervous — and some expect an upward movement in rates. Minister of Finance Barend du Plessis' TV statement that interest rates could be under pressure is sure to add nervousness when dealers return on Wednesday.

"The view that rates will move down has changed," a dealer says. "They'll move up first, possibly by 0,5%." Another believes rates will hold steady, but for longer.

Putting pressure on local rates are rises abroad. The Bank of England let base rates rise one percentage point to 15% on Thursday after the Bundesbank raised its discount rate from 5% to 6%. "People borrowing offshore will find it cheaper to borrow onshore," says a dealer. "And there will be further pressure on our balance of payments."

Also causing nerves is the continuing high window shortage. Some are concerned about banks' ability to meet credit requirements. Saturday the shortage was R3,9bn compared to R4,5bn at the end of September. But a Reserve Bank spokesman says the shortage remained high in the first week of October because month-end fell over a weekend.

Higher than usual company tax bills have been instanced as part of the reason. "This is confirmed by many of our clients and goes hand in hand with better results," a banker says. "Last month's tax bill could be in the region of R600m-R800m."

Then, school holidays and the long weekend pushed notes in circulation to a record R8,2bn last Tuesday. The end of Transvaal school holidays on October 11 will see notes

P.T.O

Southern's unit trusts show strong performance in debut year

(58)

SYLVIA DU PLESSIS

BDay 13/10/89

INVESTORS in Southern's unit trusts have benefited from the funds' strong performances in income and capital growth for their debut year to end September.

Unit prices of the Southern Equity Fund and Southern Mining Fund closed the fourth quarter at 137,12c and 143,43c a unit respectively after opening at 100c in October last year.

A distribution of 3,84c (2,70c) a unit has been declared on the Equity Fund. The Mining Fund distribution totals 3,96c (2,79c) a unit, giving a total income distribution of 6,54c and 6,76c per unit so far.

Southern Unit Trusts chief Carel de Ridder said in a statement yesterday the outlook on the domestic economy over the past quarter was positive despite restraints placed by the balance of payments position and a weak gold price.

Good performances could be expected from most sectors in the year ahead.

Liquidity levels in the Equity Fund fell to 15,3% from 19,6% in the third quarter, with mining-related holdings climbing to 46,6% (45,8%).

De Ridder said holdings in Libanon were switched into Driefontein and the fund followed its rights in Gencor and increased investments in Malhold, Malbak, Anglovaal Industries, CMH and Da Gama.

In the Mining Fund, holdings in Keeley and Sasol were increased and an allocation of Gencor shares taken up, while the holding in Libanon was switched into Amgold and Driefontein. The fund's liquidity grew to 21,1% (16,3%).

Old Mutual Investors' Fund record

B/Day 13/10/88

SYLVIA DU PLESSIS

58

OLD Mutual Investors' Fund has declared a distribution of 52,04c for the quarter to end September 30, lifting total distribution for the year by 44,8% to a record 94,50c.

Assistant GM (marketing) Stuart Fish said yesterday that the fund's return was 53,5% on the repurchase to repurchase price over the past 12 months.

He added that monthly investors had achieved returns of 28,6% per annum over five years with distributions reinvested.

Fish said all three funds in Old Mutual's stable enjoyed good growth, with the Investors' Fund holding assets of some R1,7bn at quarter end and contributing to a total asset base for all three unit trusts "just short" of the R2bn mark.

During the quarter under review, the Investors' Fund reduced liquidity to 15% by purchasing Gencor Beherende, Gencor, De Beers, JCI and Rembrandt group.

It sold its holdings in Barnato Exploration, Fedvolks convertible prefs, Sentrachem pref ords and Welkom Gold Holdings, and its largest holdings included Anamint/De Beers, Richemont, Safren, Sasol, Gencor and JCI.

Old Mutual Mining Fund ended the period with a liquidity level relatively unchanged at 16,5% and a return of 42,5% over the past year on the repurchase to repurchase price.

Fish said the fund's coal exposure was reduced with sales of Amcoal and Witbank, but its holdings in De Beers, Palamin, Lebowa Platinum, Lydenburg Platinum, JCI and Assore were increased.

Gencor, Anglos, JCI and Sasol were among this fund's largest holdings.

Old Mutual Income Fund, which continued to take advantage of the attractive shorter term rates which became available over month-ends, declared its second quarterly distribution to end September of 5,04c.

68

NEDBANK

Foreign debt row blows over

Nedbank's London branch has avoided legal action from a small US bank, which is not a party to the standstill agreement, on debt caught in the net.

The matter hinged on the branch being in default of UK banking legislation by withholding payments in terms of the September 1985 standstill.

The issue, which has been settled, was raised at the time of the standstill.

However, foreign creditors did not stand to gain by closing the branch: fixed assets were minimal and the major asset — the debtors' book — had been transferred to SA, thereby becoming subject to the agreement. So the matter was shelved when SA reached a voluntary accord with foreign creditors — with debt repayments rescheduled in April 1986 and again in April 1987.

Agreement has now been reached on rescheduling payments after the existing schedule expires in June.

Though there is speculation that the creditor threatening action was politically motivated, it claims it is a completely independent decision.

Nedbank was particularly vulnerable to overseas creditors because of its large foreign exposure at the time of the standstill.

Unlike First National (then Barclays) and Standard, which then had major foreign shareholders, it had no outside sustenance. And while Trust Bank and Volkskas used offshore bases mainly for trade financing, Nedbank was accepting foreign deposits and on-lending to SA borrowers.

After the standstill, Trust's London and Hong Kong branches, and Volkskas's London branch, applied for and got exemption from the standstill requirements, allowing them to stay in business.

But Nedbank (London) was not granted an exemption. This led to speculation that it was not liquid enough to meet obligations in the short term and sparked a run on foreign branches. According to a Reserve Bank spokesman, the reason exemption was withheld was that assets financed from the deposits were in SA.

Doubts about Nedbank New York's ability to meet commitments led the US supervisory authorities to issue a temporary "cease and desist" order which, says Nedbank MD Chris Liebenberg, "constrained" business activities.

Only a Bank statement, that it would stand by Nedbank and all its subsidiaries, restored confidence locally and overseas and led to the lifting of the order.

New York's Madison Avenue branch remained open until last year.

After a capital injection from Old Mutual, Nedbank's relationship with another financial institution made it unacceptable, under US banking regulations. A similar regulation in SA was waived by the Bank to allow Mutual to raise its shareholding above 30%.

Were one creditor to obtain a court order to close Nedbank's London operations it could lead to the winding up of the branch and the bank concerned becoming a concurrent claimant along with other creditors.

Whether any financial purpose would be achieved remains a moot point. ■

 (58)

Homeowners in crisis

More banks up loan rates as shock spreads

Staff Reporter

BANKS that have not yet raised home loan interest rates are preparing to do so today as struggling homeowners and consumers once again slash their budgets to the bare minimum.

The ripple effect of Wednesday's shock 1% bank rate hike has already begun to spread into all areas of finance, worsening conditions for the man in the street.

Salesmen at major commodity sales houses yesterday reported a sharp drop in credit demand trends over the last month, specially in the new car market.

Mr Jimmy McKenzie, First National Bank's public affairs general manager, said sales in their car financing division had tapered off dramatically with the bulk of sales now going to establish or complement company vehicle fleets.

Mrs Martie Beetge, credit control manager for a major local home appliance discount store, said there had been a 20% to 30% drop in demand for credit compared to this time last year, while bad debts had increased.

Estimated housing bond arrears nationally stand at R1,5 billion, the highest in South Africa's history.

For homeowners trying to make ends meet after dealing with an almost 50% increase in bond repayments in the past 18 months, bank managers yesterday suggested people contact them before they reached financial "crisis point".

All expressed a willingness to extend loan periods with temporary "capping" arrangements on repayments.

First National Bank is increasing its home loan interest rate from 20 to 21% on November 1, while Standard Bank is expected announce a jump from 19,75% to 20,75% today, also effective November 1. Other banks will follow suit.

Building societies must give a month's calendar notice before pushing up their home loan rates. The UBS has announced an increase from 19,75% to 20,75%.

Mr McKenzie said the consumer demand for credit was dropping fast but the corporate market and project financing had been "holding up" until Tuesday's announcement. The prime rate rise would reduce corporate demand, producing the overall desired effect of cooling down the economy and putting South Africa in a better international financial position.

Reacting to senior banking officials confident predictions a month ago that the home loan rate would remain steady until early next year and then drop by one percent, Mr Peter van Broembsen of the SA Perm said nobody could have predicted the Reserve Bank adjustment.

"It was the international pressure on interest rates and a pre-emptive move by the Reserve Bank," he said.

(58) FMail 13/10/89

DEREGULATION

When the dust settles

It's the knock-on effect of financial market deregulation. After the banks' aggressive thrust into the mortgage market, the first real signs are emerging that building societies are planning a major counter-offensive to regain market share.

And, as has happened in Britain, it looks as though the battleground could be estate agencies, which are at the coalface of the bond business through their close interaction with property buyers.

Perhaps appropriately, it's the country's largest bond supplier, United, which seems to be making all the running. First it acquired a 33,3% stake in Multi Listing Services (MLS) in August. Now there's talk that it's planning to move on one of the country's largest estate agencies. There have been persistent rumours that it is about to close a deal with the listed Aida Geffin Estates. United has admitted that it is "talking to all of them."

The advantages are clear. Firstly, it's a natural expansion of the services it offers in the home market. Secondly, it is to some extent a measure aimed at protecting its back.

If it owns a string of estate agencies, it's far more likely that when a property is sold through one of its outlets the bond financing will be done through United.

However, estate agents, notorious for protecting their independence, are not about to take United's incursion into their traditional market lying down. There is a feeling that any blood spilled is likely to be that of the societies as agents do their utmost to protect their turf.

Says Basil Elk of the Basil Elk Estates: "I haven't seen the MLS agreement, so I don't know what it involves. However, if this is a manoeuvre to lock agencies into using its financial services, then it won't be a case of United getting egg on its face, but rather one of how much egg. Correctly run estate agencies act in the interests of the client. That is what determines where borrowings come from."

He admits a few estate agents may be hoping for societies to "drop out of the heavens with cheque books" in a bid to gain a foothold in the market. But, institutions contemplating such a move aren't reading the situation well.

"If, for example, this is United's plan, it will backfire. The MLS deals involve 600 agencies, but there are about 6 600 registered with the Estate Agents' Board. United could alienate 90% of the market."

Landmark director Jan Oelofse believes the moves may not, in the longer run, be confined to residential property. Industrial and commercial brokerages may eventually also become targets.

While he accepts that United's actions are acceptable in SA's growing climate of free enterprise, much depends on its intentions and whether it will impinge on small business.

"It's debatable whether it's a good thing that people backed by the might of the rand because of the size of the organisation, can push small companies out.

"If it's trying to corner the market then move in to create a monopoly, that will obviously stifle rather than enhance competition and free enterprise."

Ironically, United's moves have evoked remarkably little criticism from some other agents.

On the residential side, Eskel Jawitz, MD of J H Isaacs, Eskel Jawitz, believes, for example, if the move adds an element of competition, then it can only be good for the industry and home buyers. He says only when the dust settles will it be possible to see whether the moves are a success.

"This sort of thing was being discussed three or four years ago — even before deregulation. In the UK, many financial service organisations are licking their wounds from imprudent forays into real estate sales. They learn the hard way that financial services and estate agencies are entirely different cultures."

The bottom line, he says, is that the market needs quality service. All the financial institutions grant bonds relatively quickly and provide services to help the public and the estate agents.

"For us, it's a further form of competition. It reinforces my long-held view that estate agents must constantly improve their service through well trained and fully informed staff. The name of the game is service, knowledge, and expertise."

From the building societies' perspective, not all are as keen on diversification. Allied's GM regions, Geoff Bowker, says the Allied is sticking to the business it knows best. "Our philosophy is simple.

"We know exactly what we're doing when it comes to lending money on houses. Estate agents are experts at selling homes. We don't want to impinge on their independence." ■

Cape Times 13/10/89 (58)

OM funds show strong growth

OLD MUTUAL Investors' Fund has declared a distribution of 52,04c for the quarter ended September 30, bringing the distribution for the year to a record total of 94,50c, an increase of 44,8%.

"In addition, the Investors' Fund return was 53,5% on the repurchase-to-repurchase price over the past year," said the GM (marketing) Stuart Fish.

"Monthly investors have achieved returns of 28,6% a year over five years with distributions re-invested.

"The three funds in Old Mutual's stable all showed good growth.

"At quarter-end the Investors' Fund had assets of some R1,7bn, while the total asset base of all three Old Mutual's unit trusts was just short of the R2bn-mark," Fish said.

In the last quarter, the Investors' Fund reduced its liquidity to the 15% level by purchasing Gencor Beherende, Gencor, De Beers, JCI and Rembrandt group. The 10 largest holdings in the Investors' Fund are Anamint/De Beers, Richemont, Rembrandt group, Safren, Anglos, Sasol, Gencor, JCI, Driefontein Cons and Amic.

Old Mutual Mining Fund ended the quarter with a relatively unchanged liquidity level of 16,5%.

Old Mutual Income Fund declared its second quarterly distribution amounting to 5,04c to September.

Based on the past six months the projected annualised yield is an effective 16,7%.

The Income Fund switched from RSA 13% 2005 stock to the RSA 12% 2005 stock in anticipation of an improvement in the marketability of this stock as a result of the consolidation of government debt.

The fund continued to take advantage of the attractive shorter-term rates that became available over month-ends. — Sapa

UAL trusts income soars

CAPE TIMES 14/10/87 58

Financial Editor

UAL Unit Trust achieved a total return — capital and income — of 55,57% in the year to September. Income distribution for the year was 66,55c, which is 44% ahead of the previous year.

Alister Colquhoun, executive director reponsible for the UAL unit trust portfolios, said yesterday that slightly more than half of the invested funds were in the financial and industrial sectors.

Exposure to the gold sector was reduced through the sale of all holdings in Western Deep Levels.

In the non-mining sector, all holdings in Barprop loan stock and Plate Glass were sold.

New holdings in Anglo American Industrial Corporation and Richemont were added to the portfolio.

Specialist fund UAL Mining and Resources achieved a total return of 53,4% in capital growth and income. Income grew by 32% to 17,28c a unit.

Colquhoun says that direct exposure to gold shares was reduced in favour of expanded participation in the metals and minerals sector. Randfontein, Vaal Reefs and Western Deep Levels were sold from the portfolio and Northam, Vansa and SA Manganese "introduced in meaningful amounts."

The Palabora Mining holding was increased and "the modest exposure to the exploration sector was eliminated".

UAL Selected Opportunities fund reports a total return of 40,95%, "with a pronounced acceleration of the value of the portfolio in the second six months".

The overall size of the fund grew to R79m from R46m.

Significant new holdings were taken in Crusader Life, Hunts Convertible Debentures, Siltek, Rainbow Chickens, Kohler, Waltons and Unitrans. There were additional purchases of Sun Packaging, African & Overseas, Strebel and Dimension Data shares.

Total performance of the Gilt Unit Trust Fund for the year was 17,25%, including a final distribution of 85,98c.

"This trust maintained a defensive profile in the capital markets for most of the year," says Colquhoun.

"Unitholders enjoyed a stable asset value in the volatile environment, with competitive total returns for the year as a whole."

Old Mutual restructures management

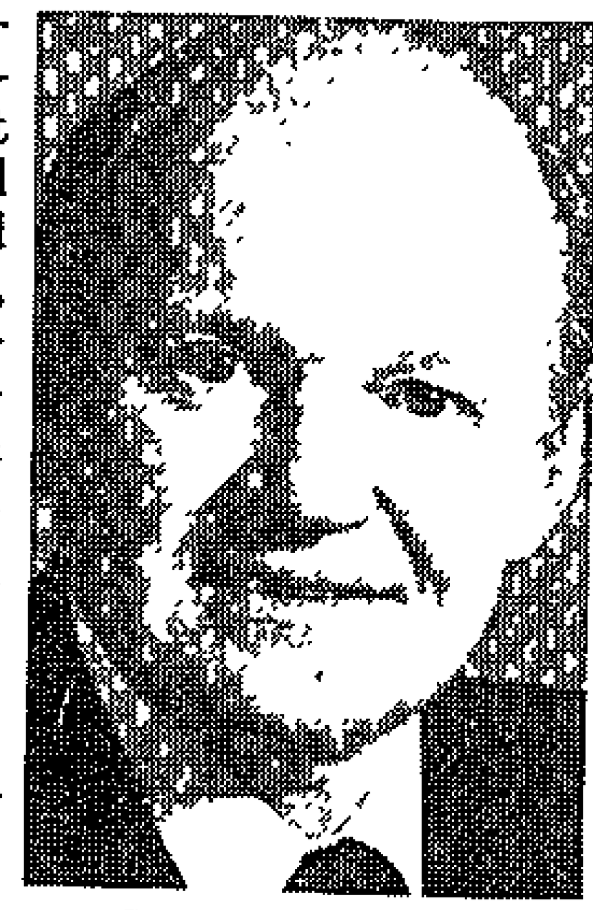
CAR-TIMES 14/10/89 58

By AUDREY D'ANGELO
Financial Editor

OLD Mutual chairman Jan van der Horst, who celebrates his 70th birthday this month, will retire in March. He will be succeeded by Mike Levett, who will also continue as MD.

Instead of appointing a new MD, Old Mutual will create a new position of chief operating officer, to whom the four GMs will report. An announcement yesterday said that Gerhard van Niekerk, now GM (employee benefits), "has been selected to fill this position".

The new GM (employee benefits) will be Garth Griffin, now MD of Providence Capital Group in Britain. Old Mutual recently transferred a GM, Ralph Roseman, to head its operations in Britain — the highest ranking executive to do so.



Mike Levett

Jan van der Horst

Levett said yesterday that this was part of the development of Old Mutual's business overseas, which was becoming increasingly important.

"Our development internationally is part of our future thrust. We have been seeing this for some years."

The SA insurance industry had developed skills, particularly in marketing and providing protection against inflation, which were superior to those in London. At the same time, there was much an executive could learn by being there.

"It is a different market and people develop by working there. This is of benefit to Old Mutual when they return."

Levett said he was confident of Old Mutual's future in the changing SA.

"My plans are to work with our management team to build Old Mutual into an even greater organisation.

"Our business is helping people to provide for their old age and retirement, and for their dependants. Those needs will continue to be there in the future whatever changes take place."

He was confident that moves towards deregulation and freer markets would create more wealth, from which everyone in the country would benefit.

Levett, who is 50, is a graduate of the University of Cape Town. He qualified as an actuary in 1964. He has spent 30 years with the Old Mutual and its associates, and has worked very closely with Van der Horst over the past 18 years. He became MD in 1978.

Van der Horst said yesterday that he planned an active retirement, and would remain on the board of the Reserve Bank and a number of companies. He will also devote more time to cattle farming — he breeds Angus cattle in Harrismith — and to his flower farm in Constantia.

He said he was happy that Old Mutual now had "a young management team of great expertise and experience".

Van der Horst has been with Old Mutual for 23 years, first as group GM and then as MD. From 1974 until 1978 he was both chairman and MD.

In that time the group's total assets have grown to R46,5bn and its interests now range from mining to shipping and hotels, through its stake in Safren.

Coincidentally, Levett will take over as chairman at about the same time its main rival in the insurance market, Sanlam, also has a new chairman. Since the sudden resignation of Tjaart van der Walt as chairman of Sanlam a few weeks ago, the Bellville-based insurance giant has had an acting chairman, Abie van den Berg.

Can prime rate again go up to 25 percent?

Star 14/10/89

(58)

FINANCE STAFF

CAN the prime rate again go to the punitive levels of 25 percent achieved in 1984?

This was the question asked by many households and businesses after Monday's announcement by Dr Chris Stals, Governor of the Reserve Bank, that the bank rate is to be increased from 17 to 18 percent.

The bank rate is the rate that the Reserve Bank charges to large financial institutions to rediscount Treasury Bills. Banks immediately increased their prime overdraft rates to 21 percent and some economists now forecast further increases.

A comparision of economic events in 1984 with the present reveals some worrying similarities:

- There was strong economic growth in both periods.
- Both periods showed a drop in the gold price and a reciprocal rise in international interest rates.
- Hefty outflows on the short-term capital account on the balance of payments. It was R1 772 million in 1984, and R5 494 million in 1988. In the first quarter of 1989 the outflow was R1 456 million, which was one of the largest outflows recorded in any one quarter.
- Net reserves declined by R1 429 million in 1984, and by R3 724 million in 1988, with a further decline of R419 million in the first quarter of this year. In both periods the rand exchange rate depreciated, by 30,3 percent on a trade-weighted basis in 1984 and by 13,2 percent in 1988.
- The Government's deficit before borrowing was 4,5 percent of GDP in 1984, and 4,4 percent in 1988.
- Inflation was edging up in both periods.

Fiscal policy lacked credibility in 1984, according to economists, and monetary policy later had to be severely restrictive.

A similar situation existed in 1988 with the handout to civil servants just before the October municipal elections. This expansionary policy could prove one of the major reasons for the recent sharp rise in interest rates. These similarities suggest that the possibility of interest rates moving back to 25 percent cannot be ignored.

And although there are differences between now and 1984, some of them help to reinforce the repeat theory:

- The growth in the money supply, now 27,6 percent as against 18,1 percent in 1984.
- Lower foreign exchange reserves. These constituted 24,8 percent of total imports at the end of 1984, but only 17,1 percent at the end of 1988.
- The long-term capital accounts showed an outflow of R1052 million in 1988 whereas an inflow of R2 563 million occurred during 1984. It is clear that little help in the form of foreign loans can be expected this time round.

But gloomy as this comparison may seem, there are major differences which lessen the possibility of a repetition.

The current account showed a deficit of R2 220 million in 1984, compared with a surplus of R2 939 million recorded in 1988.

International economic growth is stronger now when compared with 1984, offering a better outlet for exports. Added to this the economy probably peaked towards the end of last year, and the tough measures implemented in November and early this year should be sufficient to cool the economy, avoiding the need for a hard landing and a 25 percent prime.

The authorities have learned from the experience of 1984, and would guard against overkill.

But there is very little downside potential in SA interest rates during 1989 and the first half of 1990. Any increase in foreign interest rates could force SA to go the same route. Interest rates are likely to remain at current levels for the rest of the year, and will only come down in line with an economic slowdown in 1990.

S/Times 15/10/89.

58

It's policy power

By David Carte

POLICY holders, staff and business associates of African Life are to be offered shares in a R27,5-million rights issue ahead of a listing in the next two years.

African Life is described by its managing director, Bill Jack, as "the fastest growing life company in SA."

The company has increased new business at 56% annually for the past three years and in the first six months of the present year, growth was 53%. The share issue will alleviate new business strain on the capital base.

"We are doubling our capital base, issuing 25-million new shares at 110c," says Mr Jack. "Southern Life will take 18-million new shares and the other 7-million will go to our customers and their families, staff and business associates.

"We have a broad vision that African Life should be a mirror of SA society in all aspects of its business, in its customer profile and the profile of its staff and shareholders."

Reason

An important reason for the success of African Life has been its penetration of the rising urbanised black middle class.

The company sells to the black market along the same lines as "the man from the Pru".

Share salesmen collect cash premiums in person from home to home. They also deliver payments from the assurer, which makes a big impression among clients and their friends. This sales strategy helps African Life salesmen to develop close relationships with policy holders.

The company has also done well selling by direct mail to other population groups.

African Life is a public unlisted company but Mr Jack believes it will be necessary to list in the next year or two. At present Southern Life holds all the shares apart from those held by staff. About 95% of the staff had shares before the latest issue. The new issue will dilute Southern to 80% and a future listing will water its holding down further.

"The investment people at the Southern are not too happy. They rather like their stake," says Mr Jack.

African Life sees the share offer as an opportunity to cement customer loyalty. It has written to all policy holders explaining the notion of share ownership and inviting those interested to write back. Nearly 6 000 have responded.

African Life offices are staying open on Saturdays and after normal business hours on two days a week so that qualified staff can inform policy holders about share ownership. The company has made a video to explain its share issue.

Downside

A novel feature of the issue is that there is no downside. Southern Life has given an undertaking to buy back shares at the subscription price. The relationship with Southern pays in other ways as well.

African Life, for instance, uses Southern's computers. It can thus handle low-value, high volume business more cheaply than it would independently.

African Life has long catered to lower income groups. It has developed special expertise in small policies.

When Mr Jack took over, the company had 150 000 premium payers, 75 000 of whom paid less than a rand a month. Mr Jack reduced the number of policies dramatically, paying up some 25 000.

African Life earned 8,3c and paid a dividend of 6,3c a share in the year to March 1989, so the issue is at 13,3 times earnings and on a dividend yield of 5,7%. This compares with Metropolitan Life's PE of 12,8 and yield of 5,2%.

Considering that both companies can be expected to grow at 25% plus pa they are both undervalued.

BILL JACK ... ace in the pack

African Life is forecasting earnings in 1990 of 11c and a dividend of 7,8c. The forward PE is thus 10 and the prospective yield 7,1%. While Southern has ensured that the issue is no give-away, those who take up the shares will benefit handsomely in a few years.

Chinese bank on the cards for SA

By IVOR CREWS 58

A SOUTH AFRICAN banking group is involved in discussions which could lead to the formation of the first "Chinese bank" in South Africa.

This follows reports that South Africa is making a bid to attract refugees from Hong Kong when the colony falls under communist control in 1997.

Banking circles have been abuzz with news of the "Chinese connection" for months but few details have emerged. S1 Times 15/10/89

Bankorp — which controls both TrustBank and Santambank — is said to be taking the initiative.

Bankorp chairman Dr Chris van Wyk said this week: "We have entered into discussions with investors from the Far East and Europe with a view to their investing foreign capital in South Africa.

"The object is to discuss the possibility of establishing joint banking ventures and the viability of setting up a bank to cater for Orientals in South Africa."

Old Mutual surprises

(58) Business Times Reporter

OLD MUTUAL has introduced a relatively new face in the hierarchy of SA business — Gerhard van Niekerk (46), new chief operating officer of the biggest life assurer in the country.

Mr Mike Levett (50) replaces the retiring chairman Jan van der Horst. Mr Levett was previously managing director of the R45-billion life assurer. His appointment was semi-automatic.

Mr Van Niekerk, on the other hand, was selected from four general managers of equal status. The others were Dr Johanes van der Horst, head of investments and a nephew of the outgoing chairman, Bobby Jooste, general manager individual business, and Reg Munro, general manager services.

They and new pensions boss, Garth Griffith, will report to Mr Van Niekerk.

Dr Jan van der Horst ran Old Mutual with distinction for 23 years. He brought a unique culture — solid, stable, conservative and old worldly (appropriate to its Cape base) yet dynamic. S Times 15/10/89

Old Mutual was named the "South African Life Assurance Mutual" 30 years before the Union of SA was established. It has always been intensely South African and bilingual.

When Liberty and Sanlam started making inroads in the 1970s, Dr Van der Horst combatted complacency by calling in the Boston Consultancy Group — and acting resolutely on its recommendations.

Dr Van der Horst steps down with Mutual on a roll. Its huge investments in De Beers, Anglo American, Barlows and other blue chips have performed spectacularly.

"It will be business as usual", Mike Levett told Business Times, "These appointments are the culmination of a lot of forward planning. There are no surprises and we don't have any great changes in mind. We're going like a house on fire already. There's no question that anyone is unhappy with the appointments."

Mr Levett, an actuary by training, has been managing director since July 1985. Before that, he was managing director of Mutual & Federal, the short term subsidiary,

Mr Van Niekerk played a prominent role in wooing black trades unions into Mutual pension and provident funds. He was also at the forefront of national employee benefit affairs.

Mashold post record growth

S/Times 15/10/89.

(58)

By Ian Smith

MAIL-ORDER and direct mail market leader Mas Holdings, which has maintained a four-year record of 30% earnings growth, is set to do it again.

Interim results out tomorrow show the group notched up a 44,4% increase in pretax profits which are up from R3,08-million to R4,45-million in the six months to end-August. Earnings jumped 31% from 13,4c a share to 17,5c a share.

An interim dividend of 6c a share has been declared.

The share has performed well this year, rising from R140c in January to a new high of 200c.

The results for the country's largest mail order group are in line with its consistently good performance over the past four years, during which it has bucked the spending trend in in so many other consumer sectors.

Mashold managing director Marco van Embden ascribes the good results to the expanding mail order industry and the group's commitment to customer service.

"We are experiencing excellent demand for our products. Our existing customers are buying more and our customer base is constantly increasing.

Unaffected

"Our customers are virtually unaffected by increasing interest rates and other tougher economic measures designed to cool consumer spending. Instead, in the wake of the growth in the informal sector, their disposable income is growing.

"The nature of our business allows us to operate throughout South Africa and across our borders with ease.

"Wherever there is a Post Office, we have an outlet."

He says Mashold has benefited from "enormous demand" from beyond SA's borders, and our export business "continues to grow".

In the last six months, the group launched its latest mail order division, Sonny Boys, which was bought out of liquidation last year.

"Sonny Boys has already started to contribute to profits and we are expecting even greater things from it in the second half of this year. This division has tremendous potential."

Mashold is also expanding its COD direct selling operation, Family Selections. The group has brought in a top direct sales expert, John Meyer, to implement new strategies in an agressive move to increase its penetration of the direct sales' market.

Mr Van Embden says the group is trading ahead of budgets and he expects this trend to continue.

"On the operating level, our new management structures are working well and we are making the most of synergistic opportunities. The group's tax rates are expected to remain at their current low levels for the foreseeable future."

OM portfolio rises

S Times 15/10/84 (58)

Business Times Reporter

THE value of the Old Mutual's property portfolio rose by 31% in the year to June to R4,1-billion.

In a year which set new levels of letting, the total yeild on the portfolio, combining capital and income performance, was 26% — the third successive year in which it has beaten the 25% figure.

During the year, the group let a net 121 000m². It had a portfolio vacancy of 113 000m² at the end of June last year, equivalent to 5,7% of the portfolio and let all this space.

New investments amounting to R260-million were made, of which R85-million was spent in Pretoria. R80-million was invested in the Johannesburg CBD.

(58)

Fears of broke brokers

INSURANCE brokers fear that the direct writing trend which is rapidly developing in SA will cut them out of personal lines business.

The entrance of the big players into this relatively untapped market was seen in August when Santam Insurance launched Teleplex, a policy which is sold purely over the telephone by way of a toll-free number.

Managing director Oosie Oosthuizen said the new policy was in line with a trend well underway in the United Kingdom, and predicted that SA's short-term insurers would switch to this system in the next few years.

SA Insurance Brokers Association (Saiba) president Tiny Lipton believes the broker's role is in jeopardy because of direct insurance, especially if other insurance companies enter the market.

Premiums

"Santam estimates that its policy is cutting motor and household insurance premiums by up to 30%. Competitors obviously want to get in on this, and may even enter the market by cutting premiums by 35% or more.

"The bottom line must be how the consumer will be affected by this. An independent broker will fight for his client when it comes to claim time, but the consumer cannot be guaranteed this with an insurance company."

By Robyn Chalmers

The fact that such policies are cheaper does not necessarily mean consumers will win in the long run, he says, as premiums will rise sharply if insurers cut them too drastically.

Prestasi managing director Arnold van der Linde says direct insurance is seen by insurance companies as a way to cut down on broker costs. Santam, for instance, paid R80-million this year in commission to brokers, bringing the total commission paid for the past 15 years to more than half a billion rand.

"We support Santam's use of new technology, and its attempt to cut down on the ever increasing costs of insurance, but not to the extent that the client is compromised.

"When the consumer negotiates with a direct dealer, the first thing to go out of the window is service. In addition, the individual has no real negotiating power."

OOSIE OOSTHUIZEN ... in line

First Bowring chief executive officer Alan Wilson believes the bigger brokers will be relatively unaffected, but says the smaller players, particularly in rural areas, could have a serious problem.

Brokers have brought the matter to the attention of the Registrar of Financial Institutions, Theo van Wyk. Until brokers can show that they have been seriously affected by direct insurance, however, there is little he can do. Even then his hands are tied as direct insurance is not illegal.

Insurers are competing fiercely in the present soft market, hoping to gain a bigger slice of the insurance pie by slashing rates. Profit margins can only be squeezed so much, however, before companies start looking around for alternative ways to offer cheaper premiums.

Although Auto & General has been practising direct insurance for some time now, none of the big league players have aggressively entered the market. Brokers say insurers are now gearing up for this.

Direct insurance has been a feature of the American insurance industry for a number of years now. USA insurers are also facing a soft market, with claims increasing rapidly, payouts having risen faster than premiums for most of the 80's, and the price of car repairs rising as well.

However, because of growing price competition, insurers are reluctant to bring their rates in line with bigger claim costs. In contrast, insurers in the direct writing business are sitting pretty.

The May edition of Fortune Magazine says because direct insurers' costs of doing business are lower, they can undersell agency companies by 10% or more and grab market share.

"Indeed, they now control 63% of the auto insurance market versus 52% in the early 1970's. As pressures on rates intensify, direct writers are working even harder to extend their competitive edge."

Proposed change in legislation affects 'hostile' building society takeovers

B/Day 16/10/89

58

GRETA STEYN

THE banking authorities are considering changing legislation protecting building societies from hostile takeover bids.

Registrar of Banks Chris de Swardt confirmed the shareholding of banks and building societies was currently under scrutiny as part of a general revision of the Banks Act.

Current legislation prevents any predator from gaining more than a 10% stake in a society without the board's approval.

De Swardt said the Banks Act revision committee had not reached finality on "appropriate requirements" relating to the shareholding in and control of banks and building societies.

He said takeovers and mergers in the banking industry would have to take place with the consent of shareholders concerned.

"What may appear as a 'hostile takeover' from the point of view of management may in reality be in the best interests of shareholders."

While building societies — notably the Allied — are keen to retain legislative protection for another five years, this could change soon.

Although De Swardt did not want to specify, he confirmed that short-term changes to banking legislation were in the offing as an interim step before the major revision of the legislation is completed.

He hoped parliamentary approval of amendments would be obtained next year.

The intention was to introduce, in the short term, a more level playing field between banks and building societies.

Although De Swardt did not specify, bankers said building societies' capital reserve requirements might be tightened in line with those of the banks.

The planned legislative changes in the financial services industry will affect institutions other than banks and societies as well.

De Swardt said banks and societies were often at a disadvantage in relation to other "organisations and institutions which may be effectively involved in deposit-taking business."

Analysts said financial institutions such as discount houses and life offices were in direct competition with banks and the same rules would eventually apply to all organisations engaged in banking business.

De Swardt said banks and societies had to compete with institutions that did not face capital, liquid asset and other requirements.

The lack of statutory financial requirements could create undesirable distortions such as an excessive substitution of off-balance-sheet operations for traditional on-balance-sheet operations.

Once the Banks Act has been re-written — an exercise which is likely to take a few years — the issue of off-balance sheet transactions would be specifically addressed in a revision of Regulations under the Act, De Swardt said.

There was no intention to tighten the capital-to-assets requirements when the Act was re-written.

Over-capacity will hit SA insurers too

KAY TURVEY (58)

WORLDWIDE over-capacity ~~in the~~ insurance and reinsurance industry is expected to influence the SA market, prolonging competition of local insurers and so ensuring premiums remain low.

Santam Insurance MD Oosie Oosthuizen, who has just returned from the annual gathering of about 2 300 representatives of reinsurers and insurance companies in Monte Carlo, said this overcapacity made the renewal of reinsurance treaties easier to negotiate than for some time.

About a year ago a hardening of the market had been expected because of the massive losses arising from the Piper Alpha oil rig disaster and the flood and storm damage in south-east England and northern France.

However, Oosthuizen said, these had virtually no impact on the market and it was widely held that rates in many sectors "are too low for comfort".

"Rates in the marine and aviation markets, in particular, are notoriously low world-wide," he said.

Further, average rates for European industrial risks were now 20% below 1986 levels.

Rates for some Australian and Latin American facultative reinsurance had fallen by more than 50% compared with levels three years ago.

Oosthuizen said the reasons for the soft world insurance market was fierce European competition ahead of 1992.

In addition, the insurance industry internationally, as in SA, was financially healthier than it had been for a long time.

B Day 16/10/89

Insurance companies, Oosthuizen said, had become larger through growth or aquisition and their solvency margins had improved.

Duro-Link looks to future of banking

58

B/Day 16/10/89

Business Day Reporter

A SEMINAR on Banking in the 1990s is to be held in Johannesburg on November 23, presented by the Duro-Link group and in association with Axis Conferences.

Duro-Link MD Mike Bolton said last week: "The banking industry in SA is in a state of significant change and there are a number of topics likely to prove controversial and of keen interest to the financial community."

The organisers hope to make the conference a regular event.

Rand Merchant Bank group economist Rudolf Gouws will give the opening address.

Other speakers and their topics are: Frame Textiles EC Mervyn King — Monetary and Fiscal Policies in SA (or the Lack Thereof); Central Merchant Bank (corporate finance) assistant GM Mark Thompson — Corporate Finance after the Stock Market Crash; Cape Investment Bank MD Andy Swartz — Innovation and Trends in the Money and Capital Markets; First-Corp vice-president Louw Burger — Foreign Financing; and Duros group chairman Johan Claasen — The Venture Capitalist Approach.

For more information, telephone Christa Claasen at (011) 873-4423/25.

B/Day 16/10 189

58

Old Mutual MD to play dual role in replacing the retiring chairman

KAY TURVEY and LESLEY LAMBERT

OLD Mutual MD Mike Levett, who is to succeed Jan van der Horst as chairman when he retires in March next year, is regarded as the only man for the job.

Levett, once Van der Horst's PA before being seconded to short-term insurer Mutual & Federal, has been groomed for top management since he joined the large Cape mutual in 1959.

He will retain his position as MD, making his role as chairman an executive one.

In 1980, he became MD and CEO of Mutual & Federal, a position he held until 1985. During this period he was also appointed GM, pensions, at Old Mutual in 1981 and GM, investments, two years later.

Levett is still a director of Mutual & Federal today, besides sitting on the boards of Barlow Rand, SA Breweries, Nedcor and Nedperm among others.

Highly regarded for technical knowledge, he is seen as an effective manager, although he has always assumed a low profile. Colleagues say while he is not as charismatic as his predecessor, his competence and courteous manner win respect.

Educated at Christian Brothers College in Cape Town and the University of Cape Town, Levett became a fellow of both the Institute of Actuaries in London and the Faculty of Actuaries in Edinburgh in 1964. He also belongs to the Association of the Society of Actuaries in America.

To lighten Levett's load in his dual role, the board has created a new position in its general management — that of chief operating officer to whom the four divisional GMs will report.

Employee benefits GM Gerhard van Niekerk, 46, will fill this position. Garth Griffin, who is MD of Providence Capitol group in the UK, will replace Van Niekerk.

Van der Horst, dubbed "groot Jan" by his colleagues, transformed the Old Mutual from an unimaginative, directionless firm into the dynamic giant it has become by aggressive marketing and innovative policy introduction.

He turns 70 this month and has been with the Old Mutual for 23 years — first as group GM, then as MD, and from 1974 as chairman.

JSE prices fall sharply as dealers rush to sell shares

ARGUS (58) 16/10/89

By TREVOR WALKER
Business Staff

SHARE prices fell sharply in active trade on the Johannesburg stock market following the trend set in London and the Far East today and falls of up to 10 percent were fairly widespread.

One broker said: "We have had a predominance of sell orders but due to a lack of scrip it has been difficult to fulfil the orders."

He said the public appeared to have put in sell orders but whether these would be met and at what price remained to be seen.

ANGLOS

Among the leading shares mining financial Anglo American dropped R13,25 to R80 and diamond-share De Beers shed R3,75 to R51.

The higher-priced shares traded down in an initial burst of selling, but prices soon began to bounce around early bottoms, dealers said.

Barlows fell by 300c to 3700 from Friday's close, UBS by 50c to 500c, Gencor by 75c to 850c and Richmont 215c to 1395c.

In the space of minutes Richmont, for example, had a string of trades recorded at 1350, 1375, 1400, 1375, 1390 and 1380.

HECTIC

Dealers said the market was hectic in early dealings in the higher-priced issues but activity had dropped off with investors awaiting the opening of Wall Street.

Meanwhile, the rand firmed to R2,6415/30 (37,85 US cents) in response to a firm bullion price which was trading above $366 an ounce in London.

AUSSIE FRENZY: Traders on the floor of the Sydney Stock Exchange yell their orders during today's opening session. Shares fell sharply in the wake of Friday's plunge on Wall Street but partly recovered.

In London the FTSE 100 index opened 157,1 points or seven percent down in hectic trading.

Earlier, in Tokyo, the market closed lower after heavy trading with the Nikkei stock index of 225 shares down 647,33 points or 1,81 percent lower than its Friday levels.

In New York the Federal Reserve has signalled its intention to give the banking system sufficient cash to meet demands for funds that might result from further stock price declines.

A safety net introduced after the 1987 crash is to be tested in the United States market when it opens this afternoon.

If the share index drops by 250 points trading will be halted.

The smaller markets in Australia and New Zealand have showed large overall losses.

In Wellington the New Zealand stock market experienced its second-biggest fall of all time today.

Gold at $366,75

GOLD traded at $366,75 an ounce in London today against $363,25 at the close in New York on Friday. The rand traded at R2,6422 (37,84 US cents) today from Friday's close of R2,7223 (36,73 cents). — Business Staff.

See page 11

Shares plunge; hopes pinned on gold

Cape Times 16/10/89

58

Own Correspondent

JOHANNESBURG. — Share prices are expected to come under pressure when the Stock Exchange opens today, but analysts are pinning their hopes on a rising gold price to bolster the market amid fears of a renewed crash of global stock markets.

Gold rose $3,65 to $366,85 in active half-day trading in Hong Kong on Saturday in reaction to a weaker dollar and the shock 190,5-point plunge in the Dow Jones industrial average to 2 569,26 on Friday, its sharpest decline since the Black Monday sell-off on October 19, 1987.

The sharp fall on Wall Street could put additional pressure on the Federal Reserve to ease credit policy. A cut in US interest rates, to cushion the deflationary impact of the share-price slide on an economy already showing signs of weakness, would undermine dollar strength and boost gold.

While the JSE will be guided by what happens on the Japanese, Hong Kong and London markets, attention will be focused on Wall Street.

Analysts hope there will not be a repeat of the October 1987 scenario.

The JSE overall index has fallen about 8% from its recent high.

The crash was triggered by news of the failure of United Airlines pilots, backed by British Airways and banks, to complete the financing of the $6,8bn leveraged buyout of UAL Corp.

● More reports — Page 10

Stals catches dealers on wrong foot

(58)

B/Day 16/10/89

IN THE MONEY MARKETS

Harold Fridjhon

WEDNESDAY's bombshell Bank rate rise wrong-footed most money market dealers and their bosses who had expected to return to as-you-were trading routines after what was tantamount to an expanded long weekend.

The consensus opinion — which I shared — on the Friday before Reserve Bank Governor Chris Stals delivered his block-buster was that rates and the markets would idle sideways into 1990.

On Wednesday morning, even before an in-depth assessment had been made of the Stals move, all money market rates followed the one percentage point step-up in Bank rate. The 90-day liquid bankers acceptances (BAs) were marked up to 18,35%. Three-month negotiable certificates of deposit (NCDs) went to 19,4% from 18,4%. They were at 19,45% on Friday.

The Big Money call rate didn't move the full one point; it rose to 17,5% from 16,75%. The notional rate for 12-month NCDs went to 18,5%-19%, up a full point, and for six months 19%.

Disgust

And predictably the Treasury bill (TB) rate rose last Friday to 17,98% from 17,09% in a well supported tender which attracted bids totalling R70m for the R20m bills on offer. The previous rate was nine small points above the Reserve Bank's then rediscount rate; last Friday's rate is a cautious two small points below current Bank rate which is a better relationship.

The market, however, expressed considerable disgust with the Reserve Bank's "insider trading" in last week's Land Bank bill tender. For months past, the Bank has been offering on tender each week R50m three-month bills. Last Monday when the Bank management must have been fully aware of the imminent announcement of a Bank rate rise, the tender was inexplicably raised to R100m.

As a result, all the buyers of the bills have sustained a loss of interest amounting to R250 000. The very least the Reserve Bank should have done last Monday was to have continued offering R50m worth of bills. Of course a loss would have accrued to buyers of the bills, but that would have been tough luck.

One can only suspect that the authorities took advantage of a situation of which they were fully aware to enable the Land Bank to buy cheaper money to enable it to finance the subsidy assistance, announced so proudly on Friday, for sub-economic farmers.

Stals, the pragmatist, said in his first address as governor that he was determined to wring inflation out of the system and to maintain positive interest rates.

This the market accepts. But it does not accept the policy statement that local rates must move with those in Britain and Germany to prevent offshore trade financing switching onshore to the detriment of the reserves.

Bond market traders get a real whacking

BDay 16/10/89 HAROLD FRIDJHON 58

BOND market traders underwent a weal-raising whacking last week when they were caught short by the Stals stratagem.

Bank screen traders admitted that they had sustained losses, but these were cushioned by the depth of resources behind them. But the jobbers on the JSE gilt did not have Big Brothers to support them when yields on the Eskom 168 rose to 17,01% on Wednesday from the previous Friday's 16,71% (on Monday the market was closed). Their "naked" positions written on the Friday had to be covered.

For some time past the underlying sentiment in the bond market has been distinctly bullish, with jobbers more influenced by US economic data than SA economic realities. They ignored the warnings implicit in the state of the reserves and the message contained in the money supply numbers. A tenuous one percentage point margin between the inflation rate and long-term rates was not sufficiently positive.

The bulls had gone long, jobbing in and out to protect their positions. But on Wednesday dealing was hectic with the market turnover touching R1,7bn as jobbers struggled to defend their positions.

On Thursday, in trading which took the volume to R1,1bn, they managed to bring the yield on the E168 down to 16,90% at the close, but by Friday evening it was climbing again to a close of 16,95%.

And the long-term rate should continue to rise. This suggests that the blood-letting must continue as the bears, lascerating their victims, take over — as they should.

COMPANY RESULTS WRAP-UP

Cautious welcome for Land Bank move

B/Day 16/10/87

GERALD REILLY

PRETORIA — Farmers have given a qualified welcome to the Land Bank announcement that existing interest rates in aid schemes and production credit are to be retained.

SAAU president Kobus Jooste said the concession was applicable only to about 15% of total agricultural debt.

He said the general increase of interest rates affected the farmers' ability to recover "very seriously".

Another SAAU source said, taking total debt at R14bn, the 15% concession applied only to about R2,1bn.

Although welcome as a gesture, this was seen as hardly significant.

58

Rand hedge stocks take a pounding

63 Star 17/10/89

By Derek Tommey

Shares of South African companies with overseas earnings tumbled on the Johannesburg Stock Exchange yesterday when a sharply firmer commercial rand raised the spectre of significantly reduced foreign earnings and a major drop in profits.

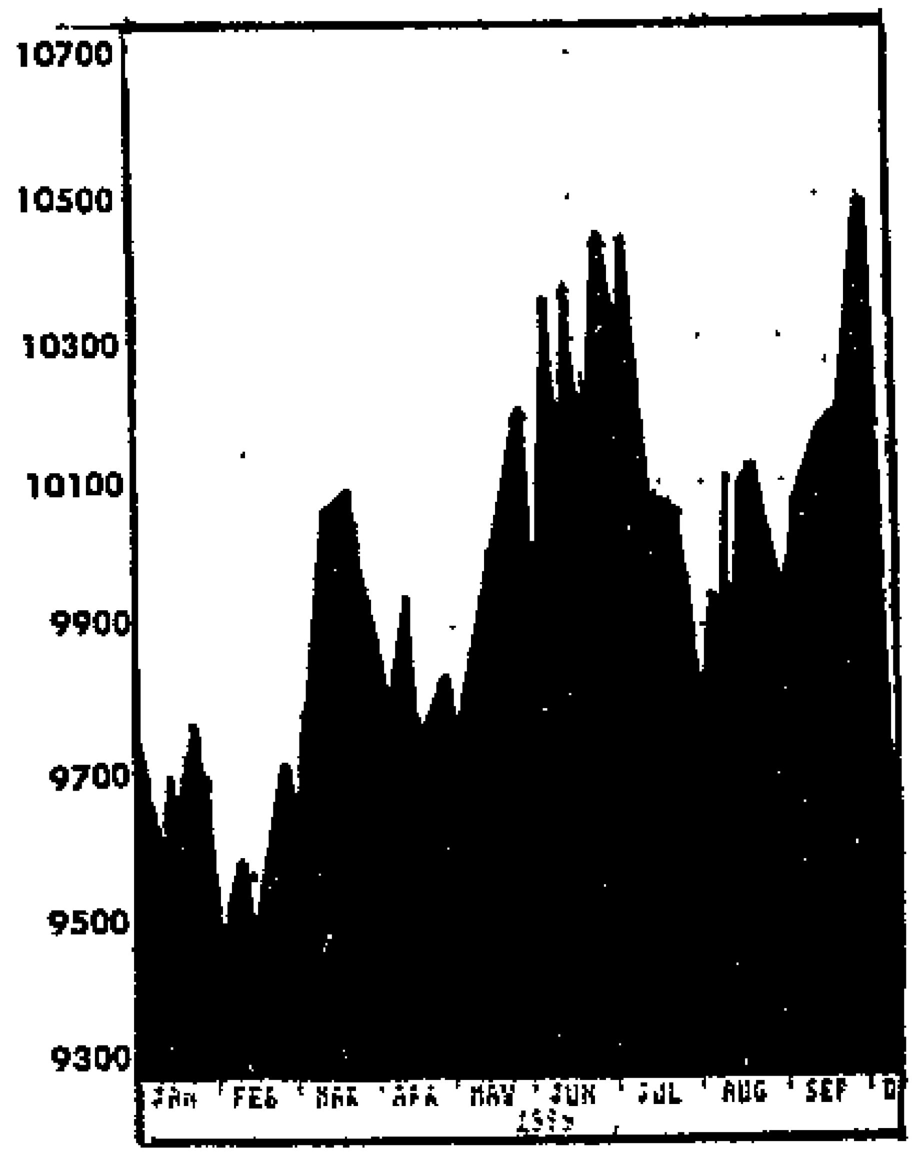
It is not only the share price crash on Wall Street on Friday which was causing concern in local investment circles, but what the central bankers are doing to the exchange rate of the dollar against other currencies, including the rand.

The rand finished at R2,6450 to the dollar in the Johannesburg foreign exchange markets last night.

This is a gain of almost three percent against the dollar since Friday. It brings the appreciation of the rand against the dollar since the middle of September to 7,3 percent.

This rise means that local companies being paid in dollars for their exports, or receiving dividends from overseas in dollars, will see their incomes reduced significantly.

And as a drop in income usually leads to a much sharper drop in profits, the market's sell-off yesterday of rand hedges and foreign earners was understandable.



The gold price has plunged below the crucial R1 000 level.

The firmer rand has already had a marked effect on the local gold price.

Although the price of gold has risen in the past few days — it was fixed in London yesterday at $368,40 — the rand price of gold closed below R970 for the first time since April 28 this year.

Two months ago the rand gold price was R1015 — some 4,6 percent higher.

For some of the marginal gold mines a five percent drop in the gold price could be the difference between life and death.

It is not surprising that shares of marginal gold mines suffered badly yesterday, Modbee and South Roodepoort losing 30 percent of their market capitalisation.

De Beers, which receives substantial income from the sale of diamonds overseas and also from foreign investments, was one of the shares most affected by the firmer rand, falling almost 600c, or 10,7 percent, to 4890c.

Richemont, the rand hedge share which receives its entire income from abroad, dropped 200c to 1390c.

Shares of Remgro, which receives dividends from overseas, also dropped sharply by 17,8 percent by 190c to 880c. Shares of platinum producers, which receive most of their income from abroad, did not escape the decline.

Rusplats shares dropped 770c (11,7 percent) to 5795c.

Sasol was also hard hit, mainly because its profits are linked to the imported price of petrol.

But not all the losses yesterday were the result of the firmer rand. Clearly, weekend reports of a possible market collapse panicked building society shareholders, many of whom know little about investment.

Shares in Allied, UBS and NBS Holdings were hard hit by indiscriminate selling.

However, while the firmer rand may be a serious blow for some investors, it could do SA much good.

If the rand remains firm there need not be any major increase in the petrol price in the near future and there could possibly be some reduction in the price at the pumps.

Imported inflation should lessen and provide a more stable economic base for greater economic activity.

The Reserve Bank could find itself in the unexpected, but not unpleasant, position of having to determine an exchange rate for the rand that will still encourage the export industries, while dampening inflation.

It would be an experience that neither the bank nor South Africa generally has enjoyed for a long time.

Fears on JSE ease as Tokyo market calms

(58)

Star 16/10/89

By Sven Lünsche

Financial analysts look to what one called "a very nervous Monday", when world markets open today after Friday's shock plunge on Wall Street.

However, initial fears eased this morning when the Tokyo stockmarket held up strongly after some selling pressure at the opening.

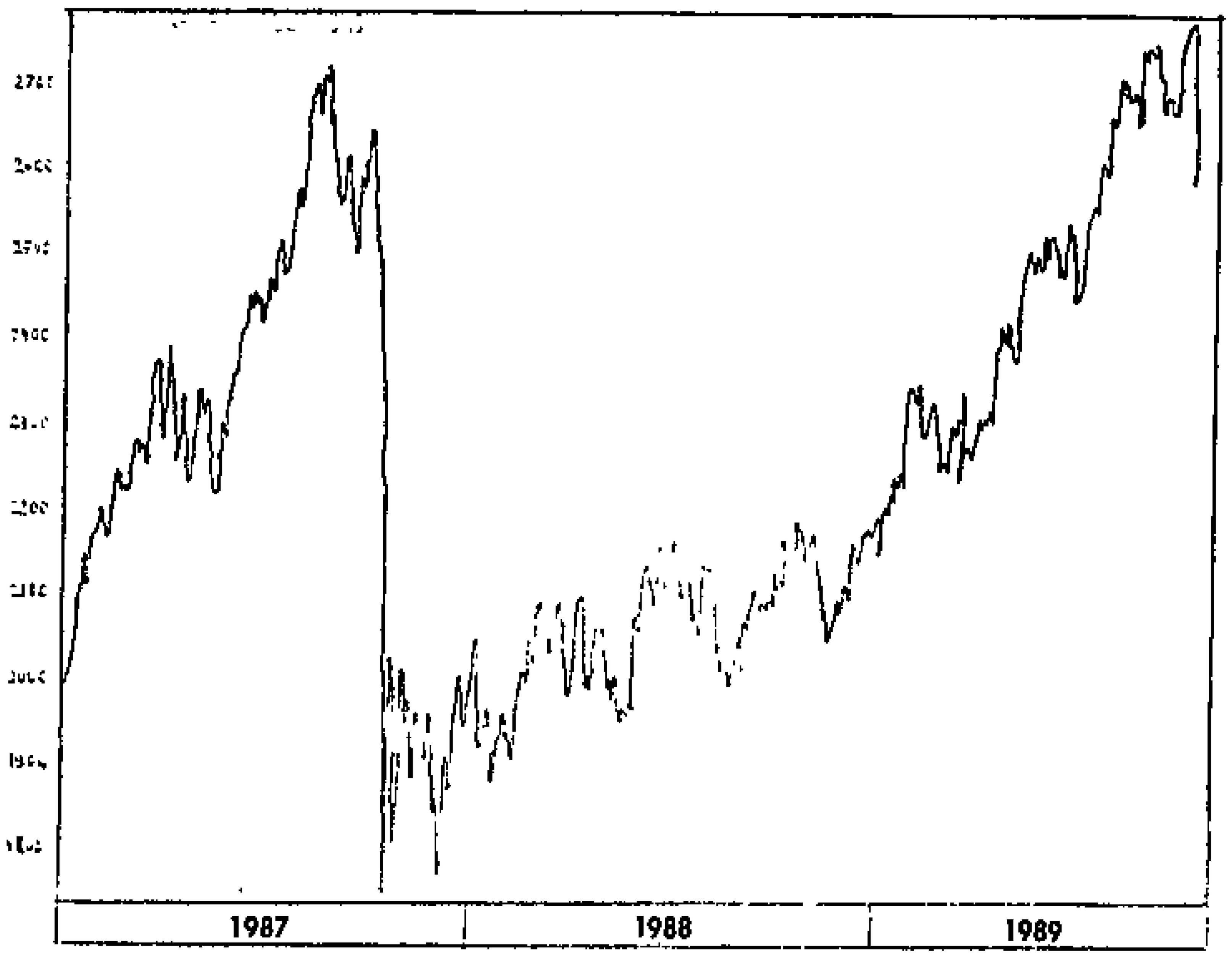
While sellers undoubtedly will be prominent in the market today, local analysts generally do not expect the JSE to repeat its 1987 plunge, providing the European stockmarkets do do not collapse.

Analysts also argue that Friday's plunge in New York, when the Dow Jones average fell 190,58 points, or seven percent, in panic trading, will not necessarily be repeated on the JSE because it had largely escaped the vogue for highly leveraged buyouts, which were blamed for the sharp fall on Wall Street.

"There will be some degree of consolidation, but generally the market is not as overblown as it was at the time of the 1987 crash," says Nedbank's economist Edward Osborn, adding that the P/E ratios of most companies are looking much healthier than they were two years ago.

Other factors that should help the JSE include the high level of liquidity of institutions such as life assurance companies, as well as the fact that much of the recovery in the stock market since 1987 has been in the more expensive blue chips.

However, reflecting the uncertainty prevailing in international markets, some analysts expect the worst to happen when the JSE opens today, particularly as conditions have turned against the market recently.



Wall Street's Dow Jones index of 30 industrial shares plunged by 190,56 points on Friday, its second-biggest daily loss ever.

The JSE has been adversely affected over the last few weeks by a combination of a lower gold price, a stronger finrand and last week's hike in interest rates.

"Gold is unlikely to provide much of a cover and all the signals point to at least a consolidation in stock prices," an economist said yesterday.

"Panic selling by investors could trigger a crash," he added.

Since the end of August the JSE's overall index has dropped by 8,5 percent, with the lower gold price and the stronger finrand deterring local and overseas investors.

Last week's hike in interest rates wiped R17 billion off the value of shares on Wednesday. While stocks recovered some of the losses on Thursday and Friday, economists expect the flight to short-term interest rates to continue for some time.

Neil Behrmann reports from London that central banks are expected to pump liquidity into the system to prevent the Wall Street rout from turning into another 1987 crash.

When markets open today, the US Federal Reserve, European central banks and the Bank of Tokyo are expected to ease liquidity to help bolster markets.

To ease tension, the Bank of England said at the weekend a large number of lessons had been learned about policy and supervision of markets during 1987.

The latest crisis was triggered by the failure of British Airways and the management of United Airlines to secure a $7,2 billion loan to buy United Airlines.

Despite statements by British Airways that the deal was still on, panic-stricken professionals and investors kept on selling because of acute weakeness in the US junk bond market.

Computerised selling in the derivative futures and options markets hastened the process and of 172 points dropped in two hours.

To be sure, the Crash of '87 is still deeply imbedded in the market psyche, even though share prices have recovered substantially since then.

The crash did not signal a deep recession, as some gloomsters predicted.

It signalled, instead, the beginnings of a vast and prolonged contraction in the financial area, that segment of the US, European and other markets that had seven years of golden times.

The warning from the stock markets this time round is that world interest rates are far too high.

In their eagerness to dampen inflation, governments could precipitate a steeper downturn than they are predicting.

Crash lifts gold, but analysts caution against optimism

Finance Staff

Gold received an initial boost from Friday's plunge on Wall Street, but many analysts caution that a flight of money to gold should not be expected, even if the fall on stock markets continues.

When the dollar fell by two yen in reaction to the Friday crash, investors poured money into gold, a traditional hedge when other financial markets are in turmoil.

It rose $3,70 to close in Hong Kong at $367,40 on Saturday and climbed a further 85c to an opening of $368,25 this morning.

Central banks around the world are likely to boost liquidity today and their intervention should help gold slightly, although the flight to quality has mostly shifted to US Treasury bills and bonds.

The message from the Friday crash is to stand aside from gold shares until world markets settle, writes **Neil Behrmann** from London.

Gold can indeed stage a rally to a heavy resistance area of $380 if the dollar weakens further and concerned investors buy gold.

Yet the world is in a disinflationary environment and the basic economic outlook is poor for gold.

If there is a further collapse in the markets, the major flight of funds will be into cash and government bonds, rather than a volatile commodity.

If one wants gold assets, the metal is likely to be safer than the shares. Even though share prices have fallen slightly from their peaks, dividend yields are not attractive and the shares are discounting gold prices of well over $400.

Also if gold rises, the rand will follow suit, so the revenue impact on the gold share market will be negligible.

'No significant changes,' says new Sanlam boss

Star 17/10/89 58

Dr Abie van den Berg, who has been deputy chairman of Sanlam since March, and acting chairman since Dr Tjaart van der Walt stepped down last month, has been confirmed as chairman.

He said last night that he did not intend tampering with a winning recipe and "therefore no significant changes in policy should be expected".

Dr van den Berg (68) is also chairman of Sankorp, Sanlam Properties Limited and Sentrachem and serves as director of Anchusa Holdings, Automakers Holdings, Gencor Beherend, Murray and Roberts and Siemens.

He has an intimate knowledge of industry in South Africa and was chairman of the IDC until his retirement in 1986.

In recognition of his contribution to industrial development in South Africa, he was awarded an honorary D.Comm by the University of Stellenbosch last year.

Dr van den Berg is Sanlam's sixth chairman in its existence of more than 71 years. His predecessors were Drs WA Hofmeyr, CR Louw, AD Wassenaar, FJ Du Plessis and T Van der Walt.

He is enthusiastic about the additional responsibilities entrusted to him. "Sanlam is a leading life office which has been remarkably successful in recent years ... and shall do my utmost to serve the interests of Sanlam's millions of policy-owners and clients," he said.

Dr van den Berg was born in Middleburg in the Cape where he matriculated. He later graduated from the University of Stellenbosch. He is married to Ella Vorster and has a son and two daughters and six grandchildren.

Dr Abie van den Berg

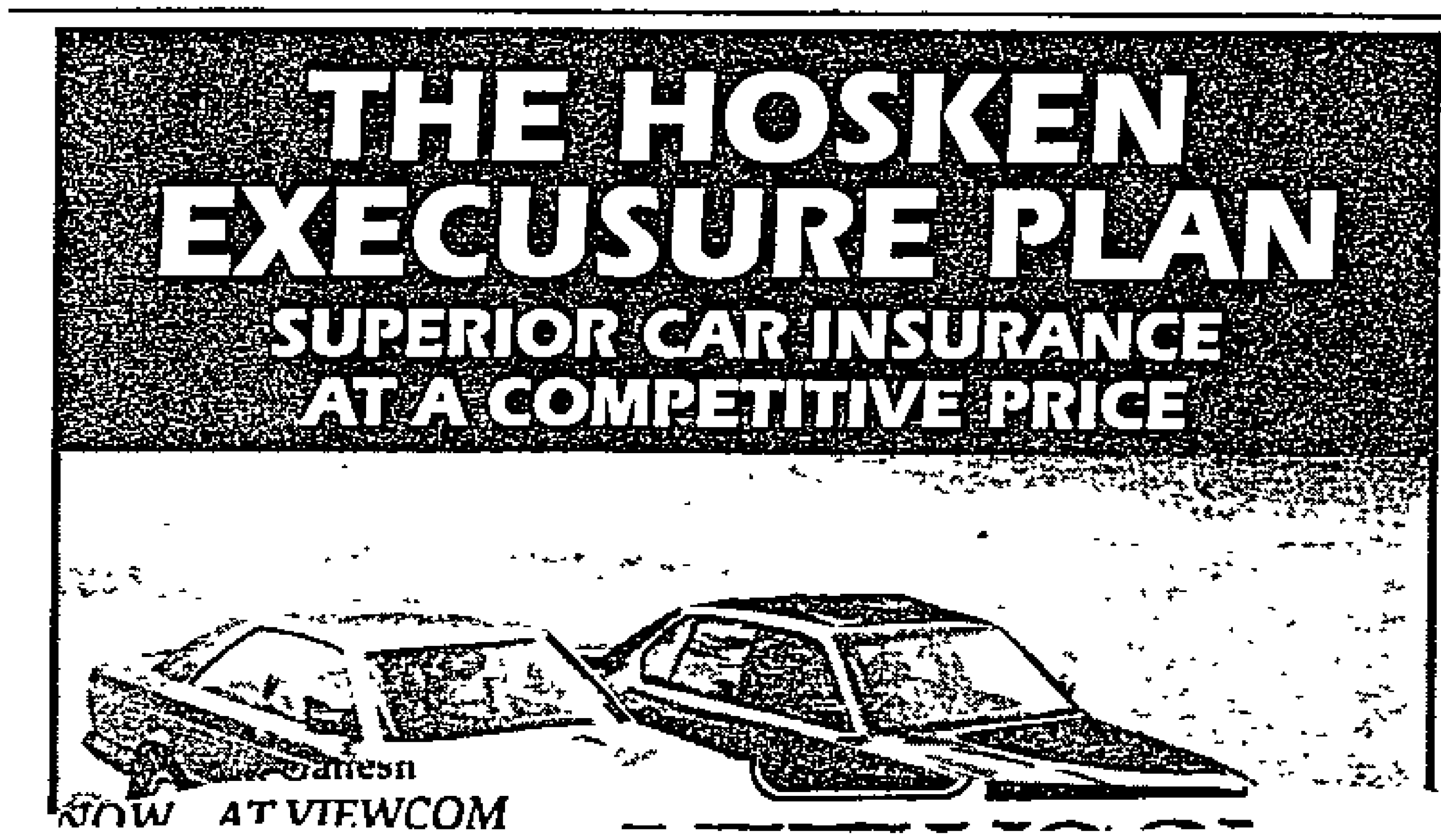
The Star
Finance

New safety cloth

A new range of products for the interiors of cars, offices and residential developments is on the way with the opening of the R5 million manufacturing plant of the Superweave division of the SA Druggists group.

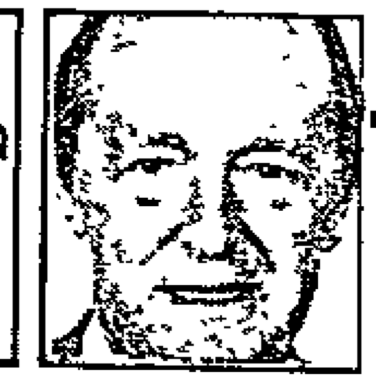
Chief executive of Superweave, Mr Willy Lochman, says. "With the emphasis on safety and security these days, we are now producing locally flame-retardant fabrics and are developing non-flammable furniture fabrics for office, hotel, and residential developments."

Products for the automotive industry which are now coming on stream include material which has, until now, been imported.



Property & Construction

FRANK JEANS



Office rentals cheapest in the industrial world

Star 17/10/94

Prime office accommodation in South Africa is significantly cheaper than in other industrialised countries, partly reflecting the poor performance of the economy and the weak rand.

Rents charged in London, for instance, are so high by comparison with Johannesburg that nine months rental there would be the full purchase price of an equivalent building in the CBD.

This point emerges from a survey by property group, Dunlop Heywood (Africa), formerly Richard Ellis.

Mr Ian Mitchell, managing director of DH, says: "In the survey we compared Johannesburg rentals with those of leading cities such as Tokyo, London, Hong Kong, New York, Sydney, Frankfurt and Amsterdam.

"The most expensive office accommodation is in Tokyo, where tenants pay the equivalent of R385 a sq m a month in net rental.

"This compares with a current R19 a sq m in Johannesburg."

Prime accommodation in London's West End, the second most expensive city after Tokyo, costs R277.

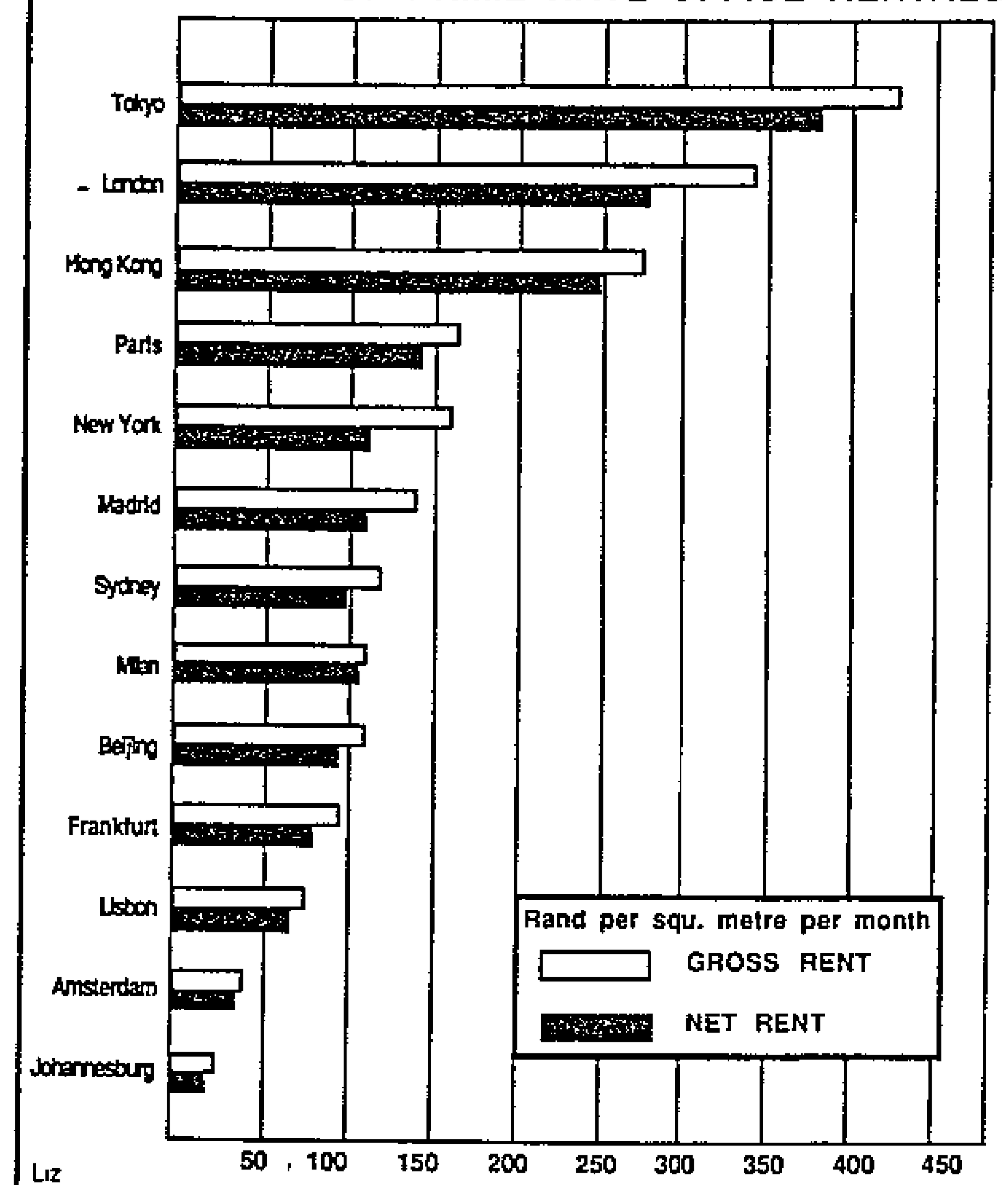
There, the tenant will pay service costs and rates nearly three times the gross occupation cost of equivalent accommodation in Johannesburg.

Third most expensive is Hong Kong with prime rentals at R250 and occupation costs R270.

The cheapest prime accommodation after Johannesburg is in Amsterdam with rents at R42 a sq m a month, followed by San Francisco R92, Frankfurt R96, and Lisbon R74.

Net rentals in mid-town New York, Milan, Stockholm and Madrid are between R100 and R110 a sq m.

COMPARISON OF PRIME RATE OFFICE RENTALS



Prepared by Dunlop Heywood Africa with aknowedgement to Richard Ellis for certain data.

JSE bounces back as Wall Street holds on

58

By TREVOR WALKER, Business Staff

ARGUS 17/10/89

THE Johannesburg stock market recovered strongly at the start of trading today and prices rose across the board with market leaders such as De Beers gaining R3,25 of the R5,25 it lost in yesterday's general slide.

And in London share prices were marked sharply higher after Wall Street's 88 point bounce yesterday from the 191 point fall on Friday.

The initial strength of the JSE recovery prompted one broker to remark: "It was overdone downwards yesterday and it looks like it might be being overdone upwards today."

The overall index lost 277 points to 2 338 yesterday.

Today, Anglo was R7 up at R87, Gencor up 60c to 900c, Richmont up 95c to R14,85, Barlows up R2,50 to R38,50 and Sasol up 90c to R10,90.

DISILLUSIONED

However, analysts believe that smaller investors are disillusioned by a build up in electronically controlled buying and selling and will probably desert the stock market for the time being.

And a new worry in the markets today is the expected announcement this afternoon of the latest US trade figures.

Dealers said they were looking for a continuation of yesterday's recovery on Wall Street. If the trade figures were worse than anticipated then it was likely that the recovery could slow and even turn back on itself.

The Dow Jones Index, knocked down 63 points by a powerful selling wave in the opening moments of trading yesterday, rallied as buyers flocked to snap up bargains.

Market analysts said Friday's plunge had driven many high-grade stocks down to attractive levels.

The Dow rose 88,12 points to 2 657,38, leading most investors to conclude that the crisis had been overcome.

LOSERS IN LEAD

However, the broader market failed to overcome the impact of the early sell-off and losers still held a lead over gainers at the closing bell.

The volume of shares traded was even heavier than on Black Monday, October 19 1987, with about 330-million shares changing hands by mid-afternoon — far more than in an average day's trading — and 416-million shares traded by the close.

In Japan, Hong Kong, Australia, New Zealand, Taiwan and Singapore all the stock markets took their cue from the recovery on Wall Street yesterday and bounced back.

Share prices in Tokyo were broadly higher by midday and the Nikkei Index surged to 714,89 — or 2,07 percent higher than yesterday's close.

● The JSE has blamed chaos caused mainly by a systems change the previous weekend for a breakdown which led to The Argus not receiving market prices yesterday.

A JSE spokesman said today that "lots of problems" with the system had emerged, spurred by heavy trading volume.

ANGUISH . . . Tense moments on the JSE yesterday as dealers await the effects of Friday's plunge on Wall Street

PANIC

Rush sell-off on JSE

Cape Times 17/10/89 58

Own Correspondent

JOHANNESBURG. — Wall Street's tumble on Friday reverberated in South Africa yesterday as panic selling by small investors pushed the Johannesburg Stock Exchange overall index down a whopping 10,6% to close at 2 338 points.

Institutional investors observed the massacre of share prices from the sidelines and made forays into the market to nibble at selected shares at their lower levels and lift the index off its bottom

The sell-off was worse than analysts expected and means the index has now slumped 17% from its end-August peak of 2 843

Dealers said smaller investors appeared to be guided by the maxim that if there was to be panic, be the first to panic!

"It was pathetic They never seem to learn and take flight at the first sight of blood," said one dealer

Another said South African markets always reacted more emotionally However volumes were not as large as during the crash of October 1987

NY recovery

Gold shares at first bore the brunt of the wave of selling and the JSE overall index was down a huge 18.1% before recovering slightly at the close

The declines came despite a firmer gold price which touched a high of $369 before slipping back slightly as a weaker dollar showed signs of stabilising.

In the London and New York markets shares collapsed, and then staged an extraordinary recovery yesterday, leaving dealers punch-drunk at the end of an exhausting day

In New York, the markets confounded the pessimists by turning another sharp decline into a gain in late trading last night.

British shares had started the day with losses equivalent to more than 150 points Then, in mid-morning, came two waves of selling, which drove the index down to 2 029,7, to a loss of 204,2 points at 12.49pm, a fall of 9%.

That fall wiped £40 billion off the value of quoted shares. But when Wall Street failed to go lower, British shares rallied strongly, leaving the index down 70,5 points at 2163,4.

The number of shares changing hands was the highest since January, and at £967 million, was not far short of the £1 223m traded on October 20, 1987 when shares had their worst day ever

There was little to guide the dealers when they reached their desks at 7am yesterday The overnight fall on Tokyo, the first major market to react to Friday's slump, had been a record for the year, at 647 33

But at less than 2% this was far from a collapse. "It was like the on-course bookmakers all waiting for the others to post their prices," said one observer.

In Europe, the pattern was similar French shares fell by 11%, before trading was temporarily suspended, but rallied to finish 6,9% down by the close

The Frankfurt exchange was among the hardest-hit, and closed, before the rally on Wall Street, down almost 13%.

Meanwhile, British Airways has formally pulled out of the $6,75 billion (about R18bn) United Airlines management and employee buy-out deal whose collapse triggered Friday's plunge on Wall Street.

Inside:

WALL ST REBOUNDS, JSE SHAKY AFTER PLUNGE

See PAGE 10

Court lifts protest charges

Cape Times 17/10/89 275 331

By MONICA GRAAFF
Court Reporter

MORE THAN 1 000 city protesters, arrested shortly before the September 6 general elections for alleged unlawful demonstrations, have had charges withdrawn against them in Cape Town Magistrate's Court.

This was announced last night by a spokesman for the National Association of Democratic Lawyers (Nadel).

The attorney-general, Mr Neil Rossouw, last night confirmed that charges had been withdrawn against all those people who allegedly had taken part in illegal gatherings on and between August 24 and September 5 and who were to appear in Cape Town Magistrate's Court.

No court appearances

According to the Nadel spokesman the senior public prosecutor has advised the lawyers representing all those arrested that the state would not be proceeding with any of the prosecutions against the protesters.

"Charges would be withdrawn *in absentia* over the next couple of months thereby relieving the accused of the need to appear in court.

The spokesman also announced that Nadel would soon be calling a meeting of all those arrested.

2 killed as city stoning causes horror smash

Cape Times 17/10 Staff Reporter 275

TWO people died and another four were seriously injured early last night when a motorist ploughed into a group of people on a Guguletu pavement after he had been stoned.

Four other people received minor injuries.

A police liaison officer for the Western Cape, Captain Hendrik Opperman, said the driver of the vehicle had been travelling along NY 108 when his car was apparently stoned about 7.15pm.

The driver had swerved on to the pavement and

188 58

NEWS FOCUS

Rusfurn buy-in changes the face of corporate finance

BARRY SERGEANT

MERCHANT banking in SA took on a totally new guise with the breakthrough R232m financing of the management buy-in (MBI) of Rusfurn, which retails consumer durables. At one stage, Finansbank and Trust Bank were 100% at risk on R259m of shares. If the MBI had not been consummated, both banks would have ended up owning retailers.

And nine members of the Rusfurn executive team that manages Russells, Dion, Wanda-Frasers, Arrow and Rudicks had to raise R23m to complete their part of the deal. Says Rusfurn MD Geoff Austin "I hocked everything, including my wife, my dogs and my unborn children."

Finansbank's Willy Ross says the Rusfurn deal was not a management buyout (MBO) "It was a management buy-in (MBI), the first in SA. The difference is that in an MBI, management buys into the equity without there being a change in the underlying structure."

Another difference is that an MBO normally means that management gets effective control. In the Rusfurn MBI, management ended up with 10% of the equity, with an option to acquire another 15% — that, fully diluted, would mean 21%.

The saga started when Austin was given a 54-day option to buy Rusfurn, effectively 80% held by Tradegro. Tradegro was not too happy with what was happening at Rusfurn, if only for reasons that it had not foreseen when Tradegro was restructured in 1985

Option

There had been the issue of a large amount of convertible debentures which carried convenants regarding debt levels. Rusfurn had grown too fast. its gearing remained within acceptable levels, but its level of absolute debt was too high, and there was a good chance that the debt covenants would be infringed. And, anyhow, Tradegro regarded its exposure to consumer durables as high enough.

The idea of Rusfurn making an acquisition was enough to ensure that Austin was granted the option. Tradegro had prevented it from acquiring Furngro — pyramid of Ivan Hammerschlag's successful Furniture Fair chain in the Cape, which also includes Montana and Harmony.

Furngro was described by Ross as a "magic" opportunity "It's generally accepted," says Ross, "that the consumer durables market is overtraded, and that it's not possible to grow organically."

Says Austin "The only way to grow is by acquisition." Austin, determined to take the option, approached Finansbank. The answer, which was not immediately apparent, was the MBI. Sidney Frankel of stockbrokers Frankel Kruger Vinderine was called in.

Here two crucial points arose. To get the transaction under way, Finansbank would have to buy the 85% available stake in Furngro from the Hammerschlag family — for what turned out to be R35m. Finansbank was also potentially at risk on R15m of minorities' shares.

It would mean that Finansbank was 100% at risk on the shares unless the whole MBI went through."We had enough confidence in the underlying asset," says Ross. "But we knew there was no chance of a back-to-back. There was simply no way that Tradegro would sanction an acquisition."

In the event, Finansbank was assisted by Monty Kaplan, CEO of its Cape of Good Hope subsidiary, to do a due diligence investigation into Furngro The investigation team gave the green light and Finansbank went ahead with the dawn raid, paying the Hammerschlag family R35m. Tradegro knew nothing about this.

Finansbank was now in a position where, if it could not consummate the MBI, it would end up owning a furniture retailer The next step was simple, but it involved a lot of money: the banking consortium, Finansbank and Trust Bank, paid Tradegro R185m for its 80% stake in Rusfurn. The minority will be paid R47m, taking the value of the deal to R232m.

Tradegro was presented with a fait accompli when the guarantees were put up. Now Finansbank and Trust Bank, at a cost of R185m, owned 80% of Rusfurn, Finansbank owned 85% of Furngro.

Says Austin: "The event marked a totally new dimension in SA merchant banking and banking, with two banks prepared to go 100% at risk on shares. This was no warehousing transaction."

Says Ross "Institutions, which we envisaged as ending up holding 90% of Rusfurn, had to be taken through the rounds. We knew from the beginning that this would be extremely difficult The consumer durables market, particularly furniture, is seen as highly cyclical, and a risky long-term investment."

The management of Rusfurn had committed themselves to buy, somehow, a 10% direct stake in Rusfurn at a cost of R23m.

Says Austin: "We mortgaged everything, which is probably one of the main reasons the institutions believed in the deal." While Finansbank dwelt on the merits of the entrepreneurial flair of Austin and his executive team, the institutions saw the opportunity of buying a portfolio investment, rather than the riskier strategic investment that Tradegro had held.

Boom

Says Austin "The retail sector has had a low rating for some time, and the offer price to the institutions for stakes in Rusfurn was very reasonable. I think they perceived that there was very little downside potential — that they would be buying into Rusfurn at the bottom."

Moreover, says Austin, Rusfurn should not be paying tax for the next three years But if there is a boom in, say, 1991, Rusfurn will again have the opportunity of seeing the debtor's tax allowance (Section 23 of the Income Tax Act) growing faster than profits. As it is for the moment, 42% of Rusfurn's sales are in cash — much higher than other counters in the sector

And Austin is on the lookout for more acquisitions "We've made four in the past three years. We're looking for anything outside food which fits in with out strengths — managing credit and chain stores." He hopes there will be a change in investor perception about the sector. "If Finansbank could pull off this deal for us, they could pull it off for anyone"

In the event, the institutions agreed. Finansbank and Trust Bank were off the hook and the MBI was complete. Austin prefers to describe it as a "management-led management buyout"

Nine Rusfurn executives paid R23m for their 10% stake in Rusfurn, and institutions took up the rest The books balanced out. Right now, nine Rusfurn executives are looking to repay R23m of debt they raised to buy their stake in Rusfurn. It's a strong incentive for them to engage in world-class retailing.

Hennie van der Merwe, now GM at Nedcor, MD at Finansbank during the saga, says the deal bought out the kind of entrepreneurship that SA desperately needs. "The Rusfurn MBI had set a precedent that has changed the face in this country of corporate finance, the most dynamic side of merchant banking."

Trying to predict share prices seems a fruitless exercise

Markets have bounced back in the past – what about this time?

(53) Star 17/10/89

By Derek Tommey

The news that share prices had dropped about 7 percent on Wall Street on Friday night did not take my friend Harry by surprise.

"You know, these major share market slumps occur every 20 years, and therefore one is overdue," he remarked with all the aplomb of one who knows he is always right.

One must admit there are a large number of people who believe the share market follows a 20-year cycle. Their starting point is 1929, when the world entered the Great Depression.

They next refer to the 1949 slump after the 1948 election of the National Party to power, and conclude by pointing to the sharp drop in share prices in 1969 when the huge speculative boom ended.

Extrapolating from these events, they are confidently predicting a new share market slump in the near future.

However, they overlook that there were serious share market reversals in 1919, 1939, 1959, 1973 and 1987, which tends to indicate that the market has been operating on a 10-year rather than a 20-year cycle.

But the fact that 1979 was a boom year for the share market, and slumped in 1973 and 1987 instead of in years ending with a "9", suggests that even the 10-year cycle is no longer effective — if it ever were.

Share market slumps now look like happening much more erratically, and it would seem that to try to forecast them by the passing of the years could be a fruitless exercise.

Meanwhile, it is a useful exercise to examine the factors behind the other share market crashes and to see whether any of them are present today.

The share market slumps were:

- 1914-15. The outbreak of World War 1 shattered confidence and led to a 20 percent drop in industrial share prices on the JSE.
- 1919-20: The war was followed by a frenzy of speculation on world markets. But political and economic problems triggered a recession, and JSE prices fell by about 36 percent.
- 1929-30: The late 1920s produced another wave of speculation. You could buy shares on Wall Street with a 5 percent deposit. Money poured into the market, pushing US share prices daily to new highs.

But a bout of selling caused brokers to ask clients to put up bigger deposits. When they couldn't because they did not have the money, their shares were sold, triggering a market collapse.

As prices dropped, their value as collateral for loans shrank and borrowers were asked to put up more collateral or repay the loans.

This led to a huge money squeeze which was reinforced by the US government's insistence on "sound" monetary policies — and the Great Depression started. South African share prices almost halved.

- 1939: The start of World War 2 created another crisis of confidence. Shares fell 15 percent.
- 1949: The election to power of the NP in 1948 led to a capital outflow leading to restrictive measures. The slowdown in the economy caused share prices to drop 38 percent.
- 1959: An unchanged gold price led the Government to resolve to cool the economy to curb inflation. This set off black unrest and caused a crisis of confidence and a huge capital outflow. South Africa's decision later to leave the Commonwealth was another unsettling factor. Share prices fell by about 38 percent.
- 1969: Eight years of strong economic growth had resulted in rising profits and a substantial increase in personal wealth. Money, mainly from the small man — who also had access to easy credit — was pouring into the share market and sharply inflating prices.

The Government attempted to cool the economy by allowing institutions to invest overseas. Eventually, the dramatic National Fund Investments issue took about R400 million (worth R4 billion in today's money) from the market, and prices started to fall.

Unrestricted bear sales (now forbidden) accelerated the decline. Industrial share prices fell overall by almost 60 percent.

- 1973: The steep increase in oil prices caused a worldwide recession and led to industrial share prices on the JSE falling by about 50 percent.
- 1982: Gold price drops from $600 ($850 at peak) to $400 and industrial shares drop 25 percent.
- 1987: A spate of new issues in the Development Capital Market generates strong public interest and results in considerable speculation. A sharp fall in share prices in New York leads to a similar fall on the JSE.

With many share prices standing at inflated levels and offering little value, share prices dropped almost 40 percent. But prompt action by the major central banks in pumping up the money supply was able to stop the international share market reversal from affecting business activity.

And 1989?: For the past two weeks the world's major central banks have been trying to depress the exchange rate of the dollar. They believe that a cheaper dollar would make for more healthy economic conditions next year.

They have been trying to achieve a lower dollar by making it more attractive for investors to hold other currencies.

There has been some doubt about the efficacy of the central bank measures.

But on Friday it seemed some investors started taking the central banks seriously and began moving money out of the US.

Some appears to have come from the stock market and to have trigged program selling by computers causing the almost 200-point drop.

However, the disinvestment has also caused the dollar to drop by about 3 percent against most major currencies — so the central banks are at last having some success in their drive for a cheaper dollar.

The question now seems to be whether or not they have overdone their measures to curb the dollar. If they have, we could well see weaker share markets.

If they haven't, then next year could be another good year for investors.

~~See Page 14 and Page 16.~~

SAA gives reasons for weekend delays

By Karen Stander

Technical faults and catering delays caused several South African Airways flights to be delayed at the weekend, according to an SAA spokesman.

He said two aircraft were removed from the schedule and replaced by others after they developed technical faults on Friday evening. This had had a "ripple effect", causing other flights to be delayed.

A number of international flights also departed on Friday, resulting in pressure on the catering department.

On Saturday and Sunday a few flights were also delayed, but only for short periods.

The spokesman said the delays "definitely" did not mean a recurrence of problems experienced early last year before a major campaign to improve SAA's record was undertaken.

He said the airline had improved dramatically and between 87 and 93 percent of flights now left on time.

All delays were monitored and discussed by a committee, he added.

Star 17/10/89

Discover

Major institutions go bargain hunting

(58) 18/10/89 Star

By Derek Tommey

It was a day for bargains on the Johannesburg Stock Exchange yesterday and the big financial institutions made the most of it.

After holding back on Monday to see how far share prices would fall, they were heavy buyers yesterday.

Turnover in many blue chip shares reached levels not seen for some time. However, some of the earlier gains had been pared by the close of trading.

The all share index, which had shown a gain on the day of 158 points at mid-afternoon, closed only 141 points higher at 2479. This gain was only just over half the 277 points lost on Monday. However, it represented a recovery of some R20 billion in market value of the R40 billion lost on Monday.

Brokers said the recovery in share prices in New York and London encouraged local buyers. The continued recovery of Wall Street in early trading yesterday, in spite of the deterioration in the latest US trade figures, was seen as a bullish factor.

The market was reassured by the more sophisticated reaction of investors world wide to the fall on Wall Street. Many investors in Europe and Asia — as in Johannesburg — saw the Wall Street drop as an opportunity to buy shares cheaply.

De Beers was market leader with more than R23 million worth of shares changing hands — some R10 million more than on Monday. It rose 270c yesterday to recover just under half of Monday's loss of 585c.

Other shares to recovered part of Monday's losses were Anglos, Minorco, Richemont Dr, Gencor, GFSA, Barlows, Remgro, Sappi, SA Breweries and Dries which advanced in heavy trading.

The market was helped by an easier financial rand and also by a slight easing in the commercial rand.

However, the rise in buying volumes on the upturn raises some queries. Brokers say that some of the additional shares on the market have come from overseas. But there are also indications that some local investors were selling into the rising market.

The fact is that the local market could be vulnerable to a firmer rand which would reduce foreign earnings of local companies and lower their profits.

This development combined with lower raw materials prices overseas could have a major impact on the value put on many producers.

Indications that the export prices of South Africa minerals could be falling are contained in the annual report of Samancor, the world's largest producer of manganese.

The company's chairman, Mr N C Officer, reports that although manganese ore prices are expected to remain firm to June, 1990, manganese alloy prices have levelled off and could start declining.

The dollar prices of ferrochrome has also declined and is expected to continue to do so for the rest of the year.

However, Mr Officer expects the declining prices of several of the group's products to be offset by the weakening rand. But in view of the strong action taken last week by the South African authorities to defend the exchange rate of the rand and the action being taken by central banks to weaken the dollar, a weaker rand might not eventuate.

And if the rand does not weaken, Samancor and other mineral exporters in the same situation might find the next 12 months less profitable than they are expecting.

[redacted]

Africa steadily getting poorer

The Star's Foreign News Service

GENEVA — A report by the International Labour Organisation (ILO) published this week said there are indications that Africa is being "de-linked" by the world economy.

By 1995, the report stated, more than 400 million Africans or 55 percent of the continent's total population will be below the poverty line.

Africa is poorer today than it was one decade ago and gross domestic product per capita in 1988 was nine percent below the 1980 level, it said.

"Increased poverty means not only deteriorating standards of living but also wealth destruction," the ILO stated. "Physical capital, particularly infrastructure, has been affected by the fall in investment, while human resources have less access today to good employment opportunities, health, food, education and shelter."

Unless those capacities are rebuilt, the UN Labour Agency warned, there can be only a remote chance of African recovery.

Debt burden

Many African countries have suffered from declining terms of trade as well as increased real rates of interest on debt.

At the same time, the African nations have been unable to come up with a suitable and equitable pattern of development and sound economic management.

GDP growth of 1,7 percent annually since 1984 has been insufficient to reverse steadily contracting per capita income and create more jobs — in contrast to many Asian countries which are enjoying rapid as well as sustained growth.

"This suggests a de-linking process of the international economy affecting Africa as well as Latin America which merits careful analysis," the ILO report said.

"An immediate need is to shift the structure of production so as to close the gap in the balance of payments," it said. Dependence on a limited range of primary commodities for export income places Africa "at the mercy of external conditions," and exports should be expanded through diversification.

An ILO study of what are considered advisable new policies will be discussed by government, employer and workers delegates from 17 countries at a symposium in Nairobi later this month.

The Star Finance

Growth hopes rest on limiting government spending — Barend

Star 12/10/89 58

State expenditure will have to be restricted to real growth of one percent a year if the economy is to grow at its maximum healthy rate of 2,6 percent, says Minister of Finance Barend du Plessis.

The 2,6 percent ceiling on the growth rate is the result of financial and other sanctions.

A one percent growth in state expenditure was a prerequisite for achieving the maximum healthy growth rate, Mr du Plessis told the Vrouefederasie congress in Pretoria last night.

"If state expenditure is allowed to grow by more than one percent in real terms, then the country's maximum growth rate will be reduced to 2 or 1,5 percent," Mr du Plessis said.


Mr du Plessis

He said the economic problems facing South Africa today had developed over many years and were the result of a gradual increase in the cost structure flowing from punitive actions taken by the international community.

He referred to the additional cost to the country of making its own weapons, instead of buying them at the "bargain basements of the world", the cost of developing its own atomic energy industry, the cost of developing the oil-from-coal process and the cost of financial sanctions.

"It has gradually brought about a higher cost structure for the economy and the options available to the country have dwindled," he said.

Mr du Plessis said South Africa's population was growing by more than 2,6 percent, which meant insufficient job opportunities would be created, even at the maximum growth rate ceiling placed on the country by the imposition of punitive measures.

In addition, there were enormous backlogs and a need for development.

He said the country had to try and break through the growth rate ceiling of 2,6 percent. The Government had a programme to achieve this.

Mr du Plessis said it included a new economic development programme, deregulation and privatisation.

In the process, however, he said specific sacrifices would have to be made.

"The adjustment that will be the hardest for you and touch you most is the fact that government expenditure can hardly grow. My plea tonight is that you don't get cross with us if we restrict state expenditure.

"We cannot direct state expenditure just towards welfare and the care of the elderly and others that need care. We must also direct it towards education, the security services, the maintenance of the courts and roads and so on.

"This is the scenario that you can look forward to in the years that lie ahead. But don't get despondent about this. The country has been through more difficult times before," he said.

Wall Street fall spells further uncertainty for the JSE

By Sven Lünsche

Further uncertainty was expected on the Johannesburg Stock Exchange today after a moderate fall in Wall Street trading yesterday.

The JSE yesterday staged a strong recovery from Monday's R40 billion plunge. Analysts expect the market to be calmer today than over the last two hectic trading days, when the JSE first plunged by 10,6 percent before recovering more than half these losses in a six percent gain yesterday.

United States investors' attention turned to reports of a worsening US foreign trade deficit yesterday and in the first half hour of trading pushed the Dow Jones down by 60 points, suggesting that recent market turmoil was far from over.

However, Wall Street stocks recovered from steep losses during the remaining session and the Dow Jones closed only 18,65 points lower.

Market dealers in the Far East took their cue from the recovery in late afternoon New York trading.

News of the trade deficit and the early falls on Wall Street reached the JSE shortly before the close of trading yesterday and did not make too much of an impact.

But after share prices had risen by 6,8 percent during the first two-and-half hours of trading yesterday, sellers were once again evident in the afternoon session.

At the close, the JSE overall index stood 141 points or six percent higher at 2 479, recovering more than half Monday's losses.

A similar trend was evident in all sectors of the JSE, with share prices picking up strongly in the morning but falling back slightly in later trading. The gold board showed a 6,6 percent gain, after Monday's 8,8 percent drop, supported by a firm gold price in Europe, while industrial share prices firmed by 6,2 percent. They had plunged by 11,6 percent on Monday.

● See Page 18.

Restrictions

The Star is being produced under the severe restrictions of the emergency regulations.

58 Star 18/10/89

Shares recover on JSE

CMT
18/10/89
88

JOHANNESBURG. — Gold mining and industrial shares on the Johannesburg Stock Exchange yesterday recovered most of Monday's heavy losses, according to dealers.

Shortly before the close the JSE all-gold index was up 94 points at 1 493, the overall index was 144 points higher at 2 482 and the industrial index was 151 points firmer at 2 457.

The gold price traded at around $366 an ounce.

In New York, Wall Street shares remained weaker in late afternoon trading, but had recovered part of an earlier loss and were up significantly from the day's lows. Buying was again concentrated in blue chips, with the quality names attracting the most attention.

The Dow Jones was down about 22 points to 2 635. It hit a low of 2 594 yesterday morning.

A much larger than expected $10,77 billion US trade gap was the trigger for Wall Street's decline this time.

"I think that from a short-term point of view, you'd have to be impressed by today's activity," said Nikko Securities' executive vice-president Mr Jack Conlon yesterday.

Meanwhile in London shares remained depressed in nervous, volatile trade yesterday afternoon.

'Struggling'

"The markets over-reacted to Friday's slump on the street but then thought yesterday's rally was the end of it all. Well it's not over yet," one dealer said yesterday.

By mid-afternoon the Financial Times/Stock Exchange (FTSE) 100 index was 29,3 points or 1,4% down at 2 134,1 after fluctuating between a high of 2 182,3 and a low of 2 124,4.

"The market's struggling to get back into a nice, well-defined trading range but the world just isn't a nice, well defined place at the moment," said one market analyst.

He noted that the next reasonable support level seemed to be around the FTSE 2 000 level, so the market would be susceptible to wild gyrations for some time yet.

European stock markets were still too shocked to stage a total recovery.

Most European exchanges posted gains but a complete reversal of Monday's wave of selling was prevented by nerves and the faltering start on Wall Street.

"Investor confidence here is very fragile and it's going to take time before they commit themselves again," said one dealer.

In Tokyo an early buying spree led by Japanese institutions pumped energy back into the market as Wall Street's overnight gains cheered Tokyo players.

Prices surged to close broadly higher, dipping back slightly in late trade on selling by foreign arbitrageurs.

The Nikkei average closed 527,39 points or 1,53% up at 34 996,08, reversing most of Monday's 647,33-point nose-dive.

Exchanges from Frankfurt to Milan posted gains, although some had technical problems because of the flood of orders. — Sapa-Reuter

● New 'toys' upsetting markets — Page 3

The Star
Finance

Trade surplus gets a welcome boost

52 Star 19/10/89

By Sven Lünsche

Hard upon South Africa's success in rescheduling its foreign debt came the good news yesterday that the trade surplus recorded a substantial gain in September.

And more importantly, economists expect the surplus to continue showing good increases over the next few months as the curbs on imports begin to bite.

The Department of Customs and Excise said yesterday that the trade surplus increased from R1,1 billion in August to R1,315 billion in September, the fourth succesive month it has remained above the R1 billion mark.

Exports for September fell from R5,25 billion to R4,843 billion, a decline which Rand Merchant Bank's economist Rudolf Gouws described as a hiccup.

Imports fell by an even greater margin to R3,53 million, a decline of 16 percent below August's figure, resulting in the substantially improved surplus.

The decline in imports is significant since the authorities have been trying to curb spending on imports for some time to ease the pressure on foreign exchange reserves.

The total import bill has been falling since June when it reached R4,44 billion from R3,9 billion in May, which was attributed to increases in the oil price and demand for capital equipment in an effort to offset further declines in the rand-dollar exchange rate.

According to the economist at the SA Foreign Trade Organisation (Safto), Bruce Donald, this trend re-emerged in August, when fixed investment programmes and pre-emptive buying kept imports on a high despite the tightening of import restrictions and the falling rand.

"The reversal in the trend during September is encouraging, in particular since it has led to a two percent fall in imports between the second and the third quarters of this year," Mr Donald says.

Mr Gouws adds that the surcharges were finally taking effect and he expects imports to continue falling over the next few months.

At the same time exports are forecast to pick-up once again as non-gold exports continue their strong showing of the first nine months of the year and even the gold price is expected to benefit slightly from the recent turmoil on international stock markets.

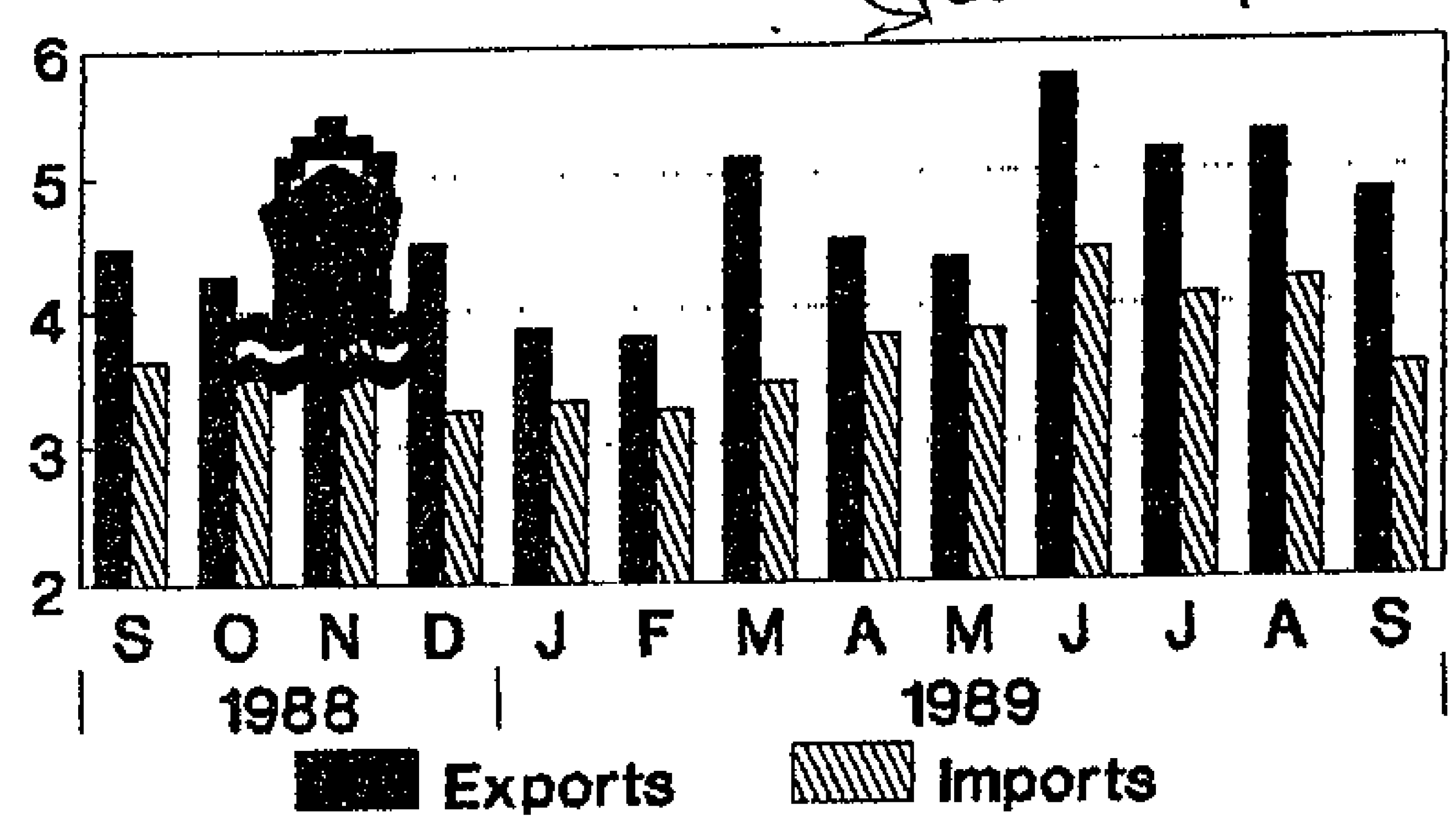
Exports for the first three quarters of 1989 totalled R42,65 billion, compared with R36,12 billion for the same period last year.

In nominal terms exports therefore rose by 18 percent, slightly ahead of the 17 percent rise in imports over the same period from R28,8 billion in 1988 to R33,82 billion this year.

The resultant cumulative trade surplus of R8,8 billion was 20 percent ahead of last year's surplus.

Mr Donald points out that unclassified exports (mostly gold) increased by only 0,3 percent, highlighting the growing support from merchandise exports to South Africa's current account.

Among the best performers were vegetable product exports, which more than doubled compared with the period from January to September last year, and base metals which rose by 43 percent.



The trade surplus (R-billions)

Chief Emeka Anyaoku

Chief vows to keep up fight

The Argus Foreign Service

KUALA LUMPUR. — The incoming Commonwealth Secretary General, Nigeria's Chief Emeka Anyaoku, has vowed not to let the fight against apartheid falter.

And he said the Commonwealth under his stewardship would continue exerting sanctions pressure until real change was seen in South Africa.

Mr Anyaoku said the South African system "challenges the basic values of the Commonwealth.

"I will be untiring in my pursuit of the Commonwealth objective on South Africa (which is) the elimination of apartheid and the institution in its place of a democratic, united, non-racial South Africa."

"Until there is real change, the Commonwealth will not relax the pressure on South Africa."

Mr Anyaoku, who takes over from the equally outspoken Sir Sonny Ramphal, defeated former Australian Prime Minister Malcolm Fraser in a poll here yesterday.

Surprise SA debt schedule stumps sanctions lobby

58

Argus 19/10/89

By PETER FABRICIUS
Political Correspondent

SOUTH Africa has thwarted the Commonwealth sanctions lobby by reaching agreement with its major international creditors to roll over R21 billion of its R54 billion foreign debt.

The "Third Interim Arrangements" announced by Reserve Bank Governor Dr Chris Stals stipulate that the R21 billion, which was to be repaid by June 30, will be rolled over for 42 months. In that period about R4 billion will be repaid in eight six-monthly instalments.

Dr Stals said last night the arrangements had been concluded after extensive negotiations with major foreign creditors during the past two months.

Uncertainty gone

Democratic Party finance spokesman Mr Harry Schwarz welcomed the new deal. He said that though it was important that financial sanctions — the "trump card" of the sanctions lobby — had been neutralised for three years, the main benefit was that uncertainty about credit was out of the way.

"We can now plan our economy I don't think repaying 20 percent over three years is too steep I think we can still grow reasonably well."

Dr Stals's announcement came as the Commonwealth heads of government were meeting in Kuala Lumpur, Malaysia, to debate the issue of economic sanctions against South Africa.

He declined to comment on the political implications of the arrangement, but financial sources said it was a vote of confidence by international bankers in South Africa's creditworthiness.

The Financial Times reports that Mr Abdul Minty, attending the Commonwealth summit on behalf of the Anti-Apartheid Movement, said the agreement changed the whole situation.

The South African announcement was clearly intended to provoke the Commonwealth. It meant banks had decided to extend a lifeline to the apartheid system, he said.

In recent months, the anti-apartheid movement worldwide has focused its efforts on preventing a rescheduling of the South Africa's debt, believing that such financial sanctions were its most powerful weapon against Pretoria.

Anti-apartheid lobbyists have pressed commercial banks holding debt covered by the country's 1985 debt standstill to refuse to renew the current rescheduling agreement, which expires in June.

The banks have been under pressure to agree, if at all, to annual reschedulings only.

Over the hump

This would have caused significant disruption for Pretoria and allowed the anti-apartheid campaigners political leverage over South Africa during the crucial 1990-1991 period, when the country also has substantial repayments to make on debt not covered by the standstill agreement.

The new agreement will allow South Africa to get over the debt hump of the next two years, after which repayments will decline substantially.

Britain's Anti-Apartheid Movement said last night: "It's a real setback because the banks were uniquely placed to put pressure on Pretoria to speed up the process of change."

New debt agreement will boost market confidence

Star 19/10/89

By Magnus Heystek
Finance Editor

The successful rescheduling of South Africa's foreign debt will boost confidence in local financial markets. It could also lead to an increased inflow of overseas investments in South Africa.

But is also signifies a strict fiscal and monetary policy over the next four years.

"The agreement removes a lot of uncertainty about the country's foreign debt and comes at a very crucial time as far as the Commonwealth Conference in Kuala Lumpur is concerned, " says Mr Mike Brown, economist for stockbroking firm Frankel, Kruger Vinderine.

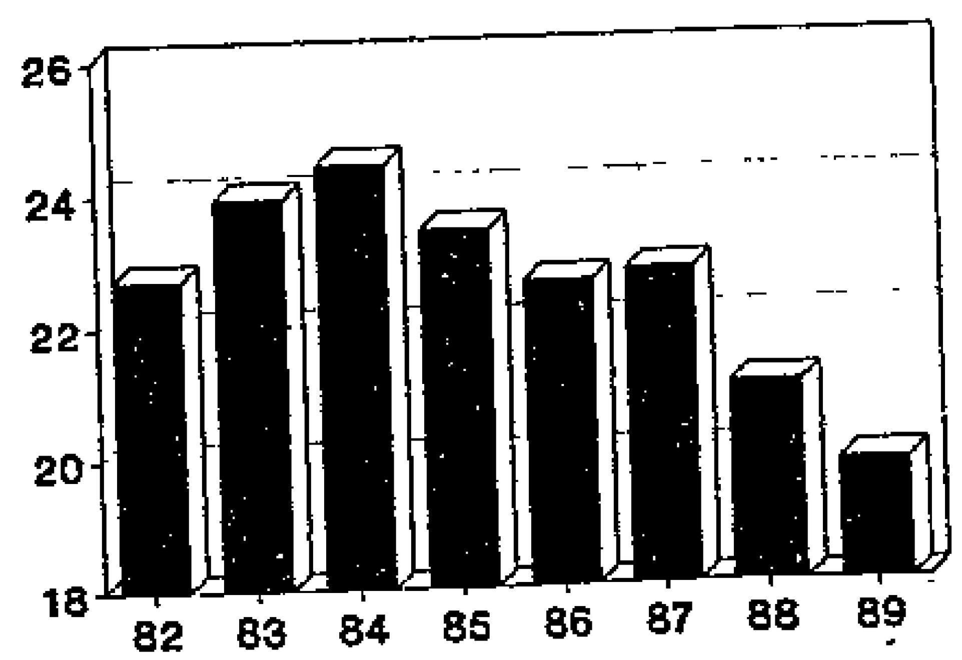
Other analysts were also optimistic that the agreement could lead to a strengthening of both the commercial and financial rands.

The announcement on the third interim agreement on the repayment of SA's foreign debt was made by Dr Chris Stals, governor of the Reserve Bank and leader of the negotiating team last night.

Half-yearly

The agreement, very similar to the second debt rescheduling agreement, provides for a further repayment of debt in eight half-yearly payments starting in December next year.

In addition to the $1,5 billion of debt within the standstill net, further payments outside the net will also have to be made. According to Dr Jan Lombard, deputy governor of the Reserve Bank, the country's expected economic performance over the next four years has been



The debt picture (R-billion)

taken into account as far as the agreement is concerned.

However, Dr Lombard made it quite clear that the agreement will impose strict discipline on the country's finances. This includes strict controls over government spending, the inflation rate and the economic growth rate.

"The country has no choice but to maintain a surplus on the current account on the balance of payments for the next four years at least in order to make these enforced payments," he said last night.

Asked about the attitude of the main foreign creditor banks Dr Lombard indicated that while some banks displayed what he called an "irresponsible attitude" towards South Africa, none were hostile or aggressive in their claims for further repayments.

"However, no talks were held on the possible resumption of new loans," he added.

By June 30 1990, when the present debt agreement expires, about $8 billion will still remain within the so-called debt standstill net compared with $14 billion blocked in terms of the original arrangement announced in September 1985.

Expressed in rand terms, the debt has decreased from R60,1 billion to a low of R43,6 billion at the end of 1987. However, the depreciation of the rand during this time resulted in the amount rising to R50,4 billion at the end of last year.

This performance is remarkable, considering the need for capital as a developing nation.

Although SA's foreign debt has shown only a small decline in the past few years, it has fallen sharply as a percentage of gross domestic product and total export earnings.

From 41,2 percent of gross domestic product in 1982 South Africa's foreign debt has declined to only 24,2 percent as at the end of 1988, while at the same tim dropping from 148,9 percent of total export earnings to 82 percent at end-1988.

But the main result has been lower ec onomic growth due to the massive outflows on the capital account.

Italtile's profits rise

Finance Staff

Impressive growth has been achieved during the interim period by Italtile, the ceramic tiles and sanitaryware group.

The interim report for the six months to end-August shows a substantial 45,2 percent climb in turnover coupled with a 30,1 percent growth in operating profit. This achievement is well in line with the group's budget.

Although the group has now moved into a tax paying situation it has achieved earnings per share of 44,2c, a 30,4 percent rise on the adjusted earnings per share reported in August 1988.

The board has declared an interim dividend of 6c, a 20 percent gain over the 5c dividend declared in October last year. The dividend cover remains high in line with the group's policy of funding organic growth through its own resources.

The balance sheet remains strong with a R11 million growth in assets over the period.

Knights stars for Southgo group

Star 20/10/89

By Derek Tommey

Sharply increased profits are reported by the four gold producers in the newly established Southgo group.

Southgo, it appears, now has the expertise and resources to develop the full potential of some of the mines which recently joined the group.

The feature of the Southgo quarterlies is the virtual doubling of the profits from the recently opened Knights, which extracts gold from dumps and slimes dams.

Knight's treated 903 000 tons during the quarter, compared with 838 000 in the June quarter.

Some 389 000 tons came from the sands dumps with an improved grade of 0,51 g/t and the slimes throughput was 514 000 tons with an improved grade of 0,3g/t.

Working costs were R6,97 million while the operating profit was R3,94 million (R2 million).

Nigel increased its profits from R1,24 million in the June quarter to R2,67 million as a result of an increased tonnage milled, a higher yield and a decline in working costs.

Wit Nigel, which has a record of difficulties, reported a profit for the second quarter in succession. It earned R113 000 (R77 000) in the September quarter, and further increases are expected in the coming quarters.

Profit before tax was R157 000 and taxed profit was R113 000.

West Witwatersrand Gold Holdings, which is reporting under the Southgo banner for the first time, had a net income of R2,42 million — an increase of R396 000.

BUILDING SOCIETIES 158 F. Mail 20/10/89

Protesting too much

The rapidly escalating battle for the principal share of the lucrative residential mortgage bond market is likely to get even rougher as the institutions roll up their sleeves and slug it out.

It's possible a few "dirty tricks" could be employed in the in-fighting too.

The big prize: the hearts and minds of estate agents who are pivotal in deciding who will fund their customers' bonds. Because of this, great play has been made by building societies of the desirability of protecting the independence of the agents (*Property* October 13).

The first major thrust into the real estate business was apparently made by the country's largest supplier of bonds, the United. It seemed to some that its acquisition of 33,3% of estate agent consortium Multi Listing Services (MLS) was a deliberate bid to corner a large slice of the market. Further grist was added to the mill by speculation that United was negotiating to buy a stake in, if not control of, Aida Geffen Estates.

Perhaps recognising this as an opportunity to "score points", Allied adopted a public stance as the champion of the independence of estate agents.

Apart from emphasising this to the *FM*, it launched an advertising campaign to this effect and MD Kevin de Villiers wrote a letter last month, which is believed to have been widely circulated among estate agents, emphasising the company's position.

In it he says: "In special advertisements and get-togethers in the next few months, we will make public that we have no intention of entering your business, either now or in the future." However, Allied may not be as squeaky clean as it claims.

An allegedly confidential document, a mortgage loan agency agreement, purporting to be from the Allied, has been passed to the *FM*. The nub of the agreement is that in return for installing loans managers within the estate agent's office, participating agencies will undertake to give Allied first refusal on any bond applications.

It also "guarantees the flow of funds for mortgage loans" to the estate agent.

While it might be difficult for any society to "guarantee" bond finance, there may be nothing wrong with such an arrangement — provided agents don't profess to be anything other than tied to the Allied. It should be remembered that in terms of the Estate Agents Act, the agent's primary responsibility is to act in the best interests of the buyers and sellers of property.

Says United's GM, group marketing, Tienie van der Berg: "Allied has been waging a campaign against us for allegedly encroaching on the independence of agents. However, it's busy doing the same thing. It's just using different methods.

"Our method is to buy affinity, not control, with the estate agency group by acquiring a small interest in the organisation. That doesn't affect the independence of the agency at all.

"We are saying we will pump some money and technology, such as sophisticated computer systems, into the organisation. The objective is a faster, more efficient, system of process housing finance."

He accuses Allied of doing the same thing behind its smoke screen of protestation. "It is establishing a system whereby agents channel loan applications through to them in return for having a manager who can make instant decisions to approve bonds.

"We believe we are going through a series of bond battles. The first was the rates war where the banks cut rates in order to entrench themselves in the market. The next skirmishes centred on product innovation and development with the introduction of schemes like access and investor bonds. Now that we have product parity, the new battlefield, to our mind, will be the speed of decision making in processing bond applications. Each of us is trying to get the edge in our own way."

De Villiers' response is that the key issue is whether institutions should buy ownership, or part ownership, in estate agencies. "We say we will never do that because we believe it encroaches on the agent's independence. Our campaign has been specifically designed to esure that we aren't confused with any organisations which do take that route."

He adds that it doesn't mean Allied won't try and provide the best possible service to agents. "Just as Wesbank puts machinery on motor dealer floors without trying to market motor cars, so we do exactly the same with estate agents."

De Villiers says it's obvious that if Allied is represented in an agency, it has a better chance of getting the business. He says the price to the agent of Allied's investment in technology and manpower is the right to first refusal on bond applications. However, he stresses the customer has the final say over which institution his mortgage application should be submitted to.

While the tactics may sometimes leave a bit to be desired, the bottom line of this new and healthy competition should be a better service to home buyers who apply for bonds.

However, while not commenting specifically on the Allied's or United's approach to the question, Competition Board chairman Pierre Brooks says it might be construed as a restrictive practice if an ostensibly independent estate agency was tied to a specific financial institution. He adds that in such a case, such a restrictive practice may even be in the public interest. ■

58

Lifeline ahoy!

FM 20/10/89

The State, keeping an anxious eye on the soaring number of liquidations, has thrown a R70m lifeline to small business threatened by rising interest rates.

The R70m is not new money — it's part of the R100m assistance package announced by Finance Minister Barend du Plessis in May. But last week, government finally spelt out how most of the money will be allocated.

The Industrial Development Corporation will get R30m to loan to small manufacturers. Companies that were paying over 18% interest on their finance as of June 30 and have assets of between R2m and R10m, are eligible — provided they can prove that their "continued existence and profitability . . . is threatened by the high interest rates."

The Small Business Development Corporation will get the other R40m to loan to businesses with assets of less than R2m. The money will be added to the corporation's R45m revolving support fund created in 1985 to help small businesses hurt by high interest rates. The fund started with a R30m State grant and in four years has lent R85,2m to nearly 2 000 businesses.

"This fund is not used to rescue lame duck businesses," notes Sonny Tarr, the corporation's GM development services. "The aim is purely to assist concerns threatened by increased interest rates. And, with some small businesses now forced to pay up to 29% for bank financing, the assistance is vital."

When interest rates rise, small businesses are hurt most. Banks are now charging many small businesses up to eight percentage points above prime because they perceive the loans as riskier than loans to big businesses. Usually, big businesses can afford to fall back on their reserves and their long-term arrangements with their bankers.

"In the longer run, we believe that it is cheaper to help maintain existing jobs than to create new ones," Tarr says. "Therefore, we try to support viable businesses through the hard times so that they can expand once the climate improves." ■

20/10/89

BANK RATE

Into gear

58

On Monday evening Reserve Bank Governor Chris Stals took the markets by surprise with the announcement of a one-percentage-point increase in Bank rate — the rate at which it rediscounts Treasury bills — to 18% from Wednesday. Other rates at which the Bank provides accommodation to the market are also to be increased by one percentage point.

Commercial banks are expected to follow this lead with similar increases in the prime rate and possibly the rate on mortgage bonds.

Stals' unexpected decision follows a long period in which there had been no meaningful moves in the markets. Participants have been faced with too many unknown quantities: new Reserve Bank Governor Chris Stals, after the death of Gerhard de Kock; and new President F W de Klerk, after the resignation of P W Botha.

Du Plessis ... bark worse than his bite

Though both have long been on the public scene there has been much uncertainty about how far they would continue to follow policies of predecessors. So for months, rates moved in a narrow band waiting for direction.

BOND MARKET 58

FMail 20/10/89

In comes the bear

Dealers returned to work on Wednesday to find rates 25-35 points higher than when they left on Monday. Reacting to the one-percentage-point Bank rate increase, Eskom 168 shot up from 16,665% last Monday to a high of 17,015% on Wednesday. Even plummeting share prices on Friday and Monday didn't depress rates again, unlike France, Britain and the US, where gilt yields came off as people switched into fixed-interest stock.

Unattractive yields on local gilts kept investors away, though some buying above 17% — as in RSA 150s — has been noted. A dealer notes: "This is good long-term value."

Rates are expected to hover around present levels until the options close-out on November 2. "There have been a lot of reversals," a dealer says. "People bought cheap calls, sold a put and sold stock." So on close-out a lot of stock could go to people who don't really want it. The stock shortage of past months could be alleviated. No borrowing from Eskom or the Reserve Bank is expected at these levels so dealers will be happy to see paper come into the market.

"The mood has definitely turned bearish," a dealer notes. "We expect it to stay that way for some time." Concern about foreign debt repayments and pressure on the reserves is adding to negative sentiment. ■

MONEY MARKET (58)

FM 20/10/89

Sudden shock

The 1% Bank rate increase last Monday evening took the market by surprise. But most dealers see it as a positive sign that the new administration will base actions on economics, not politics, as in the past. "It's the first time the Reserve Bank has led the market," one says.

Rates jumped immediately markets opened Wednesday, after the holiday on Tuesday. The 3-month bankers' acceptance rate rose from 17,35% to 18,35%. By Monday it was up further, to 18,45%.

But pressure on rates hasn't eased. The unseasonally high window shortage is causing concern. "The outflow of funds for payment of Iscor shares could see the shortage reach R6bn-R7bn at the beginning of November," a dealer says.

The window shortage fell marginally to R3,5bn Monday — a level last seen on September 25. Stock interest payments of around R400m and government salaries of around R500m will help, but month-end pressures will build up again next week.

The Bank has promised support during the Iscor payment period, though hasn't said how. "But uncertainty has killed any incentive to take a strong view," a dealer says. Adding to uncertainty is the volatility of share movements around the world. Though rates didn't react, "it helped the negative mood," a dealer noted.

Dealers are waiting for money supply, CPI, bank credit and the delayed trade figures — all due Friday — to set direction. Most still say rates will fall in March.

☐ Friday's tenders both rose 89 points: the Treasury bill to 17,98% (R70,2m applied, R20m allotted) and the Land Bank to 18,16% (R50m, R25m). ■

FOREIGN EXCHANGE (5C)

FM

A bumpy ride

20/10/89

Wall Street's events of last Friday overshadowed other global developments last week. Improving dollar sentiment, increased Japanese interest rates, severe sterling weakness and continuing European Monetary System turbulence took a back seat as investors worldwide feared a repeat of the October 1987 Crash.

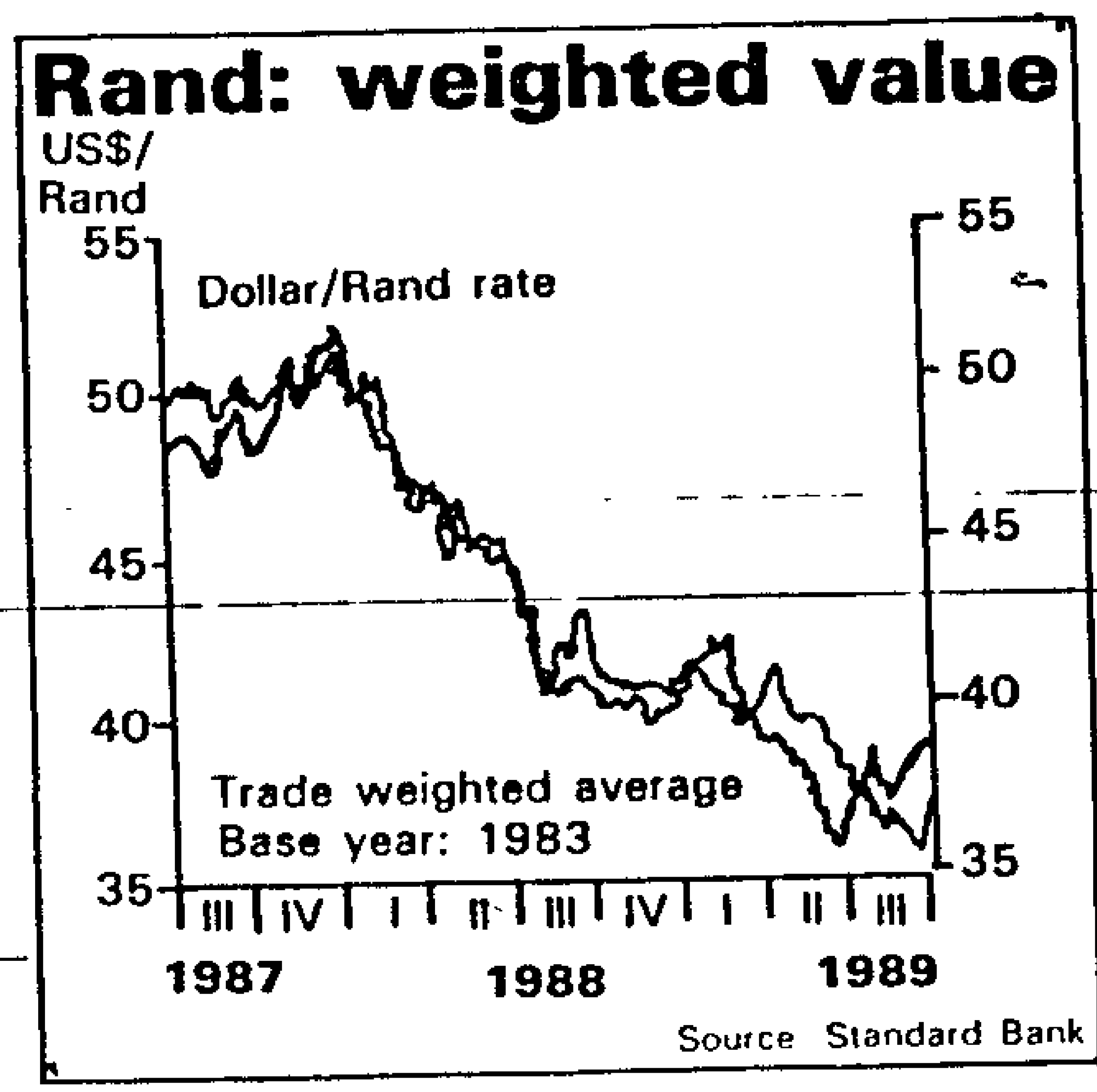
The dollar opened last week at DM1,8850 and reached DM1,9220 before closing sharply lower at DM1,8650 after Friday's worst-but-one points drop in the Dow Jones industrial average. Hectic sales initially forced the dollar down near Y139 and DM1,835 in thin trade.

This fuelled expectations of further US credit easing, says Volkskas.

Dollar bulls had been evident at the start of the week when the greenback shrugged off widespread non-US interest rate increases. Support was added by Alan Greenspan's comments, which appeared to suggest a rift between the Fed and Treasury over the efficacy of intervention to suppress the dollar.

Market focus was also on sterling weakness early last week. The 1% base rate increase did not help and the pound fell through the key DM3 level.

"Friday's Wall Street debacle injected an extraordinary amount of uncertainty into the international business environment," says Standard. It questions whether the Wall



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P.T.O.

F·Mail 20/10/89

CHUNNEL INTO THE MONEY BARRIER

The Thatcher era will leave many monuments in Britain, from the State-initiated privatisation programme to deregulation. Of all of them, however, the Channel Tunnel — or Chunnel — will be the biggest to be built by the private sector alone. Or so it is hoped.

For ballooning costs are proving a nightmare for Alistair Morton, the SA-born ex-assistant to Harry Oppenheimer, who is the British co-chairman of the Anglo-French Eurotunnel group — André Brenard is the other half. A knighthood (at least) lies in store for Morton if he survives to see the Chunnel open the way to three-hour journeys between the hearts of London and Paris in 1993.

But that is the least of his concerns. Morton has been presenting a combatively optimistic face in the last two weeks, yet there is no doubting that the project is in trouble. Two years ago, costs were estimated at £4,9bn. Now the figure is £7bn, on Eurotunnel's own calculation, but could be £7,5bn, as estimated by the construction consortium TransManche Link (TM) or even £8bn if the fears of the 200 banks involved are realised.

The money drawn down so far from the banks under the long-term arrangements has proved inadequate. And the £1bn equity raised in 1986 has run out. Eurotunnel has run up an overdraft this year of £900m.

Refinancing is needed. Eurotunnel is talking of a £400m rights issue to back an increase in bank money to £6bn. It may receive a less than enthusiastic reception. Morton pooh-poohs forecasts that the cost of a London-Paris round ticket will have to be £110 to make the sums work — the same as an air trip — but the City's fears are still apparent. Floated at 350p each, Eurotunnel shares dived to 230p after the 1987 stock exchange Crash but then climbed to a mid-1989 high of 1 170p. They were down to 540p late last week.

Morton admits the cost escalation has altered prospects but insists the project has changed only "from being incredibly profitable to very profitable." Original passenger traffic forecasts have been slightly trimmed to 29,4m in the first year (1993-1994) with revenue at £578m but revised upwards to 44m and income of £819m in the 10th year. The Chunnel, he declared, now has "a massive, continuous momentum."

That much is undoubtedly true. The French government is already investing hugely in new high speed rail links and other infrastructure, with industrial investment to follow, creating thousands of jobs. It is unlikely to allow failure.

Britain's public sector commitment, to match French spending, has yet to be finalised. Evironmental rows over high speed rail links have doubled British Rail's estimates to £3bn (tunnels instead of surface lines) and an unwilling Thatcher government — assuming it is still in power — may be forced to help out to make the operation viable. If not, fares will be so high as to wreck Eurotunnel's forecasts. Despite antipathy to subsidies, it is unlikely the UK government would allow construction to stop. The political stakes are now too high.

But it is far from clear whether Eurotunnel will exist in its present form when the Chunnel opens. A state of near-open warfare exists between Eurotunnel and TM. Morton's board has agreed to a cost increase (on the so-called lump sum contracts) of £350m; TM is demanding £732m. Morton claimed there was no row but only "a strong difference of commercial opinion."

This, however, could prove dangerous unless amicably and quickly resolved. But above all, what worries the project's bankers and investors is that, if costs can escalate by at least 44% in two years, what will the next four produce?

Investment rules for setting free the bears

(56) W. Mail 20-26/10/89

New investment rules for pension and provident funds which took effect this month could make more available for share-dealing and property, reports HILARY JOFFE

INSURANCE industry people say the effects of the investment rules which will take effect this month will not be dramatic: it is unlikely that millions of rand will suddenly flood the Johannesburg Stock Exchange or the property market.

But the new regime will give pension and provident fund investment managers more flexibility to make market-related investment decisions.

The new regulations allow pension and provident funds to have up to 85 percent of their assets invested in shares and property, or up to 90 percent in shares, property, mortgage loans and "other assets".

They also introduce a requirement that fund valuators ensure that a fund's assets match its liabilities — so for example, a pension fund which has a majority of pensioners who have to be paid out each month must have a stable, adequate income to meet its obligations.

The regulations replace the old prescribed assets requirements for pension and provident funds, which obliged funds to hold a substantial proportion of their assets in cash (bank and building society deposits) or invested in government or semi-government bonds ("gilts"). This proportion was 53 percent in the case of pension funds and self-administered provident funds, or 33 percent for provident funds invested through a life insurance company.

The requirements were originally intended to protect fund members by obliging fund managers to make stable investments with guaranteed returns. But the insurance industry had been calling for the abolition of the prescribed assets rules for years, on the grounds that pension and provident funds could earn more without them: the rate of return on shares has been consistently higher than that on government bonds, because South Africa's inflation rate has been consistently higher than expected.

Finance minister Barend du Plessis announced in his budget speech in March that the prescribed assets requirements would be abolished and the new regulations, made in terms of the Pensions Funds Act of 1956 and the Insurance Act of 1943, became effective on October 1. They have been supplemented by a recent circular from the Registrar of Pension Funds to all self-administered pension funds and insurers who underwrite retirement benefit funds.

But although the regulations appear to give fund investment managers more scope to invest in shares — 65 percent of assets can be in shares, where previously only 47 percent could be in all investments other than cash and bonds — for many funds the regulations will make little difference to their investment spread.

This is because fund managers will now have to value a fund's assets at market value where before they valued them at book value. Shares must now be valued at current stock market prices — where previously a fund would value its shares at the original price at which it bought them.

With the rise in share prices over the years, older funds will in fact have been holding much more than 47 percent of their assets — at market value — in shares. Most would already be at or near the 65 percent maximum they are now allowed, according to Old Mutual assistant general manager Henk Beets. It will, however, give new funds, or those which have grown rapidly in the past few years, a chance to invest more of their money in shares.

But the new regulations do have an advantage for investment managers of older funds. Previously they would hesitate to sell shares because the proceeds of the sale would have to be invested in line with the prescribed assets requirements — so 53 percent would have to go into cash or government bonds, and only 47 percent into shares, property or other investments.

"For all funds it gives investment managers the ability to trade their assets without fear of losing the favourable position they have built up in the past," says Beets. "It frees fund managers to make more sensible decisions on investment rather than structural grounds. In the long run market forces will be able to operate more freely and individuals' savings will be better looked after."

Beets added: "In an investment environment ... pend on the rate of return their fund earns, the less restrictions, the better."

In its latest *Insight* newsletter, Sanlam describes the new regulations as "a vast improvement on the old prescribed assets requirements".

Assets of the retirement benefit industry; (including state-controlled pension funds), were estimated at R200-billion in evidence submitted to the Mouton Commission — any change in their investment patterns can have a significant effect on financial markets.

They could have an effect on the property market — the new rules allow funds to invest up to 30 percent of their assets in immovable property, property unit trusts, or loans, debenture and shares in property companies. This is limited to five percent in any one company.

But, says Sanlam: "There currently is a shortage of good property investment opportunities and this will lead to a demand for property and property unit trusts which will chase up prices."

The Registrar has, however, indicated that the regulations will be reviewed after a year.

It is unlikely that the greater scope to invest in property will result in the pension and provident funds directing any money into low cost housing — their problem has been that this does not yield high enough returns.

But the new regulations could make it easier for the funds to assist members to buy their own homes — in theory a fund could put up to 90 percent of its assets into home loans to members.

The new regulations have been welcomed by the retirement benefit industry — but with some reservations.

One problem is the valuation of funds on the basis of — volatile — market values. Funds have to remain within the investment limits continuously although there is three months' leeway. But if, for example, stock market prices rise very rapidly, funds might suddenly find themselves way over the 65 percent limit on share investments.

Sanlam says most good portfolio managers will strive to keep shares as close to 65 percent as possible to maximize long-term returns. "A sharp rise in share prices will cause such funds to exceed the limit and no further share purchases may be made even though it clearly appears to be the best possible investment," says Sanlam.

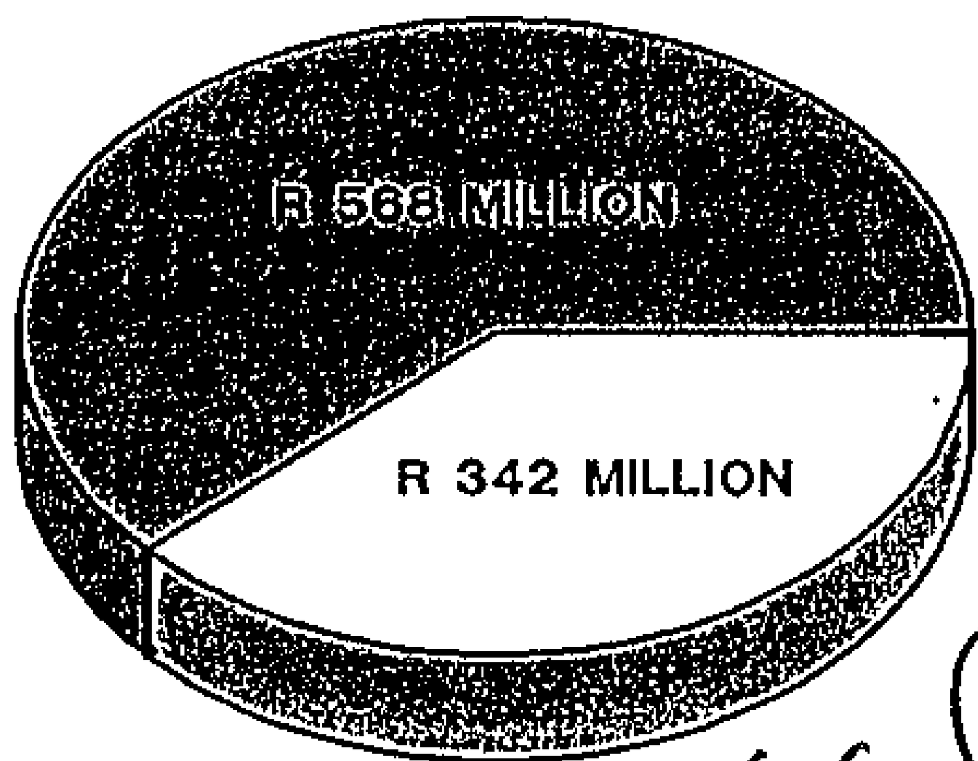
Funds can, however, apply to the Registrar of Pension and Provident funds for exemption from the investment limits if they can show the application is based on sound investment principles, or as a result of extraordinary fluctuations in market values.

Another area of concern is the requirement that fund assets must "match" liabilities. Sanlam's Barry Macmillan says it's not clear what this means in practice.

Beets believes it is a good approach, balancing the greater freedom funds now have with the requirement that they make investments appropriate to their particular circumstances. But it does require more sophisticated methods of assessing funds — the actuaries who evaluate these will have to learn fast, he says.

RAND VALUE GROWTH OF LIFE INDUSTRY

TOTAL PREMIUM INCOME



58

OMC Trips 20/10/89

TOTAL RAND VALUE GROWTH R 910 MILLION

ACCORDING to figures released by the Life Offices Association (LOA), the industry's total premium income rose to R16,3bn in the year to June 30, compared with R15,4bn the previous year.

Old Mutual alone was responsible for 62%, or R568m, of this increase. The remaining R342m was generated by the other 26 life offices.

Old Mutual MD Mike Levett said this was because Old Mutual had been careful not to neglect its recurring premium business during the single premium boom.

"Market conditions changed dramatically following the October 1987 stock market correction, with a rise in short-term interest rates, a directive from government to discontinue investments from non-profit-making government organisations and a self-imposed agreement by life offices to limit themselves to business with a minimum term of five years.

"The result was a sharp drop in single premium business. However, because of our strong flow of recurring premiums, the impact on our total premium income was negligible."

Barry Holt has been appointed human resources director of Unidata.

Don Titmas has been appointed MD of Atomic Office and Industrial Equipment.

MUTUAL AND SANLAM 58

FMail 20/10/89

Insurance chairmen

The announcement this week of changes in the top positions of the two largest insurance giants in the country, serves to emphasise a certain difference in management style.

Powerful positions

Albie van den Berg, who is 68, is newly appointed non-executive chairman of Sanlam. Jan van der Horst, who turns 70 this week, is retiring from the position of executive chairman of Old Mutual (OM) after almost 23 years unbroken service.

The positions which these men are currently holding are some of the most powerful in the country. As heads of massive mutual assurance societies, they are in control of vast assets administered on behalf of policy holders and have an enormous influence not only on the markets their societies enter, but also on the wider SA business environment and, behind the scenes, on economic policy as well.

Attitude differences

It seems remarkable that there should be such differences in the attitudes of the boards of these two operations. One appoints a chairman virtually the same age as the outgoing chairman of the other and the incoming chairman of Mutual, Mike Levett, is only 50.

Present MD of Sanlam, Pierre Steyn, points out he is much the same age as Levett, who will also remain as MD of OM. With the exception of the chairman, Steyn, like Levett, is the only operating executive on his board. Steyn adds that, as in OM, Sanlam's senior GMs are almost all in their 40s or early 50s, so the approaches are not that different.

Van den Berg joined Satmar as an analytical chemist in 1948. His quest to produce oil from coal took him through research laboratories of SA Railways and into Sasol. He served on the Sasol board for 21 years, first as director, then executive chairman and finally as non-executive chairman before retiring in 1986. He has also been on the Sanlam board since 1983.

He says Sanlam is very well organised and that he has outgrown the tendency to open the watch to see what makes it tick. But he will actively participate in the organisation until he is familiar with the operation, though continuing to live in Johannesburg.

"The Fred du Plessis era has come to an end. He, too, was a non-executive chairman, but he had a very high profile. I'm virtually the direct opposite — I've got almost no profile," Van den Berg says.

OM's Van der Horst has only had two jobs in his working career. He remained at Imperial Cold Storage for 25 years, ending as joint MD. At age 47, he was asked to run OM and, when he retires in March next year, will have been there for 23 years. During the period of his control, assets under administration climbed from less than R0,6m to about R45bn.

His decision to retire was motivated firstly by lack of time to pursue personal interests. Secondly, he considered that in Mike Levett, who had been his personal assistant for 18 years, he had someone he could recommend to the board to take his place. Thirdly, he is a keen breeder of Angus cattle and would like to continue this hobby while he is still fit and able.

Van der Horst's greatest satisfaction has been from working with talented people. "I leave behind me a very young team — young in years, but long in expertise and experience."

Commenting on his OM career, he says every day has been a highlight. "The beauty of business for me is that each day is different — I've never had a moment of boredom. I have been a very happy person here."

Gerald Hirshon

INFLATION — 2 58

Vested interests

Consumers call for a reduction in inflation; debtors demand lower nominal interest rates. The goals are mutually exclusive — but for the most part the two lobbies consist of the same people. FMail 20/10/89

Perhaps irrationality can be explained by the pain caused when high inflation and high nominal (but low real) interest rates both impact on cash flows. Certainly the wailing and gnashing of teeth since the recent rise in Bank rate and accompanying increases in prime and mortgage rates reflect anguish rather than logic.

Ironically, monetary authorities, so often rightly attacked for doing the wrong thing, are now being wrongly attacked for doing the right thing. Just how high are interest rates now? With inflation running at an estimated 16%-17%, prime and mortgage rates are in reality 4%-5%. And savings are yielding largely negative returns, especially after tax.

In Britain, real interest rates are nearly 7,5%, in West Germany about 5,5% and in the US about 5,5% (see graphs). Only Japan, with inflation of 3%, can afford real interest rates of less than 2%.

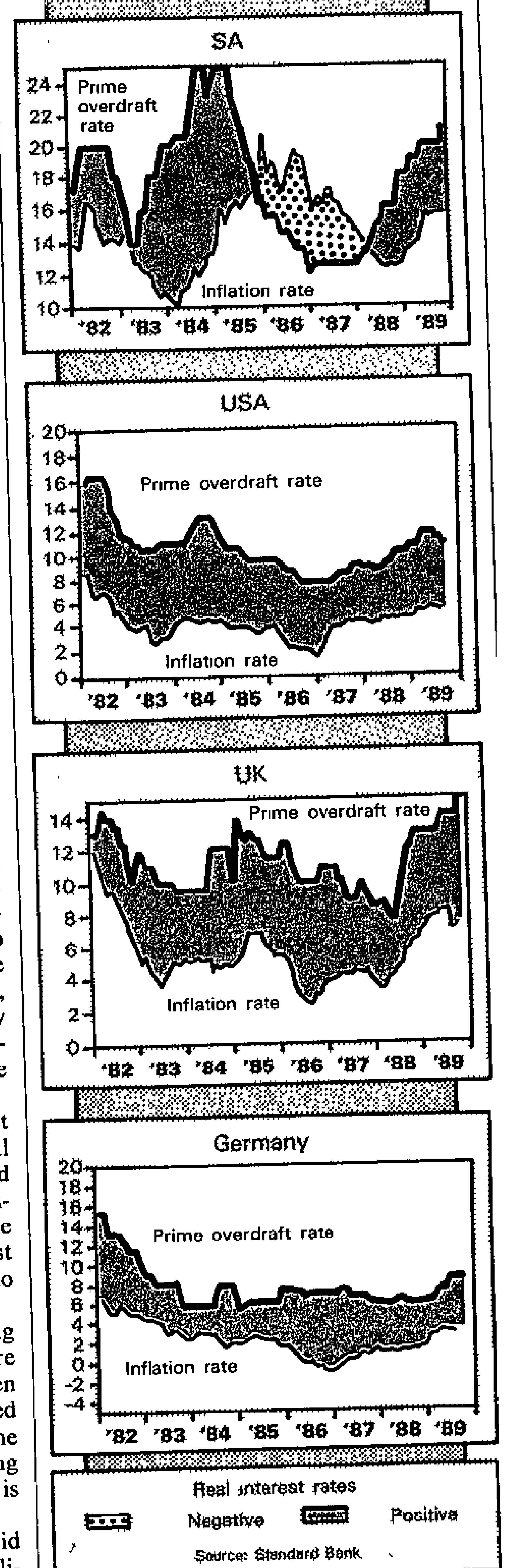
Latest moves

Yet SA authorities are being castigated for their latest move by the ill-informed. Criticism comes from many sources, including financial institutions. Some are expressing deep concern for the "little man" who has seen the cost of servicing debts rise steeply in the past 18 months. The little man, of course, is up to his ears in debt precisely because those financial institutions persuaded him to jump in over his head. He has done little more than surface since.

When funds were plentiful and interest rates were low (sharply negative in real terms), banks and building societies lavished large sums on marketing mortgages and other loans. So successful were they that the lake of liquidity suddenly vanished and cost of funds increased, sending interest rates into the upward leg of the cycle.

This is not to say institutions were wrong to encourage people to borrow. They were simply doing their jobs. Now, however, when they see bad debts piling up, repossessed properties, margins squeezed between the ceiling of consumer resistance and rising funding costs, they should acknowledge it is the price of competing for market share.

Those who miscalled interest rates and did not match term structure of assets and liabilities appropriately should admit they blew it. As to the little man: theoretically *homo sapiens* is capable of learning from experience; so when he borrowed at the bottom of the interest rate cycle he should have remembered there is also a top.



Where the authorities are culpable is that they encouraged him to forget this. Had Bank rate risen sooner, when spending took off towards the end of 1987, Reserve Bank Governor Chris Stals would not have had to hike Bank rate to 18% last week and prime would not have breached 20%.

Interest rates are the price of money. And unless they do this accurately, inflation builds up to a point at which only drastic and economically damaging action will halt it.

Which is why higher rates, though they reduce present disposable income, immediately, preserve purchasing power in the long run. By cutting credit extension (which is largely credit creation) they slow inflation.

There is a final note of cheer for people too busy coping with today's costs to worry about tomorrow's. In recent months a stable rand has reduced the price of imports with a marked effect on monthly increases in producer prices; one important spin-off of higher interest rates is a stronger exchange rate, so this favourable trend should continue. ■

INFLATION — 1

It's all relative

In August, Nicaragua's year-on-year increase in consumer prices subsided to a mere 11 000,5%, according to *International Financial Statistics* published by the IMF.

CPI growth has declined from 23 997,4% in December, to 21 580,8% in March, 18 786,4% in April, 18 227,2% in May, 17 829,8% in June, and 12 823% in July. Figures for January and February have not been published but the IMF records inflation of 28 284% in the first quarter.

58 F.Mail 20/10/89

August figures

IMF August figures for most of the world's inflation centres are unavailable.

To make a direct comparison of inflation in different regions it is necessary to consult figures for 1988, though even these are not complete and still subject to revision. They show inflation in:

- ☐ The world running at 13,3%;
- ☐ Industrial countries 3,3%; and
- ☐ Developing countries 57,4%.

A regional breakdown shows inflation in developing countries was:

- ☐ Africa 17,1%;
- ☐ Asia 11,7%;
- ☐ Europe 61,9%; and
- ☐ Western Hemisphere 213,7%.

No figures have been available for the Middle East since the base year of 1985. Of the handful of countries that do report, inflation ranged between 0,3% in Bahrain in 1988 and 16,2% in Israel. ■

INTEREST RATES — 1 58

FMail 20/10/89

Liquidations soaring

Liquidations rise in tandem with interest rates. That's nothing new. But, as interest rates have climbed over the past 18 months, the jump in liquidations has been alarming.

There were 589 from May to August, 12,8% more than the same period last year and 41,6% more than the first four months of this year. It's not just the consumer durable sector that's been affected. Out of 160 liquidations in August, 38% were in the finance, insurance, real estate and business category and 35% in wholesale, retail, catering and accommodation services. Just 12% were manufacturers and 9% construction companies.

Information Trust MD Paul Edwards says the wave of liquidations is more than a shake-out of weaker companies. A well-known computer company, GBS, was among the victims and the Edworks shoe company was rescued at the last minute.

Edwards says the number of liquidations hasn't reached the levels of 1985, when an average of 255 businesses failed each month, but many of the same factors are present.

"SA has very volatile economic cycles compared with, say, the US, which has gone into its 85th month of continuous growth. The SA entrepreneur has to cope with a chronic skills shortage and socio-political conditions that have led to increased labour unrest and the closure of certain export markets."

Edwards says now that interest rates are higher than 20% they have crossed a psychological barrier and people are recalling the 25% rates in 1985.

"Company failures then largely resulted from the consumer's inability to meet commitments. The same story is happening again — the value of judgments passed against individuals was 80% higher in June-July this year than the year before."

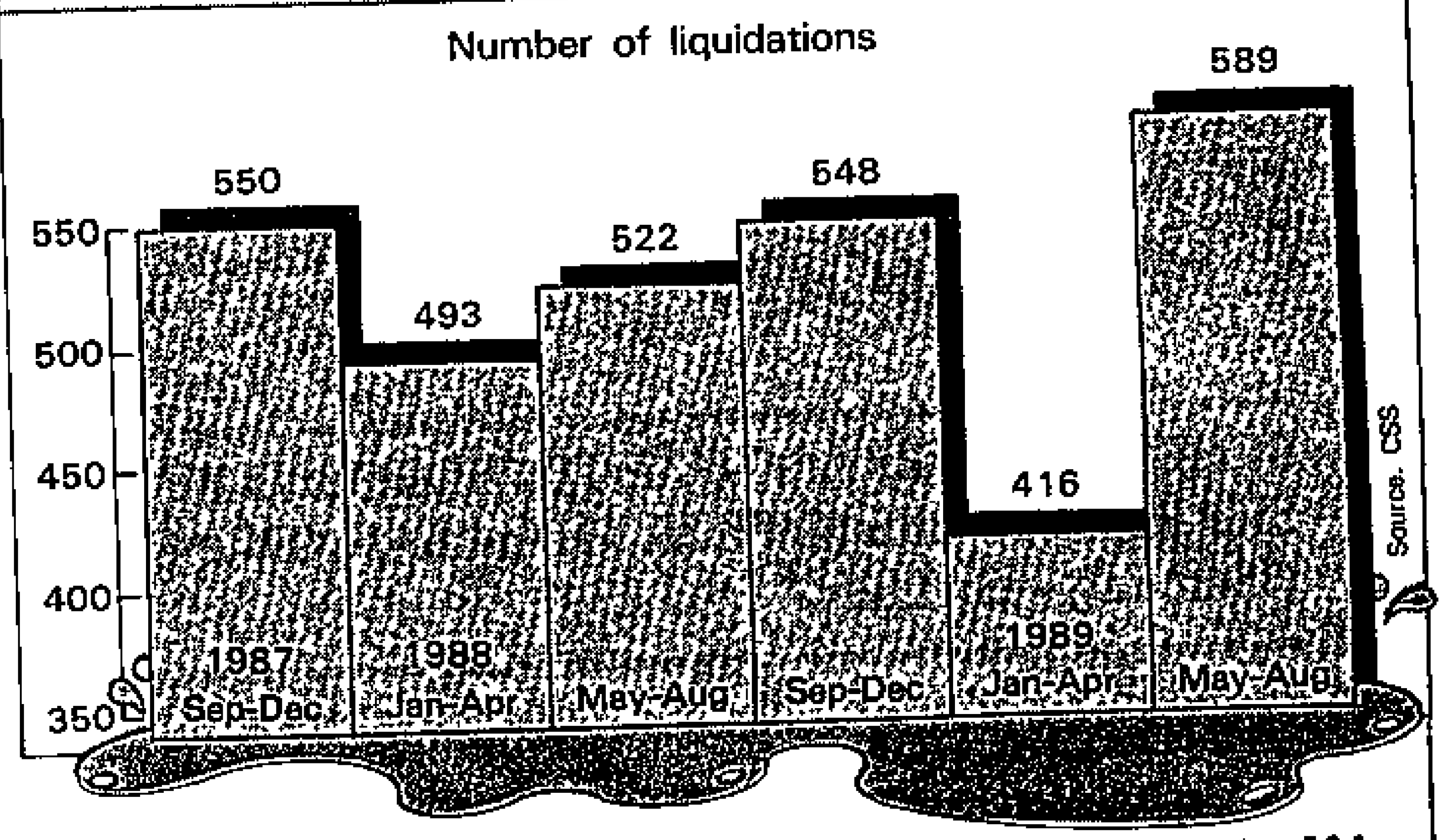
Edwards points out that every percentage-point increase in interest rates means an additional R83 a month on a R100 000 bond. When hire-purchase and motor car commitments are included, that one percentage point means monthly payments can grow by more than R120.

"Consumers are getting back into the frame of mind that they should delay purchases. This new round of interest rate hikes could result in a determination to reduce credit commitments to lower levels — this means postponing purchases, which hits the retail sector hard."

He adds that unlike the corporate sector, consumers are often paying 3%-5% above prime.

"The consumer has no alternative but to bite the bullet and adjust his lifestyle. If he doesn't, the bankruptcy courts are going to be hard pressed to cope." ■

Rising trend



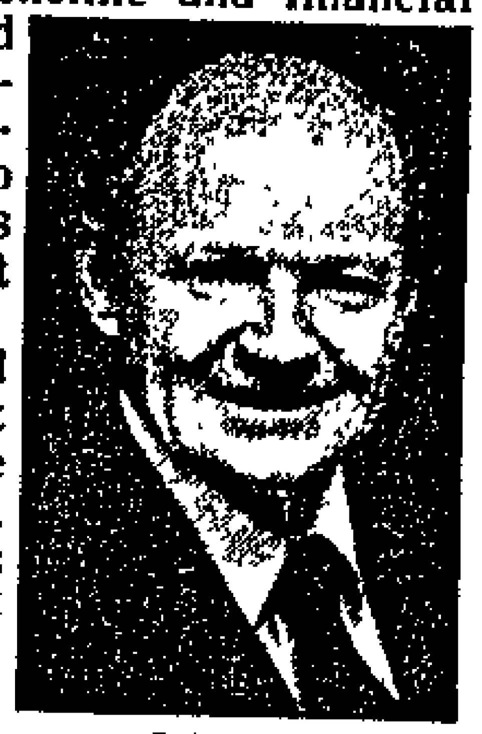
Levett to determine Old Mutual's success in the next decade

BDay 20/10/89 (58)

CAPE TOWN — Mike Levett's role as Old Mutual's new executive chairman will be to anticipate and adapt to the ongoing economic, political and technological changes which will determine the life office's competitive success in the next decade.

Levett's predecessor, Jan van der Horst, introduced a new business culture into the life office, transforming it from what might once have been described as an amorphous giant into an efficient and innovative operation.

Van der Horst's actions, largely in response to changes in the economic and financial environments, enabled Old Mutual to take advantage of opportunities as they arose and to maintain its position as one of SA's two largest financial institutions.



● LEVETT

Levett has inherited a strong, healthy giant and one in whose growth he can claim a major role, given his four-year term as CE and the 30 years he has spent moving up the management ranks.

He was chosen from a team of ambitious young actuaries to become Van der Horst's PA for a number of years before moving on to head up the short-term insurance subsidiary, Mutual & Federal. From there he was drawn back into Old Mutual's management fold, where he moved with much success from pensions, via investments, to become CE when Frans Davin resigned.

In spite of his actuarial skills which have been described as brilliant, Levett made it known at an early stage in his career that he wished to manage people, rather than figures.

Most observers say he is the right man to take Old Mutual into a new decade of growth.

LESLEY LAMBERT

Levett believes that as long as inflation remains high, the life offices will continue to capture the bulk of the nation's savings. His main concern, though, is the effect of inflation on consumer's ability to save.

"The life industry has done well only because the other deposit-taking institutions have not done so well, not because the savings pool has grown."

The results of the last financial year show that the rampant premium income growth of past years has begun slowing down as inflation reduces people's ability to save, while high interest rates make alternative forms of investment more attractive to those who do have disposable income to invest.

The basis on which life companies are taxed is another major determinant of their ability to compete for savings and there is some uncertainty over whether the financial authorities will respond favourably to requests for "more appropriate" tax treatment.

In the last Budget, the authorities responded to pressure for a more equitable tax rate by agreeing to the trustee principle, which, in effect, amounts to a marginal reduction in the amount of tax paid by life assurers.

But, the life offices are still lobbying for amendments to the new formula for determining a life office's tax bill. They want the tax rate reduced from the highest marginal rate of 45% to about 30%, which would be more in line with the average rate applied to policyholders, and they want to deduct all expenses from taxable income, rather than just the 55% allowed in the formula.

Levett seldom speaks to the Press because he believes this type of public lobbying does not encourage the authorities to react favourably.

But he concedes he will make his fight public if government and the industry ever reach an impasse on an issue which severely affects his clients, and thus, his business.

SASOL 51 FMail 20/10/89

Diversification continues

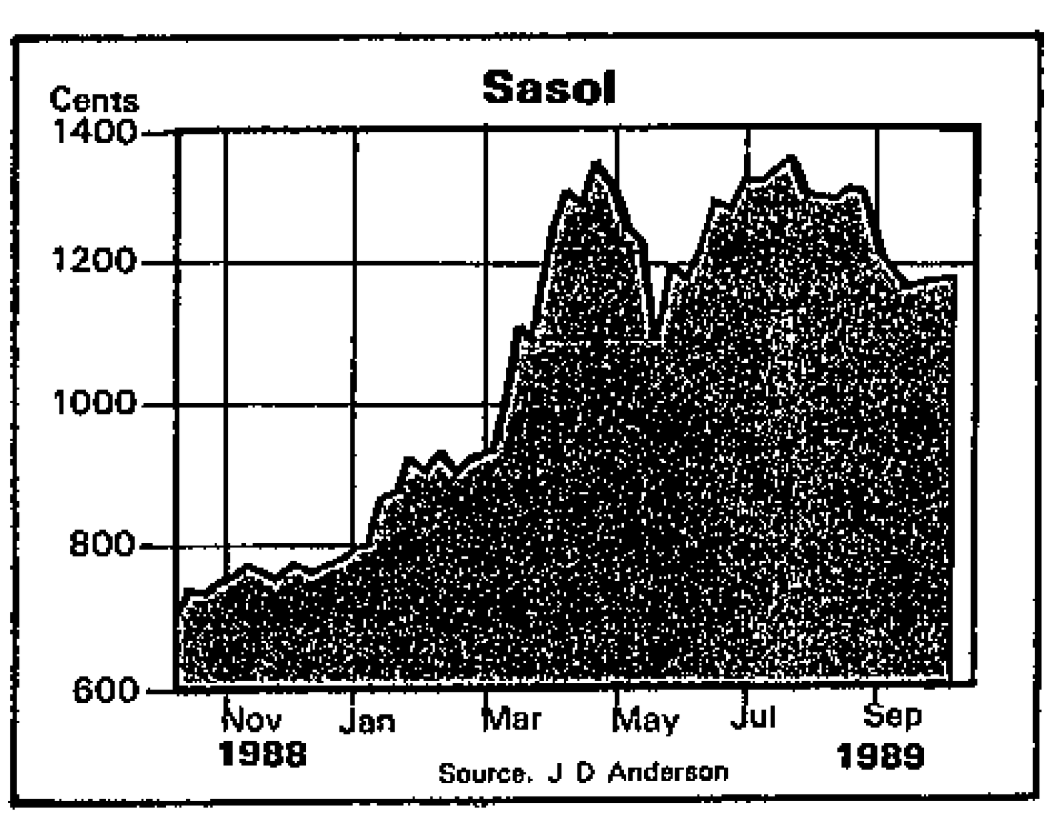
Activities: *Main activities are production and marketing of liquid fuels, pipeline gas, fertilisers, mining explosives and petrochemicals derived from coal and crude oil.*
Chairman: *J A Stegmann; managing director: P du P Kruger.*
Capital structure: *563,5m ords of NPV. Market capitalisation: R6,65bn.*
Share market: *Price: 1 180c. Yields: 4,5% on dividend; 9,5% on earnings; PE ratio, 10,6; cover, 2,1. 12-month high, 1 370c; low, 675c. Trading volume last quarter, 7,66m shares.*
Financial: *Year to June 30.*

	'86	'87	'88	'89
Debt:				
Short-term (Rm) ..	377,3	53,0	26,9	13,9
Long-term (Rm) ...	797,2	419,1	393,0	402,2
Debt:equity ratio	0,49	0,14	0,04	n/a
Shareholders' interest	0,44	0,55	0,54	0,51
Int & leasing cover .	5,8	14,1	40,7	29,7
Debt cover	1,1	1,9	2,0	2,5
Performance:	**'86**	**'87**	**'88**	**'89**
Return on cap (%) ..	26,7	17,5	15,7	18,9
Turnover (Rm)	3 638	3 109	3 478	4 094
Pre-int profit (Rm) ...	1 321	865	771	1 086
Pre-int margin (%) ..	36,3	27,8	22,2	26,5
Taxed profit (Rm)	701,3	526,6	474,3	634,5
Earnings (c)	102,3	93,5	84,2	111,7
Dividends (c)	45,0	47,5	42,0	52,5
Net worth (c)	425,8	471,6	508,5	560,0

Sasol has evolved a great deal since the late Seventies, when the oil crises triggered the rapid development of the Sasol 2 and 3 plants at Secunda. By the mid-Eighties, with oil prices high and the rand sliding, synfuels were making bumper profits.

Diversification is now bolstering earnings. EPS rose 33% last year despite static synfuel profits. As the group enters the Nineties, it hopes to capitalise on its unusual strengths: the synfuel and oil refining operations are generators of cash and there are cost advantages in production of petrochemical feedstocks as co-products from the synfuel plants (*Fox* October 13).

Of the primary sources of profit — synfuels, refining and chemicals — the last is providing the growth at present. There is a symbiotic relationship between them that distinguishes Sasol from other major chemicals producers. The thinking is that the range and volume of chemicals and plastics produced by the group can be expanded at relatively low cost, with emphasis on added value or higher margin goods. Exports have an important role in these plans.




Sasol's Stegmann . . . need to build liquidity

Last year's surge in chemical sales, which rose 37,7% to R866m or 21% of group turnover (excluding Sasol 3), was owed partly to buoyant international markets. MD Paul Kruger says prices of certain chemical products softened in the second half but average levels remain well above those of the previous year. Production was also expanded.

With the Secunda plants largely meeting synfuel requirements, Sasol 1 is being redeveloped as a chemicals complex. The mothballed cracker plant was brought back into operation, wax production facilities were expanded by some 40%, and output of hard waxes and derivatives rose significantly. Buoyant demand for high-purity phenol prompted a 33% increase in capacity of the refining unit. A 99,9% pure product is made, mainly for sophisticated export markets.

Two new projects have taken Sasol 1 further into speciality chemicals. One makes custom-formulated solvents and the other involves refining of propyl alcohol; exports of the latter started in August. Other applications are being sought for gas being routed to Sasol 1's ageing circulating fluidised bed synthesis reactors. These produce mainly liquid fuels on a relatively small scale and the intention is to phase them out in favour of processes yielding higher value products.

Polypropylene production starts in December — just as international oversupply is developing. However, annual growth in world demand has averaged over 10% for the past 10 years and should remain above 5%.

After rationalisation in the industry, fertiliser sales volumes rose by 78% last year, though the return on capital remains below acceptable levels. Mining explosives contributed to profits for the first time.

Such developments should buttress the operating margin, which is well below levels of 36,3% in 1986 and 32,7% in 1985. Last year, the margin was 26,5% — high by comparison with most industrial groups. Gross cash flow was R374m (R310m), capital spending was some R634m (R742m) and the year ended with a net cash position of R126m.

But Sasol needs to build liquidity — by 1993 it will have to acquire from government the 50% it does not already own in Sasol 3. The timing will be problematic: if the deal was done now, the currently poor profitability of Sasol 3 — predominantly a synfuel producer — should mean a low takeover price. Whether government would accept such a price is another matter.

Even a low price would not necessarily make the deal attractive. Sasol funded its 1983 takeover of Sasol 2 with loans and equity. Borrowings of about R2,2bn were brought onto the balance sheet, lifting the debt:equity ratio above 200% and a rights issue raised about R550m. That was when synfuel profits were booming. Between 1984 and 1987, most of the debt was repaid — which was fortunate, given the slide in operating profit after oil prices collapsed.

A complication is that Sasol 3 has substantial, undisclosed borrowings which would presumably have to be brought on to Sasol's balance sheet. These are soft loans but probably exceed R2bn. And the stock market is unlikely to rush to support a rights issue to fund a synfuels acquisition.

Meanwhile, efforts are being made to squeeze more out of the synfuel operations. There are projects to further lift production without increasing coal consumption; output is already about 10% above design level.

But what would really boost synfuel profits and cushion against prolonged price weakness, would be the success of negotiations for a more favourable form of tariff protection. Chairman Joe Stegmann, who says this would help arrest the gradual reduction in the division's contribution to profit, expects an announcement by year-end.

The refining operations have benefited from an improvement in the margin between international crude oil and product prices, which is expected to remain at more attractive levels. Growth in petrol and diesel consumption in SA was respectively 6,6% and 4,2% higher than in the 1988 year, largely because of increased use of minibus taxis.

At 1 150c, the share is well below the 12-month high of 1 370c. An uninspiring oil market, a recently firmer rand and softer world chemical prices have encouraged caution. On the other hand, the group should again produce real earnings growth this year and the price could strengthen on news of increased tariff protection or a weaker rand.

Andrew McNulty

CONSOLIDATED MURCHISON

A strike too

Activities: *Antimony mining and beneficiating.*
Control: *JCI manages the mine's technical operations; Anglovaal provides secretarial services.*
Chairman: *M W Hawarden.*
Capital structure: *6,24m ords of 10c each. Market capitalisation: R37m.*
Share market: *Price: 600c. Yields: 5,0% on dividend; 12,5% on earnings; PE ratio, 8,0; cover, 2,5. 12-month high, 815c; low, 575c. Trading volume last quarter, 40 000 shares.*

Performance: *Year to June 30.*

	'86	'87	'88	'89
Ore milled (000t)	530	530	509	457
Concentrate produced (t)	12060	11453	10855	8 838
Antimony content (t)	7 024	6 673	6 264	5 201
Concentrate sold (t)	12040	11920	9 948	10089
Gold production (kg)	838	814	670	902
Turnover (Rm)	42,4	47,4	43,0	54,6
Pre-int profit (Rm)	12,0	10,5	2,1	8,3
Taxed profit (Rm)	10,9	13,3	4,5	10,2
Earnings (c)	24	84	(82)	75
Dividends (c)	60	60	30	30

The legal strike over wages could not have come at a worse time for Consolidated Murchison. By the start of this week most of the workforce was still out, production remained halted and the company was widely expected to declare force majeure unless settlement is reached before the end of the month.

Cons Murch is a fairly predictable operation. For decades sales tonnages have differed widely from production, stocks of antimony concentrates have either grown or shrunk as production and sales differed and, as stocks have been drawn down or increased, profits tended to fluctuate fairly spectacularly.

This is overlain by a pattern of steadily declining production and loss of export market share to other producing nations. That may not be as disastrous as it sounds — virtually all of the mine's sulphide concentrates are delivered directly to the Antimony Products plant on the property for conversion to oxide for delivery to two tied customers.

Chairman Michael Hawarden is blunt about this year's production outlook — there is little likelihood of concentrate output increasing and the low year-end stock level means sales will not be greater than production. This forecast was made before the mine's workforce downed tools. Hawarden

Cons Murch's Hawarden ... force majeure?

hopes ore production will rise eventually, with more drawn from a deepened Monarch shaft and a fully commissioned Beta shaft, but this will be costly and unlikely to be financed from operating cash flow.

This year's cash flow will be crimped because gold production is slated to fall by about 10% and due to higher working costs and little prospect of dollar-denominated antimony prices increasing. China remains a thorn in Murchison's flesh, discounting prices to move its poor-quality concentrates, and this market factor is likely to persist.

The share price has never recovered from the Crash of 1987 and is unlikely to do so while production remains crimped and prices flat. It is unlikely the Monarch and Beta shaft projects will be financed by a rights issue, while debt financing will inevitably impact on distributable earnings. The share has little immediate attraction at present.

Jim Jones

TRANS-NATAL

Still problems

Activities: *Coal mining.*
Control: *Gencor and Fedmyn own 49,5% of the equity. A further 5,0% is owned by Sanlam.*
Chairman: *B P Gilbertson; managing director: M Salamon.*
Capital structure: *69,7m ords of 50c each; 9,2m compulsorily convertible 12,7% debentures of 850c each. Market capitalisation: R505m.*
Share market: *Price: 725c. Yields: 4,1% on dividend; 10,5% on earnings; PE ratio, 9,5; cover, 2,5. 12-month high, 865c; low, 500c. Trading volume last quarter, 816 000 shares.*
Financial: *Year to June 30.*

	'86	'87	'88	'89
Debt:				
Short-term (Rm)	55	77	11	6
Long-term (Rm)	219	169	239	245

Performance:

	'86	'87	'88	'89
Sales (Mt)				
Eskom	19,1	18,1	19,4	14,6
Exports	6,6	7,9	8,2	8,3
General trade	5,9	6,2	6,2	7,3
Turnover (Rm)	915	958	874	1 072
Operating profit (Rm)	320	224	59	137
Pre-tax profit (Rm)	272	146	1	71
Taxed profit (Rm)	130	78	(3)	60
Earnings (c)	161,1	98,0	(4,2)	76,4
Dividends (c)	90	60	nil	30
Net worth (c)	n/a	n/a	767	830

Chairman Brian Gilbertson is not letting Trans-Natal's recovery go to his head. His latest review tends to emphasise further problems the group has to face before it is fully restored to its mid-Eighties health and he is clear that dividends are unlikely to match 1987's 60c or 1986's 90c for some time. Nevertheless, recovery is continuing and the group's finances are being strengthened.

Markets remain problematic. Trans-Natal seems to have been the worst affected by Japan's decision to freeze the dollar value of coal imports from SA. The result is that Trans-Natal's sales to that country are slated to drop to 1,7 Mt in the trading year to March, down from the 1988 trading year's 2,4 Mt.

Of course sanctions pressure may be abating and the Japanese and other prospective customers could well relax their attitudes if they are satisfied with the De Klerk government's reform programme. But it is not something Gilbertson seems prepared to count on. He expects better export markets for SA coal this calendar year and part of 1990, but warns problems which have plagued other exporting nations and drawn consumers back to SA coal will eventually be resolved.

He also warns of several new export collieries due to come into production over the next few years. There are unlikely to be any great shortages of coal available for export markets which raises the spectre of SA producers again cutting prices to maintain market shares. Nevertheless, Trans-Natal itself is budgeting for a "material improvement" in rand export revenues this year, in part because of the rand's persistent weakness against the dollar.

The next phase in this country's export programme is the expansion of the Richards

Trans-Natal's Gilbertson ... warning note

58 I-Mail 20/10/89

ECONOMIC POLICY

Central bankers' dilemma

Events which shook the JSE this week will have no immediate effect on monetary policy, says Reserve Bank Governor Chris Stals. Fears of illiquidity will not prompt a reversal of last week's Bank rate rise from 17% to 18%.

"Banks here are not as directly involved in the stock exchange as they are in many other countries," says Stals. "So their liquidity will not be as directly affected as in some European or north American countries.

"True, should share prices remain depressed, investors' total wealth will decline. This will affect their spending power over the next few months. That will have implications for monetary policy. So we will make adjustments as events take their course."

Certainly, developments in world equity markets have complicated the task of all central bankers. No sooner had they acted to contain rising inflation, by increasing key interest rates, than the broad picture shifted as Wall Street slumped last Friday and other equity markets followed.

There is no knowing how serious this crack in the markets is. But if prices continue to decline, fears may be of recession rather than inflation. After a similar crash in 1987, central banks immediately pumped liquidity into the system to avert a major slowdown in growth. Possibly they will do the same this time, so on the international level we may see a reversal of recent interest rate trends.

The decision won't be easy anywhere.

In Britain, for instance, where the prime rate for borrowing has just risen to 15%, annual inflation in September rose to 7,6% from 7,3% in August. The 0,7% monthly increase was the highest since April's 1,8%. Both monthly and annual rates were higher than expected.

In the US, where key interest rates had not been adjusted and in fact a decline was expected, wholesale prices rose 0,9 percentage points in the month of September. This also was a sizeable increase after several months of decline. Moreover, retail sales rose 0,5 of a percentage point in September, the third consecutive monthly gain.

So inflationary pressures are present.

In Britain, where Margaret Thatcher has staked her reputation and almost certainly her career on a claim that she will get inflation under control once again, this can't lightly be set aside. There are grave fears for sterling and the current account deficit, which hit £2bn in August.

Greenspan .. trade deficit

As share prices crashed on Wall Street, Chancellor Nigel Lawson was warning on UK radio interest rates may rise even further.

In West Germany, which initiated the recent round of rate rises with an increase in the discount rate from 5% to 6%, fears of inflation may be countered by fears for banking liquidity. But the decision will be difficult.

In the US, the extent of banks' holdings in the stock market could cause liquidity to vanish with frightening speed. So the expected cut in rates could be implemented. On the other hand, Federal Reserve Board chairman Alan Greenspan faces a 31% jump in the August US trade deficit, to $10,8bn.

The logical response would be to raise interest rates to slow the economy and thus demand for imports. This would, of course, harden the dollar which would adversely affect the trade account — but it is generally accepted the slower growth would outweigh the currency effect.

Lawson ... rates may rise

The news complicates matters further because, before the deficit was announced, speculation was that a big increase would erode confidence in Wall Street and abort the incipient recovery.

For the SA central bank, the situation is perhaps even more sensitive than in the major economies. Not only was the recent rise in Bank rate a monetary policy measure to curb inflation, it had symbolic significance in establishing new Governor Chris Stals as a man of his word. (See *Cover Leader*). Inflation has owed much of its strength to a lack of credibility in monetary policy and he has acted to restore credibility.

On the other side of the coin, all central bankers are haunted by the Wall Street Crash of 1929 which triggered a decade of recession, when central banks did not support the market with inflows of cash.

For South Africans, recent history offers another warning. Not that of October 1987, when the equity market recovered with minimal damage, but of August 1984, which saw an unfortunate configuration of events. The late Governor Gerhard de Kock increased the Bank's rediscount rate three percentage points to 21,75%, prompting a three-percentage-point rise in prime to 25%.

The decision, after many months of high private and public spending, was rational and justified by subsequent events: it restored a surplus on the balance of payments by the time the world cut credit flows to SA in August 1985.

However, it also coincided with an outbreak of civil unrest that culminated in the declaration of a State of Emergency in July 1985.

The resulting loss of confidence compounded the effect, sending the country toppling into a three-year recession.

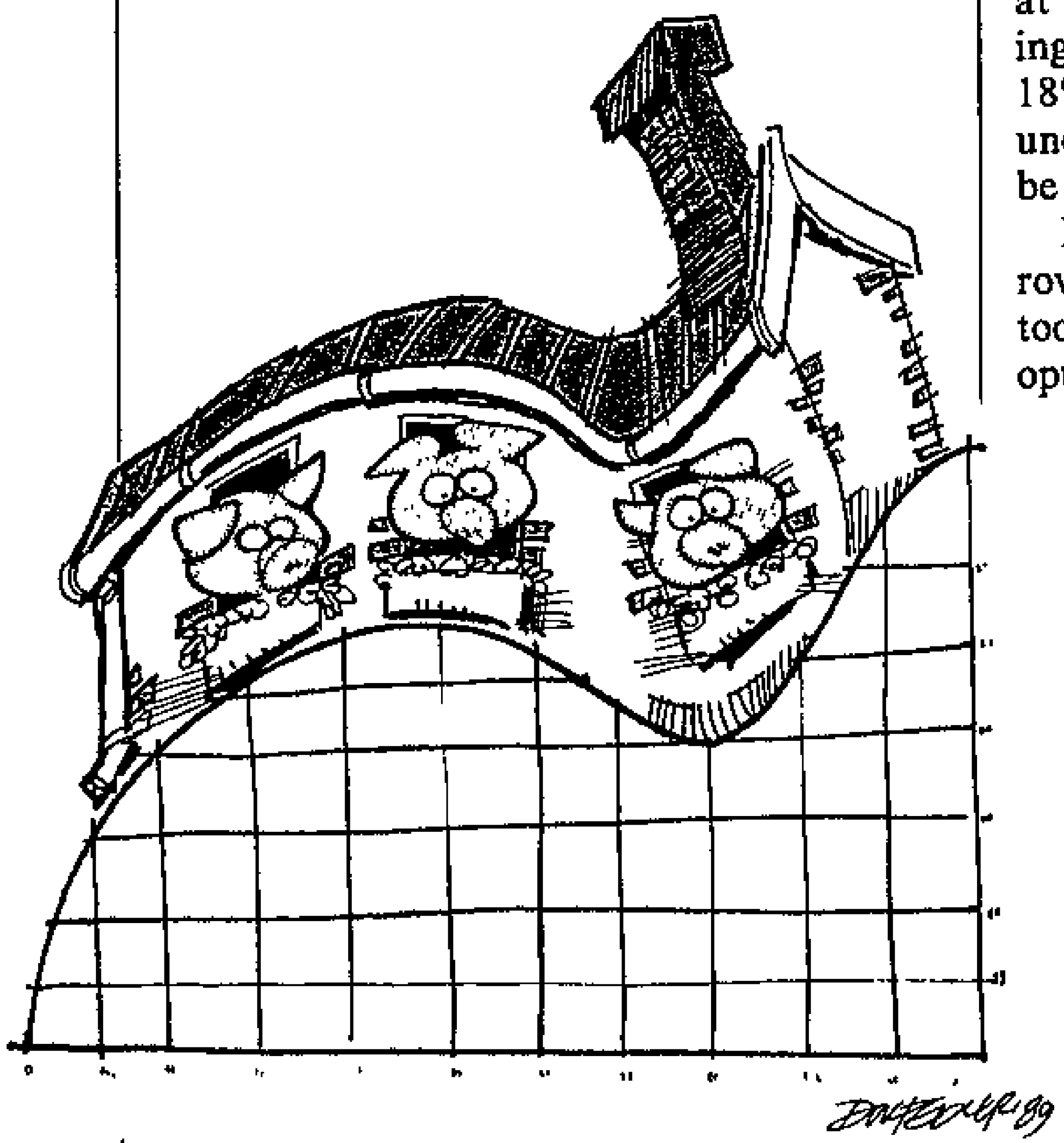
Many who attributed the hard times entirely to the actions of De Kock, and still blame him for the severity of the recession, will no doubt fear a recurrence.

But confidence is the essential element in any recovery, and confidence is inspired by certainty about public policy. By showing he is prepared to take unpopular measures, Stals has created some certainty about future policy decisions. ■

MORTGAGE RATES

Taking a view

Taking a view on interest rates used to be largely the preserve of big investors and borrowers. In recent years, however, the homebuyer has been able to do so via fixed-rate bonds, a concept reintroduced by the Allied, in March 1987.



Clients were given the option of borrowing for three years at a fixed 15%, or five years at a fixed 16%. (These bonds are now available from six months to five years, at interest rates ranging from 19,5% to 18%. The rates are under review and may be raised soon.)

How would a borrower have fared if he took a fixed-interest option, when interest rates from most banks were around 12,5%?

The *FM* compared the following 25-year R100 000 bonds taken out in March 1987, as at September 1989 (**see Table**):

☐ A conventional bond offered by Standard at 12,5%, guaranteed originally until December 1987, later extended to June 1988;

☐ A similar bond at 12,5% offered by FNB, but with no commitment on rates; and

☐ Allied's three-year 15% bond (Allied points out that its bonds are normally over 20 years but for comparative purposes provided figures over 25).

FIXING THE RATE

Fixed-interest mortgage compared with bank bonds

31/3/87 — 30/9/89	Allied	Standard	FNB
Total capital repaid	1 158,64	1 420,43	981,82
Total interest	38 547,11	38 054,57	38 139,35
Total repayments	39 705,75	39 475,00	39 121,17
Balance owing	98 886,12	98 579,57	99 018,18

AS THE RATES ROSE . . .

1/1/88 — 30/9/89	Allied	FNB
Total capital	735,16	612,15
Total interest	26 162,29	28 834,15
Total repayments	26 897,44	29 446,30
Balance owing	99 304,37	99 387,85

Standard's rate rose to 14,25% in July 1988, 14,75% in August, 15,75% in October, 17% in December, 17,75% this February, 18,75% in April and 19,75% in July. FNB went to 13,5% in March 1988, 15% in May, 16% in September, 18% in November, 19% this March and 20% in May.

In the case of:

☐ Allied's fixed interest bond, the balance owing would have been R98 886,12 with total repayments at R39 705,75;

☐ Standard, R98 579,57, with total repayments at R39 475; and

☐ FNB, R99 018,18, with total repayments at R39 121,17.

So the outcome is similar, especially the total repayments. FNB's higher balance owing is due to its earlier increase in rates.

How much the borrower gains or loses depends on the point in the interest rate cycle at which the fixed-interest bond is raised. In these examples, the stability of rates in the first nine months offset the later steep rise.

A similar exercise based on a bond granted in January 1988, when rates started rising, shows a different result (**see Table**):

☐ With an Allied fixed-interest bond, the balance owing at September 1989 would have been R99 304,37, with total repayments of R26 897,44; and

☐ With a conventional bond from FNB, for example, the balance outstanding would be R99 387,85 while total repayments would amount to R29 446,30.

Thus the fixed-rate borrower already has an advantage. With balances owing almost the same, he would have paid about R2 500 less. The differential should increase.

Rates are unlikely to decline for some time and may even rise further.

So those already holding bonds are the winners. But, taking one out now requires a whole new view. ■

INTERNATIONAL TRADE

Mounting deficits

Exports of industrialised countries were 7,4% higher in 1989's first half than in 1988's, says an IMF memorandum. Imports

58 FMail 20/10/89

THE JSE

Correction, crack or crash?

Not only was the crack in Wall Street on Friday 13 almost two years to the day since the crash which started on Friday October 16 1987, but long-wave theorists point out that October 1989 is also the sixtieth anniversary of the start of the 1929 Great Wall Street Crash (October 24). To gild the lily, October 13 was a Friday this year, and a broker even suggested the computer virus of the same name might have had a role.

All this relates not to fundamentals, but to vitally important sentiment. Wall Street's crack was triggered by to the collapse of junk bond financing arrangements for the takeover of United Airlines, against a background of doubts about how highly leveraged US companies would fare in a recession.

Inevitably investors ask whether history will repeat itself. The initial plunge of the JSE Overall index by 277 points (10,6%) to 2 338 on Monday, indicated that some private investors weren't waiting for an answer. The recovery by 141 points on Tuesday, recouping 51% of the loss, showed underlying institutional confidence. As in 1987, the JSE was far more volatile than major Western markets, probably the result of (non-program) stop-loss selling combined with lack of tradeability.

Differences between the cracks and crashes are many. The 1987 Crash was far more precipitous than that of 1929 on Wall Street (and Diagonal Street). The sequel of the 1987 Crash was strong economic performance in Western economies and a full recovery to record high levels on Wall Street. In

Libhold's McAlpine . . . shocks a fact of life now

1929, there was an immediate plunge in the economy, a succession of false recoveries and five downdraughts on Wall Street until the final hellish slaughter in 1932.

AFC Investments economist Cathy Pott, whose economic review earlier this month mooted a "shock event," believes that the US authorities will not be able to support the fundamental economy adequately and that this will have a negative impact on Wall Street.

Tokyo, which again showed its contempt for Wall Street by going only slightly lower, is under suasion of the Japanese ministry of finance and dominated by four investment houses. But, as with the SA market, domination by institutions is unlikely to immunise Tokyo from crashes and, on an average dividend yield of about 0,5%, it must have little upward scope.

Pott believes accumulation of positive factors for gold has been accelerated by the crack — particularly on lower world interest rates which are likely to be implemented to support the recovery.

Dee Ashton of Mathison & Hollidge agrees that gold's prospects have been enhanced. Though the metal did not turn out to be an asset of last resort in the 1987 Crash, that was after it had rallied strongly (from around US$390 in January 1987 to about US$456 at the Crash), which encouraged profit-taking. The opposite now prevails: there has been no rally or profit-taking and the metal offers good relative value.

Ashton points out that there is an historic 92% correlation between the JSE Industrial index and the Dow Jones and she believes Wall Street will either crack again or enter a six- to nine-month corrective wave.

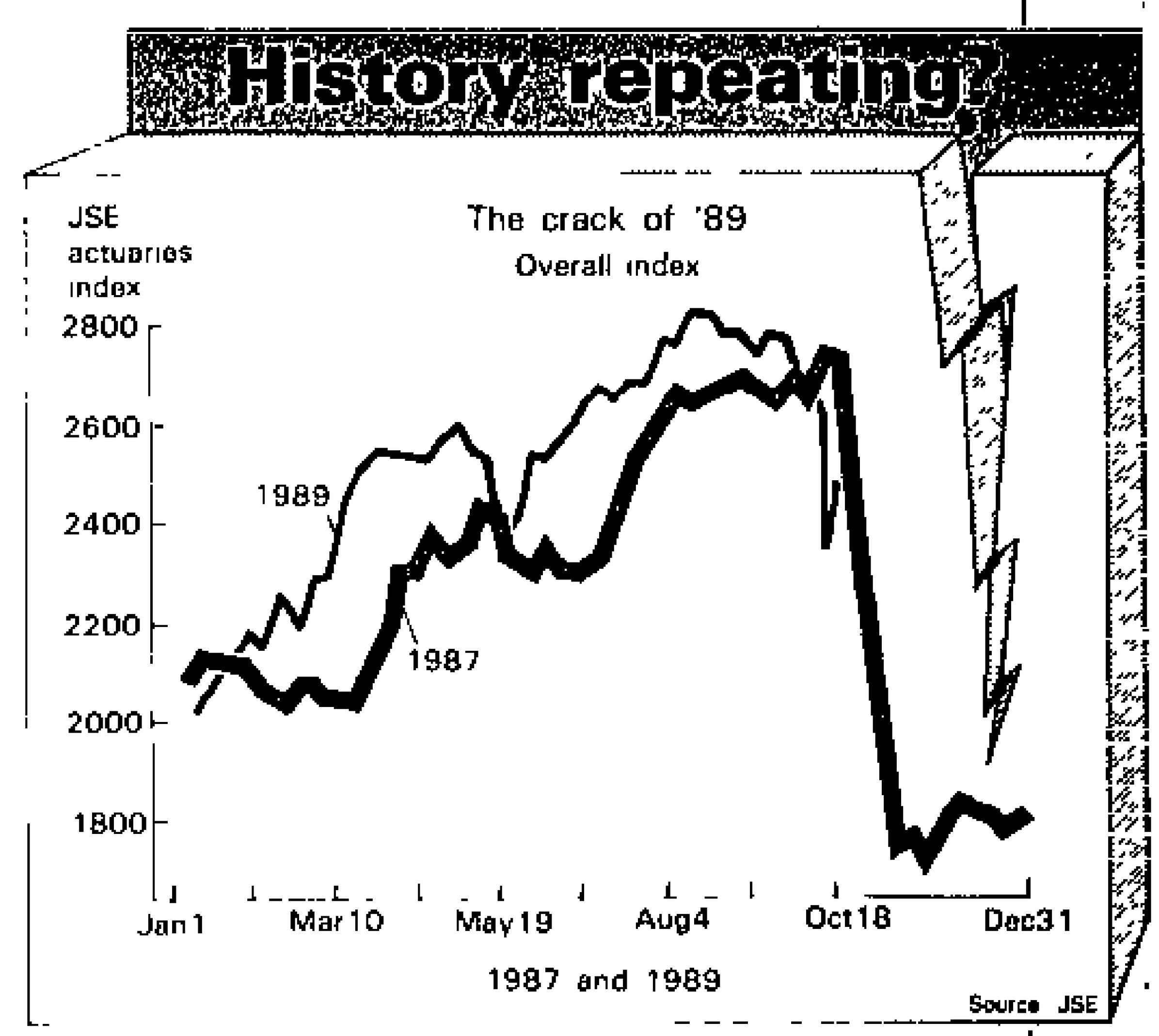
Richard Jesse of Martin & Co is much more optimistic. He dismisses the similarity in dates as coincidental. He believes the fact that the JSE snapped back immediately this time reflects inherently better value than existed two years ago. The average p:e on the JSE in October 1987 was about 15, showing the potential downside; it has recently been around a much safer nine.

Wall Street p:es are also lower than in 1987, but higher than in SA. Jesse believes the market is more vulnerable but says the correlation with the JSE varies in different periods. He believes the crack sent many quality industrial shares too low on small turnovers and recommends their accumulation.

Representing the institutional, non-traders' view, Karel de Ridder, Southern Life's deputy GM investments believes monetary authorities are more skilled now than in 1929. He is also impressed with co-operation among the Western nations, but suggests any strong advance in Tokyo or Western exchanges now may presage further cracks, indicating a need for liquidity in local portfolios.

He points out that local institutions, credited with perpetuating the 1987 Crash, were not sellers in the latest crack. De Ridder believes the recent decline in the rand gold price should reverse and Southern has already increased its weighting in golds through mining financials. In industrials, he suggests that blue chips offer little additional value and is searching for special and recovery opportunities in counters of lighter hue.

James Inglis, director of Liberty Asset Management, suggests that blue chips could be the most vulnerable in the shorter term (see *Unit Trusts*) He advocates caution: "The market is extremely nervous and, over the next week or two, will be highly volatile.



The biggest factor will be Wall Street and what that will do is anyone's guess," he says.

Liberty Holdings director Roy McAlpine puts it even more strongly, saying that these market shocks are a fact of life now and that, because of the interdependence of markets and computerised trading, there will be increased volatility.

It thus appears that investors cannot expect to buy for short-term profits. The short-term outlook for blue chips appears unexciting and, with individual investors less active, second liners may also be dull. But with uncertainty deepening, the scenario SA investors had hoped for in 1987 may eventuate, bringing the long-awaited revival of gold shares.

Teigue Payne

KANHYM

Red-blooded results

Small wonder that Dirk Jacobs, executive chairman of meat producer Kanhym, is pleased with his group's performance; and small wonder, too, that he says this year's

Kanhym's Jacobs ... value-added focus

results will be a tough act to follow.

EPS grew 196% in the year to August, mainly as a result of asset management, tight controls and improved margins. Operating margins have risen every year since 1986, reaching 5,3% (4,0%) in the latest period. The result was to translate an 8% rise in turnover into a 43% leap in operating income.

The reason is the emphasis on value-added products. A divisional breakdown shows the contribution of farming fell 16%, while that of Karoo-Ochse and Hanni (livestock auctioneering and tannery) rose 50% and that of food processor Enterprise 62%. Farming now contributes only 17% of the total, down from 37% last year.

"We intend to move away from commodity activity and focus on value-added branded products," says Jacobs. The acquisition, effective June 1, of the 50% of Hanni not already owned fits into this scenario. Hanni has 90% of the local market and 35% of capacity is sold to major motor manufacturers in Europe for car upholstery. Jacobs expects Hanni to continue to grow at around 50% a year.

Enterprise products increased market share from about 33% three years ago to around 44% now (56% in the PWV area). A number of new products have been launched and Prima cans will be relaunched this year.

KANHYM'S MUSCLE

Year to August 31	1988	1989
Turnover (Rm)	801	862
Pre-tax profit (Rm)	19,7	34,2
Attributable earnings (Rm)	9,8	31,7
Earnings (c)	20,5	60,6
Dividends (c)	5,0	20,0

In addition the export market in the East has been opened and new products especially for Oriental tastes have met substantial success.

But value-added products mean more than just processed foods. In fresh meat, sales of carcasses are being reduced and those of cuts and oven-ready dishes increased.

Jacobs gives credit to Malbak for some of the financial disciplines introduced in the past few years. Malbak took over 37% of Kanhym from Gencor in 1988 and increased its stake to 84% in January. The extent of the controls can be seen from the decline in borrowings from R102,5m in 1986 to R32,1m and in funds employed from R256m to R197m, while turnover rose from R513m to R862m. The result has been a leap in return on funds employed from 6,4% to 23%, though this is below the 25% target set by Malbak. Kanhym has an unusually low tax rate (less than 1% last year) due to its farming operations.

Jacobs makes no bones about seeking acquisitions but says listed food companies are too expensive and interesting unlisted ones few and far between. The group will thus have to rely on organic growth this year, though including the whole of Hanni for a full year should help. Jacobs expects a further improvement in margins from increased emphasis on value-added products. He also thinks finance charges can be reduced further: the debt:equity ratio, 20% at year-end, is about 32% after the Hanni acquisition and dividend payment. In addition a crop worth R3m was carried over the year-end due to weather conditions, which should not be the case this year.

Only a year ago Kanhym declared its first dividend since 1982 — now it has reached a 3,1 times covered 20c. This places it on a dividend yield of 5,3% against the food sector average of 3,9%. If markets continue their rally, the current price could be cheap, even though it is substantially up on the 170c low for the year.

Pat Kenney

INVESTEC

No surprise

Results for the six months to September are of great interest in view of the bid for Mercury, holding company of Board of Executors (BOEL), and talks with Corbank.

The results are more or less what would be expected of a banking institution in the present climate. EPS were up by 25% and dividends increased 33,3%. This is much in keeping with long-term performance· EPS grew at a compound 23% between 1985 and 1989

Inevitably, some will assume that the reason for the BOEL bid was to boost the growth rate — BOEL recently announced an EPS rise of 114% for the year to September.

Of course, one problem with financial and banking institutions is that they are allowed to make transfers to internal reserves, which are not revealed to shareholders What the relative transfers of the two institutions were is anyone's guess.

During the six months, Investec completed two acquisitions: Duros Bank Holdings and property manager I Kuper Executive chairman Bas Kardol says that the acquisitions, combined with strong organic growth, more than doubled funds under administration. Total assets leapt 36,9%.

Investec set up a foreign exchange division during the period, which involved high set-up costs. Kardol says that margins have remained under pressure. He expects the growth pattern to be maintained and emphasises again that Investec will expand both organically and by strategic acquisitions.

INVESTEC INCREASES

Six months to	Sept 30 '88	Mar 31 '89	Sept 30 '89
Net income (Rm)	6,0	8,0	7,5
Total Assets (Rm)	763	958	1 044
Earnings (c)	30,0	40,0	37,5
Dividends (c)	12,0	20,0	16,0

Pat Kenney

UNIT TRUSTS

Fewer sellers

With stock markets throughout the world at least hiccuping and, at worst, crashing, there must surely be some reaction on the local unit trust market, especially as the small investor seems to have been the main seller on the JSE on Monday. As in 1987, some unit trust managers deny that funds are experiencing net repurchases by investors; others say there was an increase in repurchase orders, though not of the size of 1987.

Says Guardbank director James Inglis: "There were a number of repurchase orders on Monday, but some unitholders tried to cancel them on Tuesday, when it was clear markets were not as weak as thought."

There is little doubt that the movement can withstand market fluctuations. The total value of all portfolios was R5,8bn at end-September and trusts should be able to handle repurchase orders easily.

As our table shows, relatively few trusts are at a higher price than in 1987. Guardbank, however, was no less than 15% up on its September 1987 figure, and Sage also did well, being 9,4% higher. But of 17 equity trusts in existence two years ago, only eight are priced above the pre-Crash peaks. Performance has been especially bad in specialist trusts, where only one (of nine) is higher.

This could indicate that there is less downside potential than two years ago, a view held by a number of brokers and portfolio managers, who base it on investment values (see article on the market above).

It would seem that relative performance of specialist funds was actually beginning to improve before the market cracked. Though Norwich NBS, a general fund, was the best performer in the quarter, Sage Resources came second.

But there was a definite slowing in overall growth rates, which might indicate a peaking market. This was also borne out by the rise in net inflow. After an easing from the R146m of the March quarter to R107m in the three months to end-June, new funds invested climbed to R153m in September.

Debt rescheduling 'inhuman' — ANC

58

Cape Times 20/10/89

LUSAKA. — The African National Congress yesterday condemned international banks for rescheduling part of South Africa's $20-billion (about R50bn) foreign debt, saying it was an act of "inhumanity".

The ANC also called for tougher global economic sanctions against South Africa.

Reports from Johannesburg reached the Commonwealth summit conference in the Malaysian capital of Kuala Lumpur this week that South Africa had rescheduled $8bn of its overseas debts.

The announcement, the ANC said in a statement here, was clearly a deliberate move to influence the Commonwealth in favour of Pretoria. "The ANC condemns this move as an act of inhumanity and as a means of helping to perpetuate the evil system of apartheid."

The ANC said the banks' decision confirmed Third World fears that "international capital regards profit as more important than human rights".

"When the time comes," the statement added, "the South African people will not be unmindful of the role of banks in making profit out of the misery of our people."

The ANC urged the international community, and Commonwealth leaders in particular, to condemn the banks concerned and also to "take steps to intensify sanctions against apartheid on all fronts". — Sapa-AP

When the markets hiccup we all suffer

Star 21/10/89 58

MAGNUS HEYSTEK

A ONE-DAY wonder or harbinger of a worldwide recession? This was the question posed after the Johannesburg Stock Exchange went into a wobble on Monday.

After the 199-point drop in the Dow Jones index on Wall Street the previous Friday, most analysts braced themselves for some kind of reaction when the local market re-opened after the weekend.

The drop was more severe than they expected — a staggering 10,5 percent, wiping out approximately R40 billion in the form of lost market capitalisation.

Equity markets worldwide went into a tailspin but none matched the fall on the local market. According to brokers most of the selling was done by individuals. On Tuesday, the market recovered a substantial part of its losses as institutions went bargain-hunting.

For the rest of the week the market traded firmly, but nervously, taking its cue from Wall Street.

Most investors have experienced setbacks over the years but the first to really shock the market was in May 1969 when the speculator bubble burst, hurting untold thousands of ordinary people who had been encouraged to risk their hard-earned cash for what, at the time, looked like an easier way to make money.

The Crash of '69 was a very expensive exercise of prolonged duration. It took the market about 10 years to recover the lost ground, with many small investors forced to hang on to shares acquired during the new listings boom of 1968/69.

An integral factor in the '69 boom and bust was the ruling (since changed) that allowed an investor to purchase shares and pay for them only when the share certificates were delivered.

As this could take months, buyers had a glorious opportunity for profiteering in a rising market. Share prices kept on rising, people bought lustily and made handsome profits and never actually paid for the shares.

Like the great tulip-bubble in Holland and other market hyperboles, the local market crashed with a swiftness that caught everyone.

It was a bitter experience and the small investor paid a heavy price. He only returned to the market in 1979 when the gold price surged and a new bull run got under way.

With the exception of a minor "market correction" in 1983, the local market seemed to be offering another rollercoaster ride to riches.

On Black Monday, October 19 the ride ended ubruptly. Wall Street went into a tailspin and the rest of the world markets (except Tokyo to a limited extent) followed the next day.

Was another Great Depression on the way? It was 58 years after the Crash of '29 and fell roughly within the cyclical trend forecast by the Russian economist Kondratieff?

Kondratieff was a Nineteenth Century economist who identified several cycles in virtually anything; from economic growth to the price of bread and potatoes.

His great cycle of economic growth — roughly 50 to 55 years in duration — accurately predicted the Depression of 1930.

When the 1980s arrived economists and investment analysts speculated on the possibility of another great depression which, according to Kondratieff's forecasts, was due to hit the world around 1984/85.

For months after Black Monday the world teetered on the abyss. But it was not to be. The US Federal authorities pursued a liberal monetary policy, pumping money into the US economy which kept the growth-engine of the world liquid and growing.

The expected recession never materialised and everyone went back to their favourite pastime: spending money.

The mini-crash of '89, as it has been dubbed, has once again set off alarm bells in economic circles. The spectre of a serious recession won't go away.

Unfortunately, like holes in the ozone layer, almost everyone is affected directly and indirectly by rising and falling stock markets. Pension funds, life insurance companies, provident funds and even medical-aid companies invest major portions of their funds in equity markets.

Despite the spectacular nature of equity "meltdowns", such as the '87 crash, equity investments have proved to be the best long-term investment. Particularly so in the case of South Africa which has the disadvantage of foreign exchange controls. Long-term returns on equity investments have outperformed all other investment avenues.

Any collapse in share prices ultimately affects all of us, for our personal fortunes are tied to stock markets. Pension and annuity pay-outs are directly related to the returns earned by insurance companies.

Certain types of market-linked endownment policies at maturity can realise vastly different pay-outs in a very short space of time. A policy that matures days before a stock market crash will pay out significantly more than immediately after a crash.

Even short-term insurance rates are affected by the fortunes of equity markets. What is perhaps less known is that South African short-term insurance companies sometime earn more on their investments on the JSE than from premiums. Any sharp drop in the market values of their investment portfolios is bound to lead to increased insurance premiums.

So before you congratulate yourself for not being caught up in a speculative bubble on the JSE, think again. Your financial ozone layer has just been punctured.

M3 increases at slower rate

THE rate of increase in the money supply showed a marked decrease in September, says the Reserve Bank.

Preliminary figures released in Pretoria show the rate of increase in the broadly-defined M3 money supply in September this year, compared to September last year, was 21,97 percent against a year-on-year figure for August of 24,60 percent.

The M3 in August was R135,478 billion compared with R108,729 billion in 1988.

The drop in September indicates that the rate of increase in the money supply is moving towards the targeted 14 to 18 percent for the year. 31/10/89

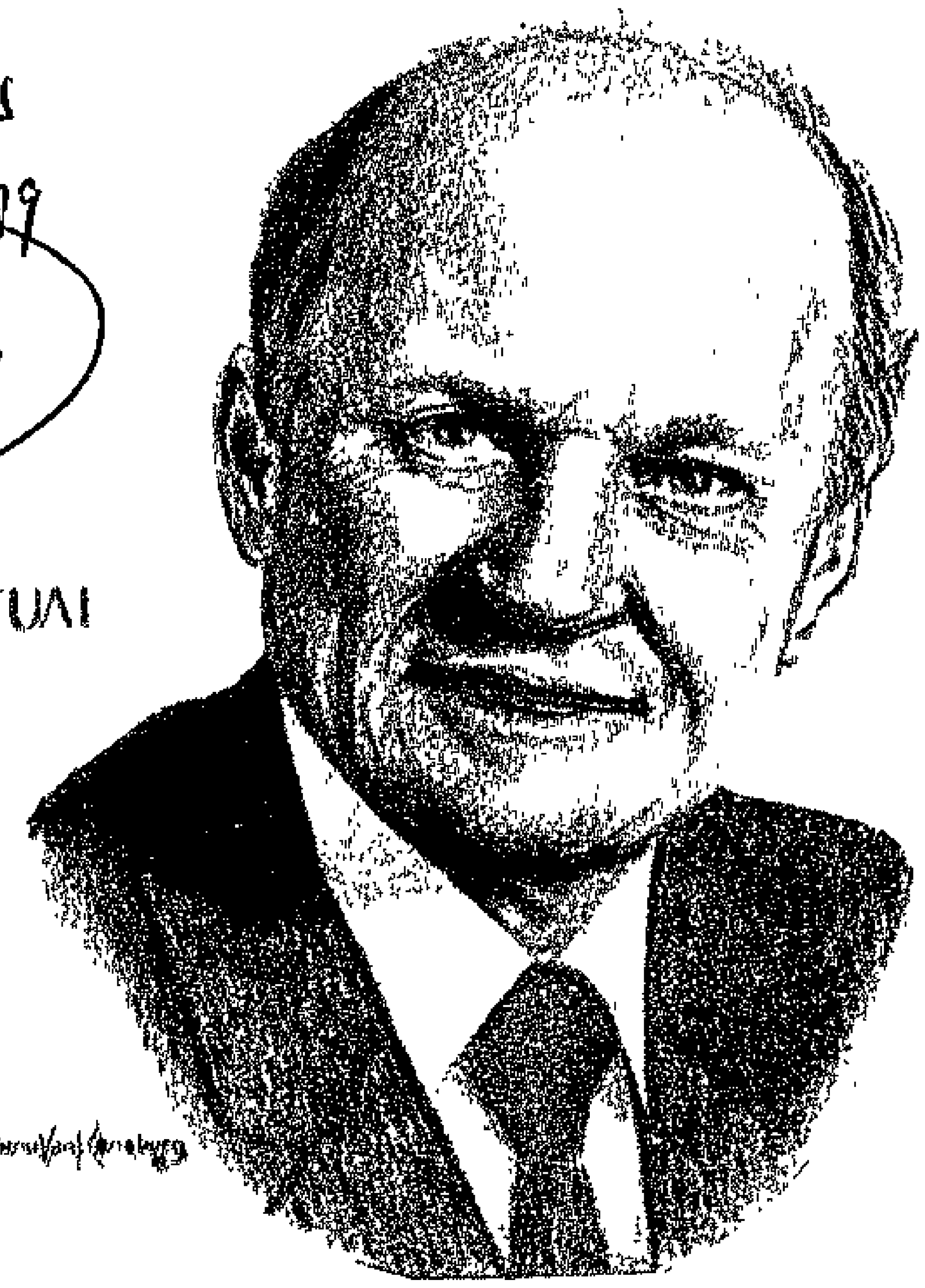
M2 money supply in August rose by 29,26 percent, while the narrowly defined M1 rose by 16,74 percent to R43,847 billion. July's increase in the M2 was 30,75 percent while the M1 rose by 9,94 per cent. The reason for the increase in the M1 figures was a major shift from long to short-term deposits.— Sapa.

BUSINESS PERSONALITY OF THE WEEK

Keeping OM at the top

L/t Argus
31/10/89
58

By DICK USHER
Business Staff



Mike Levett . . . meeting challenges

STAYING at the leading edge of technology where Old Mutual can continue to provide better benefits for members is one of the main challenges that chairman-to-be Mike Levett sees for the company.

Currently MD of Old Mutual, Mr Levett was elected chairman last week and will succeed Dr Jan van der Horst in March next year.

Cape Town-born Mr Levett, who is a qualified actuary and has spent his career with the Old Mutual, said this week that the technological challenge of information storage and retrieval was going to be a major factor in future efficiency of service to members.

In the past year Old Mutual wrote more than 600 000 new policies, each of which requires a file, storage space and has to be physically accessed.

"At some point it will make sense not to have files but to keep information on computer in a form from which we can get quick retrieval, a system which can capture visual information and produce it on a screen or print it out as needed.

"It's important to be on top of technology because it gives you an edge in the marketplace: through improved efficiency we can reduce costs and provide better benefits for our members," said Mr Levett.

"Big is not a problem, it is an asset because size gives you access to more knowledge and enables you to move more business."

Mr Levett, a graduate of University of Cape Town, joined the company in 1959 and worked at head office in the actuarial and investment areas until 1971 when he was seconded to Mutual and Federal.

He was appointed general manager of pensions at Old Mutual in 1981, general manager investments in 1984 and managing director in 1985. He is also chairman of Lydenburg Platinum and a director of leading companies such as Barlow Rand, Central Africa Building Society and South African Breweries, Nedcor and Safren.

Although he is assuming command of OM at what could turn out to be a very significant period in South Africa's history, Mr Levett takes the long view that befits an organisation which has been part of that history for 144 years.

"Old Mutual has been managed and grown to become what it is through many changes in the political and economic environment.

"The essence of our business is supplying and dealing with the provision of needs that people have for their future, and that business will continue whatever the changes that take place," he said.

A recent development in the life and pension industry has been the emergence of demands, largely motivated by trade unions, for the provision of provident funds rather than pension funds for members.

Mr Levett said OM had taken a very pro-active stand in this, with its BridgeBuilder scheme which provided a framework for people to decide what kind of benefit structure they wanted. "It's largely a question of giving people alternatives about making provision for their future."

Helping people secure their future needs is OM's arena in the financial marketplace and with an average of R33 million channelled into the company daily during the last financial year its concomitant responsibility is to ensure that the use which will best benefit members is made of these funds.

"We do not see or believe that it is our function to decide on what is for the social good," said Mr Levett.

(See page 3)

Keeping at the top

(From page 1)

"Investments must produce the best financial returns, otherwise you are 'giving' money to one group of people at the cost of another group which is a form of redistributing wealth.

"That is government's function, not ours. We operate by placing funds with those who give the best returns, because they are using money to develop business and generate wealth and employment, which is an important part of making a better country."

Uppermost in his mind is being part of an organisation with a young and extremely motivated management team.

"It's a privilege to be put in charge of this team and I will try to ensure that Old Mutual, for all its members and future members, will continue to be the leader in the South African life industry."

Rate war to carry on

S/Times 22/10/89.

By Robyn Chalmers

WORLDWIDE overcapacity in insurance and reinsurance is expected to prolong the South African rate war.

Santam Insurance managing director Oosie Oosthuizen has returned from an annual gathering of about 2 300 representatives of reinsurers and insurance companies in Monte Carlo.

58

Fierce

He says that because of the overcapacity, negotiations for the renewal of reinsurance treaties abroad were easier this year than for some time.

"Average rates for European industrial risks are now 20% below 1986 levels. Rates for some Australian and Latin American facultative reinsurance have fallen by over 50% compared with 1986 levels.

"The low rates in SA are, therefore, much in line with those worldwide, and look set to continue at low levels."

The reasons for the softness in world insurance markets include fierce competition among the major players in Europe, all competing heavily for a share of the post-1992 market.

Added to this is the fact that the world's insurance industry is looking financially healthier than for a long time.

Insurance companies have grown in size and their solvency margins have improved, meaning they need less reinsurance. The improved strength of the enlarged companies allows them to accommodate more business at lower rates.

Mr Oosthuizen says some Lloyd's syndicates have quit the LMZ market — a specific part of the London market relating to mixed excess of loss — and seek to write facultative and direct business instead.

(58)

Protests bring Sasria changes

By Robyn Chalmers

CHANGES in the rating structure of the riot insurer Sasria are likely after discussions between the Government and the insurance industry.

Insurers proposed an investigation into the SA Special Risks Insurance Association (Sasria) because of widespread dissatisfaction about high premiums and rates.

Sasria has the biggest fund of any short-term insurer — an estimated R2-billion.

Insurers complain that a good claims experience has not filtered down to the public.

Optimistic

Although domestic rates are good, those charged for commercial and industrial insurance can account for up to 70% of a company's total short-term cover costs.

SA Insurance Brokers Association (Saiba) spokesman Peter Lawrence says negotiations in the past six months between Sasria, Saiba and the Financial Institutions Office (FIO) have been rewarding.

"The FIO has been most co-operative and we are optimistic there will be changes in the rating structure and premiums next year.

"We would like Sasria to be deregulated and put into the hands of the private sector, but this will obviously take longer to bring about."

Mr Lawrence would like to see property rates decrease by a minimum of 25%, which is reasonable because of the good claims experience.

Sasria evolved after the 1976 Soweto riots when insurers realised that a facility for insuring against damage from political terrorism was essential.

In the 11 years since it was formed, Sasria has extended its cover to consequential loss and damage arising from non-political activities such as hooliganism. Last year, it broadened its activities to the TBVC countries.

Effectively, Sasria is run by the insurance industry, which has over the years been highly critical of it.

Willis Faber Enthoven says in its Insurance Portfolio journal that the association is secretive, bureaucratic, has excessively high premiums and is reluctant to meet claims.

"When Sasria was first established, the intention was that it would take over from conventional insurers the function of providing political riot insurance virtually as a public service.

"However, right from the word go the available cover was severely restricted, difficult to arrange properly and very expensive. Little has changed — even though the consumer has repeatedly said he wants changes.

"Is Sasria's main function now the protection of its enormous fund?"

DIAGONAL STREET

Allied's ogre puts the record right

S/Times 22/10/89

(58)

KEVIN de Villiers, managing director of Allied Group, agreed to see me at a few hours' notice.

"Our results will be announced on Monday, so I won't be able to discuss them. Do you still want to come?" he asked.

Having glanced through newspaper clippings about Allied, mine was the surprise when I met the man. He is painted as difficult to work for, difficult to get on with, and difficult to write about.

VOODOO

The degree of difficulty has been overstated. I noticed no voodoo dolls of his enemies, no deference from staff members, nothing really unusual about the chief of a new-look group which has come under fire for showing a slip in earnings where its competitors showed a rise.

On this point he poses a rhetorical question. "What is the net difference between taxed profits of R61-million plus R53-million, or the other way round? Nothing, it's just the order."

He says that Allied's return on capital dropped from 12,5% to 10% in the past two years whereas comparable operators' figures were the very opposite.

While disclosure requirements are so limited, one wonders who really earned what, and when it was earned. But Mr De Villiers is not critical of those who seek to knock him and his group.

"The earnings drop, and commentators have to offer reasons even if they are superficially arrived at."

Staff departures have hit the headlines almost as often as takeover rumours.

Mr De Villiers explains: "Three years ago this was a non-profit building society with a single product. Since then we have introduced an entire range of banking services and will have cheque accounts from July 1990.

"Obviously there has been a change in culture. Some could not adjust to the profit motive, others didn't want to.

CULTURE

If exactly the same management team were in place, it would be worrying."

Another flaw in the amateur analyst's view of the Allied is its size, being "too big to be specialised", yet "too small to take on the big boys".

Mr De Villiers waved a fat study undertaken by one of the world's biggest auditing companies. The conclusion is that in banking, there is no such thing as economies of scale. In short — if business grows by 20%, so do expenses.

KEVIN DE VILLIERS ... no voodoo dolls of foes

Nor does he believe in the view that South Africa is overbanked. He refers to it as overbankered. There is a difference. SA banks in the 1960s were like the old civil service — they retained all their staff members irrespective of whether they were good performers or dullards.

In the Seventies, the dullards had climbed a little, and often had superior performers reporting to them. The good people left.

In this decade, when competition hotted up to offer better service and so on, there was a scramble for staff.

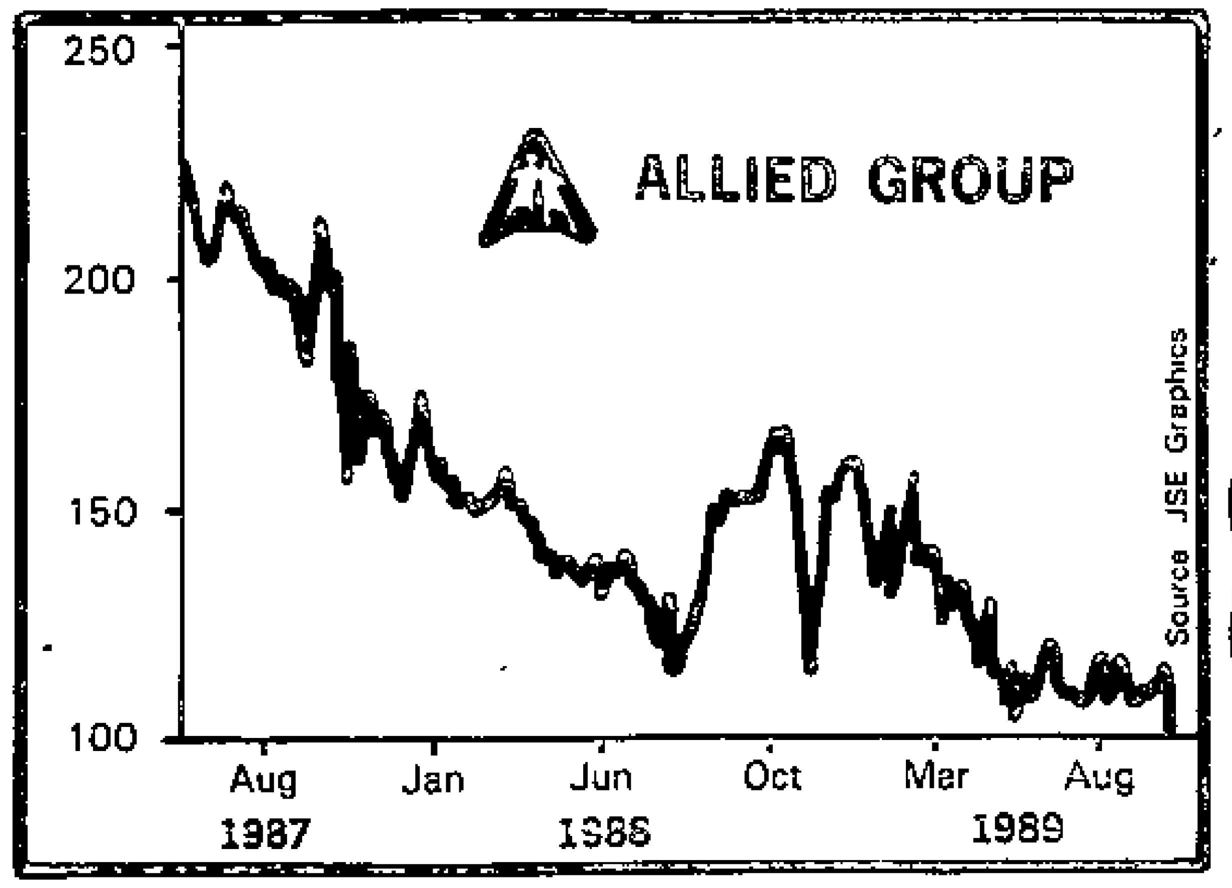
FOREX

Figures show that staff numbers in financial services grew at a rate 40% higher than the average for other industries. Banks' returns on capital have all dived.

"There is scope for tidying up. The overkill will disappear in the 1990s," says Mr De Villiers.

Since 1986 the Allied has bought a banking licence and introduced foreign-exchange facilities, money market dealing, corporate banking and instalment credit to individuals.

He dismisses talk that the dealing room cost an arm and a leg and is not used.



"We turn over R2-billion a month in forex and earn before-tax profit of between R400 000 and R600 000 a month. I estimate we have 3% of the forex market — from zero two years ago."

Indeed 40% of today's business comes from sources which did not exist three years ago. Mr De Villiers estimates that of the R100-million added to the balance sheet every month, R60-million comes from home loans, R10-million from dealing with private banking, R10-million from consumer instalment credit, and R20-million in corporate lending.

The Allied's capital adequacy is enough to last for four or more years, but this does not mean that it will necessarily wait so long to raise funds.

"If banks are back in favour and the Allied is popular with investors, and if we were sure that a rights issue would be well received, we might take the opportunity."

The Allied's average market share is 6% of all banking. In home loans it is about 14%. Mr De Villiers hopes that all market shares will top 6% within three to seven years.

Cheque accounts will come last for a good reason — they are expected to take 12 to 18 years to reach maturity.

DISCOUNT

A delay in the introduction of cheques also eases the burden on branch staff.

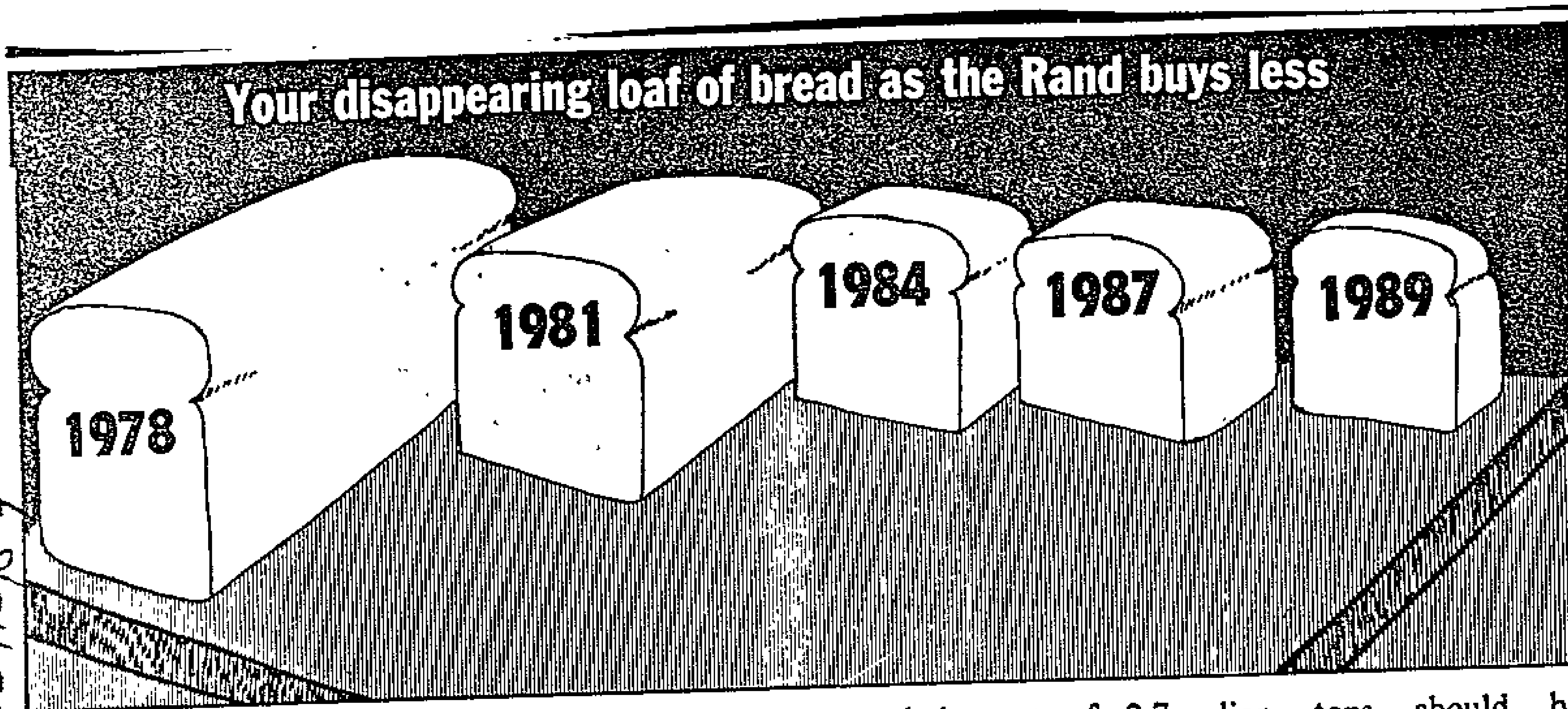
"Instalment credit is a monthly payment system akin to a bond repayment. With cheques, the manager has to make a hundred quick decisions a day — whether to bounce a cheque, or in not doing so, grant a loan."

So much for clients, but what about shareholders?

Mr De Villiers says that calculations on the group's capital adequacy allow for the dividend to grow by about a cent a year. If 11,5c is paid this year, Allied's shares are on a forward dividend yield of about 10%.

Dividend cover will grow as earnings rise faster than dividends. At 125c, the shares are at a large discount to net worth. They can be bought.

City Press 22/10/89



THE price of bread will increase by between 10c and 12c a loaf from November 1, according to radio reports.

The increase is expected to be announced on Friday.

This will be the second increase in the price of bread this year: in April, white bread went up 5c to 90c and brown bread 7c to 76c.

The final decision should be taken by the Cabinet on Wednesday.

The increase has been prompted by a higher wheat price, more expensive input costs for bakers and millers, a request by retailers for a greater margin of profit and gradual phasing out of the government bread subsidy.

The increase is in step with the government's policy of reducing overheads.

The bread subsidy cost about R17-million per annum.

Meanwhile, the Wheat Board has confirmed that the drought which caused widespread damage in the western Free State is likely to result in the expected harvest of 2,7-million tons not being realised.

A crop of between 2,3-million tons and 2,5-million tons should be reaped.

This may mean that some wheat may have to be imported. – Sapa.

Small investors wary after latest crash

22/10/89

City Press

CP Correspondent

THE small investor is not usually seen at the Johannesburg Stock Exchange and the latest crash in share values could make him even more wary.

The tumble on Wall Street echoed throughout the Johannesburg Stock Exchange this week as panic selling of shares by small investors pushed the JSE overall index down 10,6 percent to close at 2,388 points.

JSE dealers said small investors appeared to be yielding to the maxim "if there is to be panic, be the first to panic".

"But who can blame people for behaving like that?," asked finance broker Willie Ramoshaba of WR Consultants in an interview with *City Press*.

Ramoshaba said patriotism must have played a big part when government, economists and some analysts congratulated each other on the "excellent economic development" of the country in 1988.

He said they had overlooked:

- The 20 percent increase in national debt, combined with dangerously high growth in money supply;
- The sharp rise in interest on credit, which looks likely to climb in 1989; and
- The long-term downward trend in the gold price due to an oversupply on world markets.

"The development of the country is overshadowed by many economic and political uncertainties," said Ramoshaba.

"On the other hand, home loan foreclosures by lending institutions are 200 percent higher than they were this time last year, reflecting the squeeze of higher interest rates and living costs."

The Perm's senior finance and accounting general manager, Peter Hibbit, believes the increased foreclosure rate indicates a replay of recessionary conditions in 1984 and 1985.

"The squeeze will accelerate structural re-adjustments in the home loans market as institutions relate individual lending to individual risks."

Now JSE dealers hope the Iscor offer, which gives the public the opportunity to apply for 150 million shares at R2 each, will infuse fresh blood into the market – in the form of the small investor.

This positive move could be offset, however, by the threat of higher interest rates.

Perm goes to the people

S/Times 22/10/87

58

THE most important benefit of the Perm's social responsibility programme is that it has led to increased contact between blacks and whites.

The programme entails the allotment of R10 000 to every Perm branch. Employees at different branches then become directly involved in activities intended for upliftment.

The Perm's manager of operations, human resources, Jim McConnell, says the programme ties in with the company's policy statement. It specifies that voluntary, active involvement by all employees in the programme is a necessity.

Mr McConnell says: "This is not a fad, for us it is part of life. We do not give paternalistic handouts. Every employee involved in the programme works with those who need help.

"The programme is decentralised because we believe our people working in different branches are close to the community. They can identify areas which need attention far better than we can sitting in offices removed from direct contact with the issues at hand."

Mr McConnell says branch managers or employees approach him with projects which they believe need assistance. They brief him on what they require and how they will approach it.

"We then hand it over to them. They debit the social responsibility account number, and have absolute control over what happens to that money, and how they handle the project.

"They go into a township or a community and work together with the people to improve their quality of life in the way which they have identified as best."

This could mean rebuilding and refurbishing a school, or helping with the education of children of domestic servants in the northern suburbs of Johannesburg.

In the Western Cape, a Perm branch has identified the need for a hospice, and is working with the people of Guguletu to build one to serve the whole community and possibly surrounding areas.

In East London, Perm employees are working closely with an orphanage, taking children out for the day and incorporating them into a family unit or introducing them to aspects of life they have not seen before.

Senior general manager of operations Hugh MacLachlan says the Perm has not become involved in these projects for commercial gain or in the hope of attracting good publicity.

"We do not believe there is a place for straight donations, but think everyone benefits far more if employees become directly involved in the project and see it through.

"We have many projects on the go and have received a positive response from the people involved."

Down — but far from out

By Charmain Naidoo

CONSUMERS are surviving the ~~interest~~-rate crunch. (58)

Lending institutions say that ~~although~~ the cash-strapped public is pressed by the high cost of money, most people are hanging on to their homes, cars and durables.

The big three car financers — Wesbank, Stannic and Santam — say there has been only a small increase in repossessions.

Stannic general manager, business development, Ron Wynter says some vehicles are returned voluntarily when owners fall on hard times. S / Times 22/10/89

Santam assistant general manager, loss control, Francois du Pisani estimates a 10% increase in repossessions in the past few months.

"What is damaging is that resales are down. New cars that are repossessed are difficult to sell."

He mentions an offer of R21 500 for a new car with a trade-in value of R28 000.

Iscor offer ends soon

58 Star 23/10/89

Finance Staff

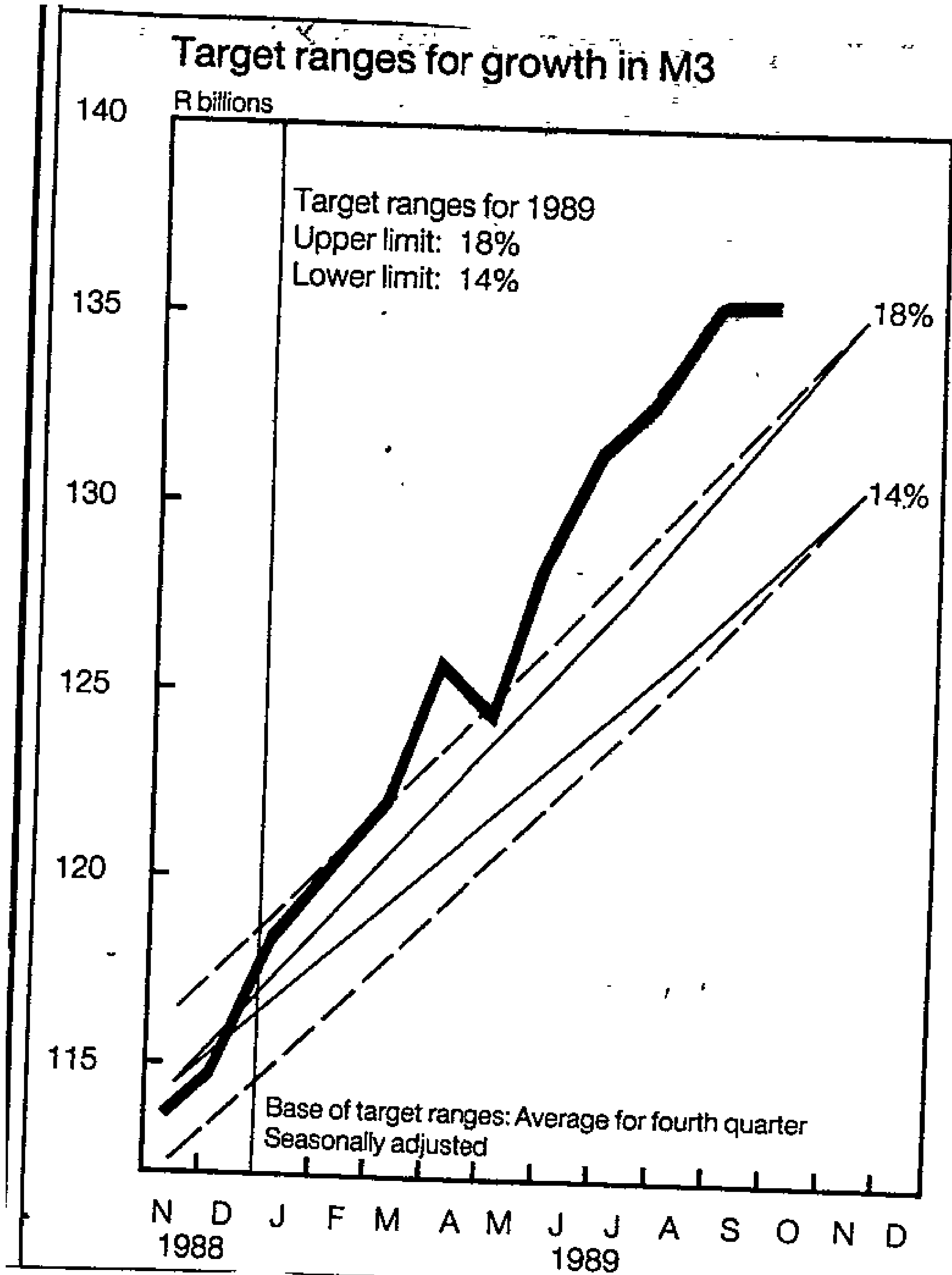
Demand for Iscor shares has been satisfactory and the plunge on the Johannesburg Stock Exchange had little impact on potential investors, a merchant banker involved with listing said today.

Mr Bernard Kaiser of Senbank said the flow of applications for the 150 million shares on public offer "has been satisfactory although it is a bit early to give exact figures".

The offer to the public closes on Wednesday at noon. The result of the application will be announced by the Minister for Privatisation, Dr Dawie de Villiers, a few days after the close, possibly on Friday.

Growth of money supply declines

Star 23/10/89 58



Finance Staff

The growth in money supply slowed significantly in September.

Preliminary figures released by the Reserve Bank on Friday show that the year-on-year growth in the broad money supply measure, M3, grew by a provisional 21,97 percent, substantially below that August growth figure of 24,6 percent.

Economist Louis Geldenhuys told Sapa at the weekend that the sharp decline suggested the economy had already turned down.

He believed interest rates had peaked and that the psychological impact of the recent increases would make borrowers more cautious about seeking new credit.

Mr Geldenhuys said the tendency to beat inflation by borrowing must be broken and that interest rates should not be allowed to fall too quickly.

While the year-on-year growth of M3 was slightly reduced in September, it was still outside the official target rates set by the Reserve Bank in February this year.

However, the September decline indicates that the rate of increase in money supply is moving towards the targeted 14 to 18 percent for the year.

Reserve Bank Governor Dr Chris Stals has said that restraining money supply will be one of his major tools in combating the double-digit inflation rate.

The revised M3 figure in August was R135,478 billion, compared with R108,729 billion in 1988.

M2 money supply in August rose by 29,26 percent, while the narrowly defined M1 rose by 16,74 percent to R43,847 billion.

July's increase in M2 was 30,75 percent, while M1 rose by 9,94 percent.

The reason for the increase in M1 figures was a major shift from long- to short-term deposits in anticipation of the increase in Bank rate and the resulting hike in short-term interest rates.

Bid to buy Board fails

Cape Times 23/10/89

By AUDREY D'ANGELO
Financial Editor

THE 150-year-old Cape Town-based Board of Executors has successfully fought off a hostile take-over bid by the Johannesburg-based Investec Bank.

Investec executive chairman Mr Bas Kardol conceded defeat on Friday afternoon.

Soon after 5pm he told the Board's chief executive, Mr Bill McAdam, that his company would withdraw its Supreme Court application against the Board and its holding company, Mercury Trust.

Investec had hoped to take over the Board by buying control of Mercury for R50 million. The court action was to contest the validity of some of the Board's own shareholdings in Mercury and the right of those Mercury directors who are also directors of the Board to vote against Investec's offer.

He admitted in an interview yesterday that there was no point in going on with the take-over bid after an announcement on October 5 that Liberty Asset Management — part of the Liberty Life group — had bought 27% of the Board from Mercury, leaving Mercury with only a 13% holding in the Board.

● Board of Exec's plans — Page 11

Options galore in unit trust market

Star 23/9/89

DEREK TOMMEY

58

INVESTORS are continually being told that if they want to secure their savings against inflation they should buy units in a mutual fund. But then comes the rub. There are 31 units trusts operating in three very different areas and the ordinary investor often has great difficulty in deciding in which to invest his money.

However, all is not lost. The Association of Unit Trusts issues a handbank every year outlining the investment aims of the various unit funds, and also giving details of their track records.

There are 12 general equity funds. They are:

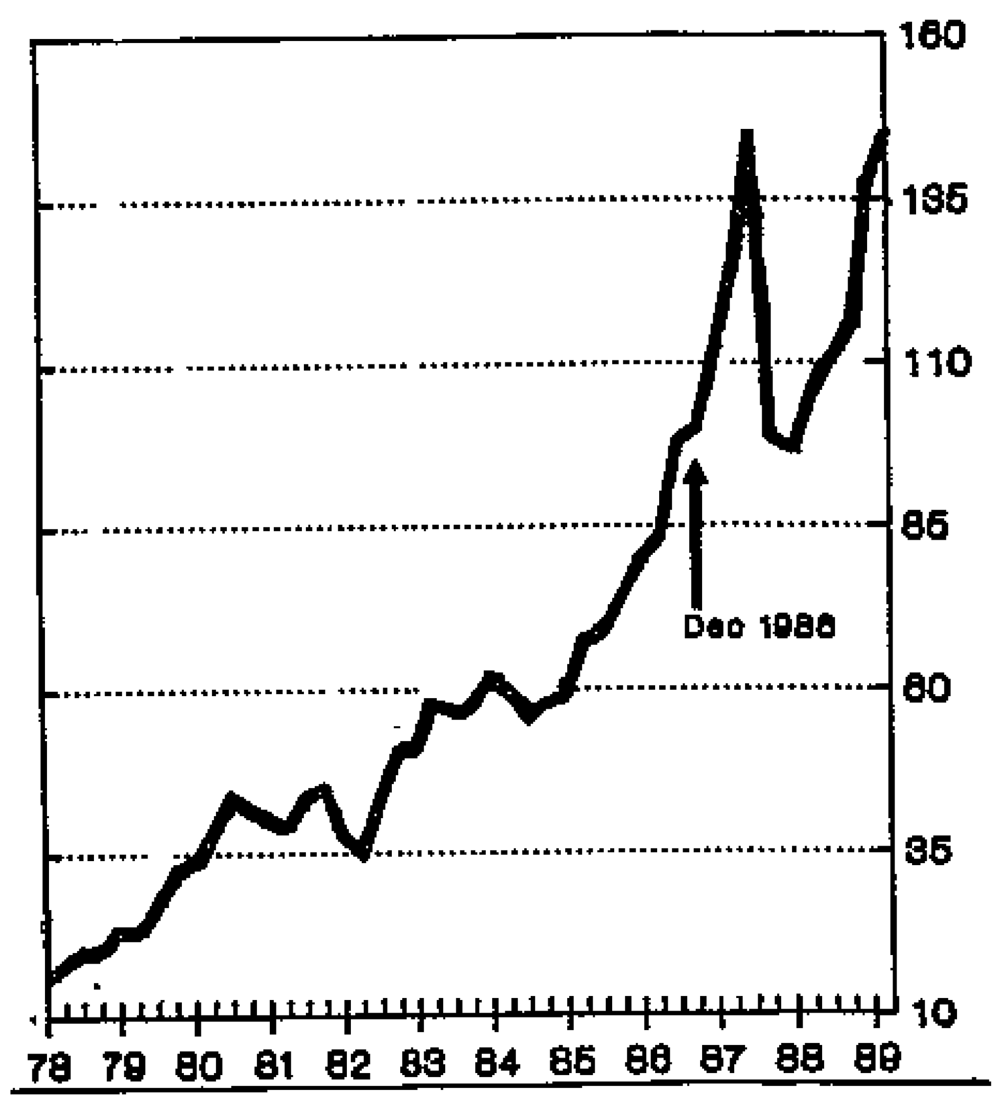
Guardbank Growth Fund which is a balance fund aiming for long-term growth in capital and income and is heavily invested in industrial shares. In 1988 its unit price appreciated by 26,3 percent and it paid dividends equal to 5,8 percent of its December, 1987 "clean" unit price.

Lifegro Unit Trust Scheme (soon to change its name to Momentum). This had a difficult launch coming to the market just after the 1987 crash. It aims to provide the investor with steady growth in income and capital and maximum stability of capital. In its first year of operation it acheived 15,3 percent capital appreciation and the dividend yield was 8,43 percent.

Metboard Mutual Fund operates a focused portfolio aimed at enhancing performance and improving risk/reward ratios. It was fairly liquid at the end of 1988. Last year it showed 12,0 percent capital appreciation and the dividend yield was 7,6 pecent.

NBS Hallmark has a portfolio biased towards rand-hedge stocks and property counters. Only recently established, it has no 1988 track record.

Norwich NBS Unit Trust aims to enhance performance by investing in smaller companies. It too was established late last year and has no 1998 track record.



MONEY MAKERS: Capital appreciation of unit trusts since 1978.

Old Mutual Investors' Fund has been going for 23 years and today is the biggest of all. Its targetis increasing dividends and long-term growth. Capital appreciation last year was 20,5 percent and the dividend yield was 5,5 percent.

Sage Fund is the oldest of the funds, being established in June, 1965. It has a broad spread of investments which includes an overseas portfolio. Capital appreciation last year was 22,6 percent and the dividend yield 5,6 percent.

Sanlamtrust is a general fund with a diversified portfolio for long term growth. Its units appreciated by 10,0 percent last year and the dividend yield was 5,6 percent.

Southern Equity is newly established and aims to provide unit holders with capital growth and a steady flow of income. It has no 1988 track record.

Standard Bank Mutual Fund aims for long-term capital appreciation. Its units grew by 17,6 percent last year and its dividend yield was 7,8 prcent.

Syfrets Growth Fund describes itself as a general equity fund and showed 18 percent capital appreciation last year and had a 5,7 percent dividend yield.

The UAL Unit Trust was formed on 1967 and aims for above average returns both in terms of capital appreciation and income. Last year its units apprciated 22,1 percent and it had a dividend yield of 6,0 percent.

Of the 11 specialist funds six are directed at investing mainly in mining and resources. They had mixed performances in 1988, according to their exposure to gold shares which fared badly. These funds are: **Guardbank Resources** which achieved a 15,4 percent capital appreciation last year and a 6,5 dividend yield; **Old Mutual Mining** which showed a 5,2 percent capital depreciation and a 5,8 percent dividend yield; **Sage Resource** which has a 1,9 percent capital appreciation and a 5,6 percent dividend yield in 1988; **Sanlam Mining** with a 2,4 percent capital appreciation and 6,5 percent dividend yield.

Southern Mining which had no track record last year, and**UAL Mining and Resouces** which showed capital appreciation of 4,2 percent and gave a dividend return of 5,8 percent.

Other more "specialised" funds are **Sanlam Dividend Trust** which aims to provide a high immediate income and showed a 3,1 percent capital depreciation and a 7,2 percent dividend yield in 1988; **Sanlam Index Trust** which aims to stay fully invested and achieved a 22,0 percent growth and a 5,1 percent dividend yield; **Sanlam Industrial** which has most of its investments in industrial shares and grew by 20,4 percent last year with a dividend yield of 6,4 percent.

Standard Gold which invests in gold and mining financials, and had a capital loss in 1988 of 18,6 percent and a dividend yield of 5,8 percent.

Last but not least there is **UAL Selected** which invests in smaller companies, recovery and special situations. It achieved a capital appreciation of 7,5 percent last year and its dividend yield was 6,3 percent.

Of the seven "income" funds dividend yields were fairly close last year ranging from 12,0 percent to 14,6 percent. However, four of the five with track records in 1988 showed small capital losses.

BUILDING SOCIETIES

ARGUS 23/10/89 58

NBS breaks its lending records in spite of high interest rates

By TOM HOOD,
Business Editor

APPLICATIONS for home loans broke all records in the past two months at Natal Building Society, in spite of high bond rates.

"August figures broke all records only to be beaten by the September results," says Mr Trevor Olivier, NBS assistant general manager loans.

"We have set a target of 20 percent growth for the year and in the first six months of our financial year have already achieved 12 percent.

"There has been a definite increase in loans granted in the black urban areas and the national states. This represents 24,6 percent of the new grants. The bulk of loans, 62 percent, are in the other markets."

Mr Olivier attributes the record results to a combination of factors.

"There has been an increase in demand generally, which shows that the current high interest rates have not detrimentally affected the housing market. But who is to say how much better it would be if the interest rates were lower?"

Although a further rates rise was imminent, he hoped rates would drop in the early part of next year.

"If that happens we can look forward to a very buoyant housing market," he said.

He also attributed the increases to a fairly aggressive marketing thrust in the past months where NBS introduced various products to attract the home buyer, including a "home investor" package allowing borrowers to take advantage of unit trust and endowment insurance options in repaying loans.

Mr Olivier said he expected the introduction last week of the NBS home buyers' guarantee certificate to atteract new borrowers.

"We are able to provide prospective home owners with a loan guarantee before they decide on a house. This is an attempt to speed the process of buying a home.

"We intend to establish a 'home buyer guarantee' in the market place as a strong negotiating tool as it will remove the ambiguity and uncertainty from buying a home. It makes the buyer a cash buyer so he can negotiate from a position of strength because the certificate is proof of intent and worth."

But in spite of this positive trend, many home owners were facing hardship over their repayments, and this would probably increase if interest rates rose, said Mr Olivier.

"One must expect an increase in repayment arrears, bearing in mind the increased volume of lending, especially when coupled with the current high interest rates.

Home owners in difficulty could can get help by taking advantage of the government's deferment option.

Call for action against SA

Sowetan 20/10/89

SA PRESS ASSOCIATION

THE National Medical and Dental Association of South Africa (Namda) and the Health Department of the African National Congress ended a three-day meeting in Harare yesterday with a call for United action against South Africa by health organisations and the Mass Democratic Movement.

A joint statement issued by Namda and the ANC at the end of the meeting said the struggle for an equitable health system in South Africa could not be isolated from the struggle for national liberation, the National News Agency *Ziana* reports.

"We recognise the leadership of the African National Congress of South Africa in this struggle," the statement said.

It also reaffirmed "the central role of Namda in organising doctors and dentists for an equitable health system in South Africa" and urged all organisations involved in the struggle against apartheid to intensify the struggle on all fronts.

Isolated

Apartheid health structures and the supporters of these structures should be isolated, while at the same time support should be given to health to health professionals and organisations actively committed to the eradication of apartheid, it said.

General political questions as well as specific health issues were discussed during the meeting, includinjg the implications of negotiations with Pretoria.

"In this regard (negotiations) the Organisation of African Unity's Harare Declaration should be the focus of discussion inside the country," the statement said.

The declaration was originally drafted by the ANC and has been adopted by the OAU and the 102-member non-aligned movement.

Forty Namda delegates from all over South Africa, including Namda president, Diliza Mji and South African Academy of Family Practice vice-president, Stanly Levenstein, travelled to Zimbabwe to take part in the meeting here with 20 ANC officials.

The ANC team included national executive committee members, Mr Henry Makgoti and Mr Steve Tshwete.

The statement said delegates rejected military conscription, supported the demands of the End Conscription Campaign and gave qualified support to community health services.

Investec laughs off two failed bids

(58)

S/Times 29/10/87

By David Carte

BAS Kardol and Investec are not stopping to wipe egg from their faces in the wake of their failed bids for Corbank and Board of Executors.

Mr Kardol says: "There's no egg on our faces. You get this sort of thing when you are pro-active. We did not think either bid was a foregone conclusion. Failure was always a risk.

"Good luck to BOE. They've seen us off. I hope they are happy with their new partner."

Costs

Mr Kardol says esprit de corps at Investec is undented.

"The bid occupied three of us fully for about a month. It did not affect operations. One gratifying thing that emerged is that the operational people can manage quite well without us.

"It also did not cost an arm and a leg. The costs were mostly absorbed by the time we reported interim earnings up 25%. There is no fear that the bid will reduce earnings growth for the year."

Managing director Stephen Koseff says failure of the bids means only that it will take a little longer to get to the destinations Corbank and Board would have taken Investec.

"Had we got Corbank, we would have added a billion rands to our balance sheet and been a year or two further down the road in foreign-exchange dealing. They have a gilt fund and a merchant bank lending operation with a useful book. We didn't want their overheads however. There would have been a lot of rationalisation.

"Had we captured BoE, we would have grown in the trust area and improved our penetration of the Cape market. Now we simply have to achieve our targets on our own."

Wasn't it foolish to bid for the Board once management had spurned Investec's overtures? Wouldn't staff members — and customers — have left in droves if Investec had succeeded?

Mr Koseff says: "We would have given them their independence, but if some staff members left, it wouldn't have been a problem. We have good people and we would have needed to reduce numbers anyway. As to customers, most would have decided according to quality of service."

Mr Kardol and Mr Koseff accept that there are few other acquisition prospects in financial services and that Investec has to grow organically.

Management has outright control of Investec, so there is little prospect that some predator will get it. Mr Kardol and Mr Koseff both sound amenable to negotiation with big sluggish competitors — provided they remain in the driving seat.

Targets

Mr Kardol showed me a presentation on Investec. He says Investec is a medium-sized player in niche markets. Its targets are State and parastatal organisations, institutions, medium to large corporates, professionals and partnerships, as well as high net worth individuals. Investec is not interested in retail banking.

Investec, says Mr Kardol, is active in corporate finance, project finance, trading, treasury and foreign exchange, banking and property. Metboard is its trust company. There are branches in Johannesburg, Cape Town, Durban and Pretoria.

Founder Ian Kantor ran the booming international division with an office in Amsterdam and associates in Zurich, Geneva and London. The foreign division does corporate finance, international taxation, foreign exchange, management of both commercial and financial rands, underwritings, listings, rights issues, and gives advice on international trusts.

It also trades SA debt to be used for refinancing of buildings, plant, machinery and working capital both inside and outside the standstill net.

It has grown fast and is starting to make meaningful contributions to profits.

Mr Kardol says Investec tries to spread its earnings base so that no source accounts for more than 15% of the total. It seeks to increase annuity income relative to volatile earnings.

It gives operational autonomy under centralised policy and planning control.

Volatile

Its exposure per client has to be less than 1% of assets or 10% of share capital and reserves. It matches its borrowing and lending rates, also the length of its deposits and its lendings. It also hedges open positions.

Mr Kardol claims that Investec has outgrown every listed bank and is confident it will continue to do so.

In the past three years, taxed profit grew from R7-million to R11-million to R14-million and there is no reason to expect a slowdown from the growth figure of 23% for the past five years.

Allied income up 19%

CAPE TIMES 24/10/89

BY BRUCE WILLAN

THE Allied group has reported significant gains for the six months ended September 30, 1989 with total assets up 19% and income after taxation up by 25% to R31,7m.

An interim dividend of 5,5c a share has been declared.

Commenting on the results, directors say the progress made in all spheres of banking have been "significant".

They add that an early commitment to high quality systems, excellent financial control and rapid but tightly controlled expansion of the Allied product range is starting to bear fruit.

Directors also made reference to the launch of the new cheque account system for July 1990, and to the fact that Allied is likely to become the first former building society to provide a full range of domestic and international banking services to SA consumers and corporates.

NBS lifts earnings by 33%

Cap Times 24/10/89

DURBAN. — NBS Holdings ended the first half of the current financial year with a growth in earnings of 33% to 33,2c a share.

An interim dividend of 11c was announced — an increase of 29% on last year's distribution.

Advances grew 14,5% (R501m) in the first six months which is also an increase of 29% over the same period last year.

NBS Holdings MD John Gafney says this rate of growth was "most satisfactory especially in view of the very competitive market conditions".

He said the building society had managed to maintain its share in the home loan market.

"The outlook for growth in advances in the next six months remains positive, when the extent of applications on hand is taken into account," he says.

Dividend growth had again materially exceeded the rate of inflation, while still allowing the group to increase its dividend cover.

Gafney said that operating expenditure was contained in the first six months and, as a result, profit margins continued to improve.

Of the diversified activites NBS Bank was now contributing more significantly towards growth earnings as its asset base develops. — Sapa

Buoyant NBS lifts earnings

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Dividend growth again exceeded the rate of inflation, while still allowing the group to increase dividend cover.

Mr Gafney says operating expenditure was contained and, as a result, profit margins continued to improve.

NBS Bank is contributing more significantly to growth earnings as its asset base develops.

"Notwithstanding current market conditions, group earnings for the next six months are expected to exceed those of the first half-year," Mr Gafney says. — Sapa.

(58) Star 24/10/88

The Star Finance

Allied improves financial standing

Star 24/10/89

By Derek Tommey

Shareholders in the Allied Group have had a testing time in the past few months. Rumours of take-overs, reports of staff resignations and the failure of Allied's share price to perform have cast a considerable shadow over this bank-cum-building society.

But Allied shareholders can now sleep more easily. Profit figures issued today show that the group's financial position has greatly improved and that the ground appears to have been laid for further substantial profit increases in the months and years ahead.

The figures show that the Allied has at last caught up with the rise in interest rates and is having far more success in balancing its borrowing and lending activities. Net income from interest jumped 36,8 percent in the six months ended September to R158,6 million. This compares with net interest of R115,9 million in the same six months a year ago.

The figures also show that Allied is accelerating the generation of income from non-building society activities.

The increase in income from lending and other activities boosted total income by 45 percent from R144,2 million to R209,6 million.

Non-interest expenses increased fairly sharply, by 44 percent from R110,1 million to R158,5 million, leaving net income before tax at R51,1 million, which is 49,9 percent more than the R34,1 million achieved a year aago.

However, this significant profit increase could not be fully passed on to shareholders because Allied's tax rate also jumped — from 25,8 percent last year to 38,0 percent this year. This resulted in the tax bill more than doubling, rising from R8,8 million to R19,4 million. This left a taxed profit for the six months ended September of R31,7 million equal to 10,7c a share. Nonetheless, this was a commendable 25 percent increase on last year's R25,3 million equal to 8,6c a share.

But the dividend did not follow the profit rise. The dividend has been raised 10 percent from 5c to 5,5c a share, conforming with the policy current in financial circles of paying dividends covered twice by earnings.

Allied's total assets at the end of September at R9,3 billion were R1,5 billion (19,2 percent) higher than a year ago. Advances rose 15,5 percent to R7,4 billion.

Prepared for the big day ... Lynn Tyack with her team of assistants in the background at the Sanlam Centre, Johannesburg, ready to process the expected last-minute rush of applications for Iscor shares. The offer was due to close at noon today.

Cautious welcome for economic plan

Star 25/10/89

The Democratic Party has welcomed State President Mr F W de Klerk's move to investigate urgently the effective co-ordination of South African economic policy, but warned that the Government would have to be strong to implement it.

Opening the annual congress of the Afrikaanse Handelsinstituut in Cape Town yesterday, Mr de Klerk said co-ordination was of the greatest importance in a time of dynamic change.

Mr Harry Schwarz, the DP's finance spokesman, warned today that the proof of the plan would be if the Government was strong enough to implement it.

He said that Mr de Klerk's predecessor had also devised good plans but had never put them into practice.

"Whatever plan they come up with is going to have to be tough and there are going to be powerful interest groups who will lobby against it."

Mr de Klerk called on SA's business community to join the Government, as partners in a spirit of realism and hope, in building a prosperous and stable country.

The last decade of the century provided an opportunity for SA's public and private sectors to work together to "lay a new foundation for a country that will be stable, where there will be room enough for everybody and which will provide hope.

He said he was aware there were doubts in the private sector about the efficiency of co-ordination of economic policy.

He and his Government would make it their task to remove all shortcomings in structures for implementing economic policy.

"A document is being prepared which will critically review the present status of our various programmes in the economic field.

REVISION

"Furthermore, this document will also make recommendations with a view to revision, adjustment and proper co-ordination of the execution of programmes."

Mr Schwarz said he could not pass final comment, but had no doubt that it would entail some form of internal industrialisation, a policy of stimulating industries, such as black housing, that do not rely heavily on foreign exchange.

At present, the economy could not grow because of the need to cut down on imports to maintain a positive balance of payments to repay the country's foreign debt.
— Political Correspondent-Sapa.

Wall Street dip unlikely to rattle JSE

58

Star 25/10/89

Finance Staff

The Johannesburg Stock Exchange and the applications for Iscor shares are expected to be largely unaffected by the latest volatility on Wall Street.

After initially plunging by about 3 percent in the first hour of trading yesterday, shares on the New York Stock Exchange recovered strongly in the afternoon. The Dow Jones share index ended the day only four points down at 2657,79.

News of Wall Street's plunge sent equities in London sharply lower, but had little impact on trading in the Far East.

JSE analysts do not expect a sharp drop when the market opens today "as the share market is sheltered by the slight recovery in the gold price", an economist said.

Gold rose by $3 in New York yesterday to close at $369,50.

Potential Iscor investors, already uneasy after the JSE's 10,6 percent fall on October 16 in response to the near-crash in New York three days before, could be unnerved by what is seen as evidence of the stock market's extreme vulnerability.

But it is estimated that by yesterday, two-thirds of potential investors had already posted their applications.

● See Page 30.

Frigate set for successful JSE launch

Star 25/10/89

58

Mike Stanley — Started with just R35 000.

By Derek Tommey

If anyone doubts that South Africa is a land of opportunity they should speak to Mike Stanley. Five years ago at the age of 35 he decided to give up his steady job at Murray and Roberts and to go into business for himself.

A civil engineer, he mobilised R35 000 and set up his own contracting business.

Today the Frigate group, the direct descendant of his contracting business will be listed in the Mining-Coal section of the Johannesburg Stock Exchange.

Frigate comes to the boards after raising R8,24 million with a private placing of 10,3 million shares at 80c. All this money went to the company to finance future expansion.

With 33 million shares which are expected to trade at between 90c and 100c — and possibly higher — Frigate will have a market capitalisation of around R33 million.

Soon after starting his contracting business he merged it with a plant hire firm trading under the name of Frigate and acquired a half share in the enlarged operation which it was decided would concentrate on civil engineering and contract mining.

It was soon found that contract mining was a bread winner. In 1986 Mr Stanley took over the company completely and in 1987 it started working its own open-cast coal mines.

Today it has three collieries producing 3,2 million tons of coal a year. As these are worked out Frigate will be opening new ones increasing sales marginally to 3,4 million tons.

Mr Stanley said that the aim was to produce low volumes of high quality coal rather than large amounts of poor grade coal which fetch less in the market. Frigate supplies coal to the domestic market, to Sasol and to the export market.

There was no shortage of coal for export or of buyers, said Mr Stanley. The difficulty is getting the coal to the coast and having it loaded into ships.

Frigate is exporting coal through both Durban and Maputo.

The company also engages in contract mining and this produces some 7 percent of the company's turnover.

Frigate sees itself as being in the applied equipment business and the only reason it employs people is to operate the equipment, he says.

The company's central philosophy is to mine mineral deposits for which sales outlets can be clearly indentified and which may be too small to attract the larger mining companies.

Group turnover, which was R9,0 million in the 12 months to June, 1986, jumped to R39,75 million in the 12 months to June, 1988, and is expected to reach R71,8 million in the present calendar year.

Taxed profit rose from R872 million in 1986 to R3,1 million in 1988 and is forecast at R5,0 million this year. This is equal to 15,1c a share on the 33 million shares. But this is a misleading figure as the increase in the share capital to 33 million shares and receipt of R8,2 million raised by the share issue, happened only in mid-October.

Earnings for the year ending December, calculated on the average issued capital for the year, should equal 19,9c a share which seems a fairer figure. Looking ahead, Frigate visualises earning R7,6 million next year, R9,0 million in 1991, and R12,5 million by 1995.

Frigate intends paying a dividend of not less than 2,2c a share for the two-and-a-half months ending December, equal to an annualised dividend yield of 12,5 percent on the 80c a share at which the shares were placed.

Frigate shares could be a profitable investment. The company has shown it knows how to operate effectively and efficiently. It is unlikely to grow into a major coal producer in the near future as this would be alien to its method of operation. But it seems probable that it will become one of the more important medium-sized coal producers.

Cape Times 26/10/89 58

Sanlam's income floats past R6 000m

By AUDREY D'ANGELO
Financial Editor

SANLAM has lifted premium income past the R6 000m mark for the first time, and is the first life office in SA to do so, MD Pierre Steyn announced yesterday.

Giving the insurance giant's results for the year to September 30, Steyn said an average of 2 000 new individual policies were issued every day.

Benefits paid to policyholders and other beneficiaries rose by 26% to R2 436m. Investment income of R2 451m was earned for policy holders — 41% more than last year.

He said that in many respects it had been a difficult year for the life industry. Figures released by the Life Offices Association (LOA) had shown that total premiums for the industry had increased by less than 6% in the 12 months to June 30.

Sanlam's premiums, in contrast, had grown by "a highly satisfactory 17%."

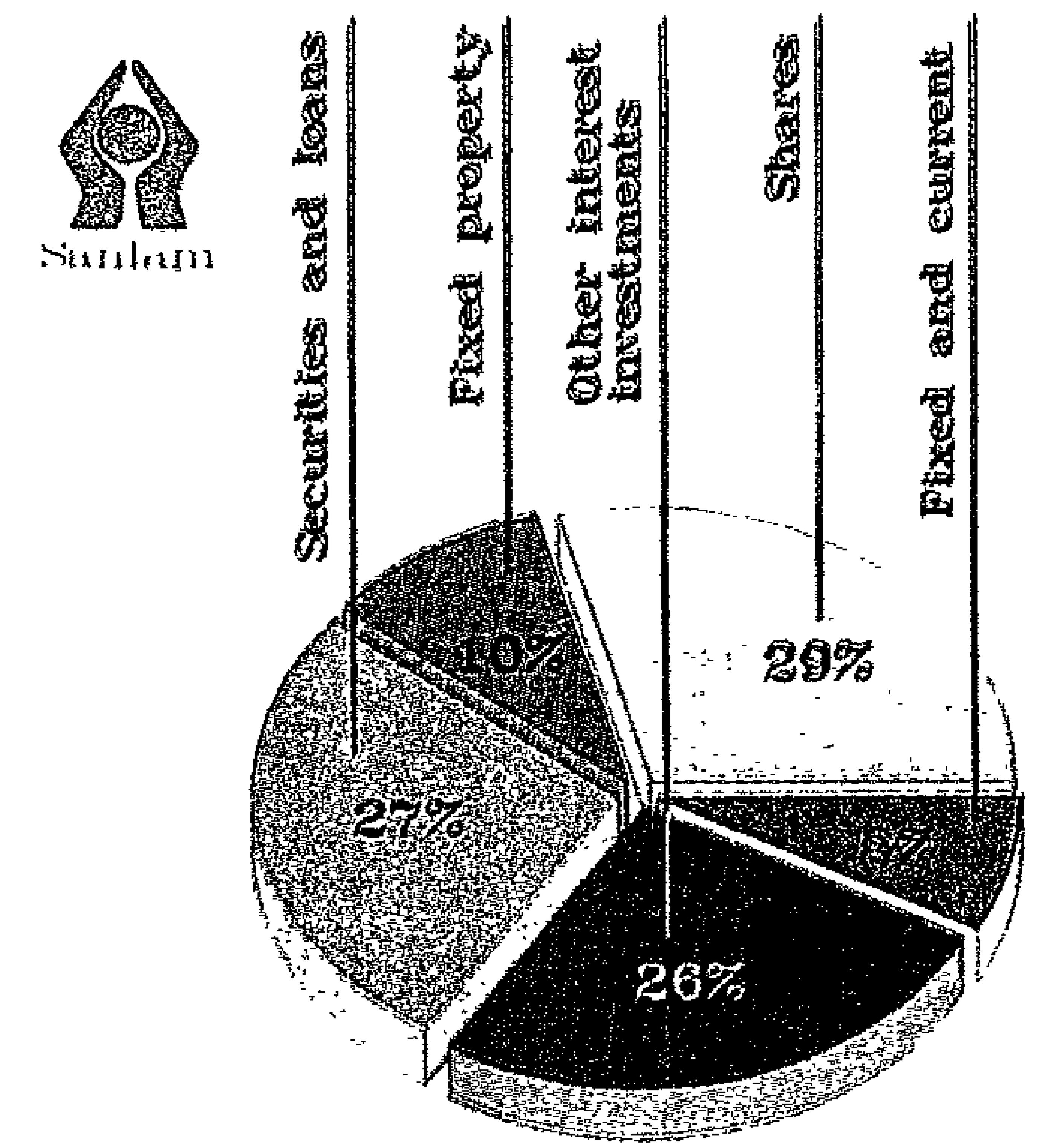
Steyn said he was particularly happy about the increase of 29% in recurring individual premiums, which were the backbone of Sanlam's business.

In addition to this, the group benefits sector had pushed premium income up by about R300m to more than R2 300m. Sanlam had "thus maintained its position as leader in the area of group and pension business, with a market share of more than 30%."

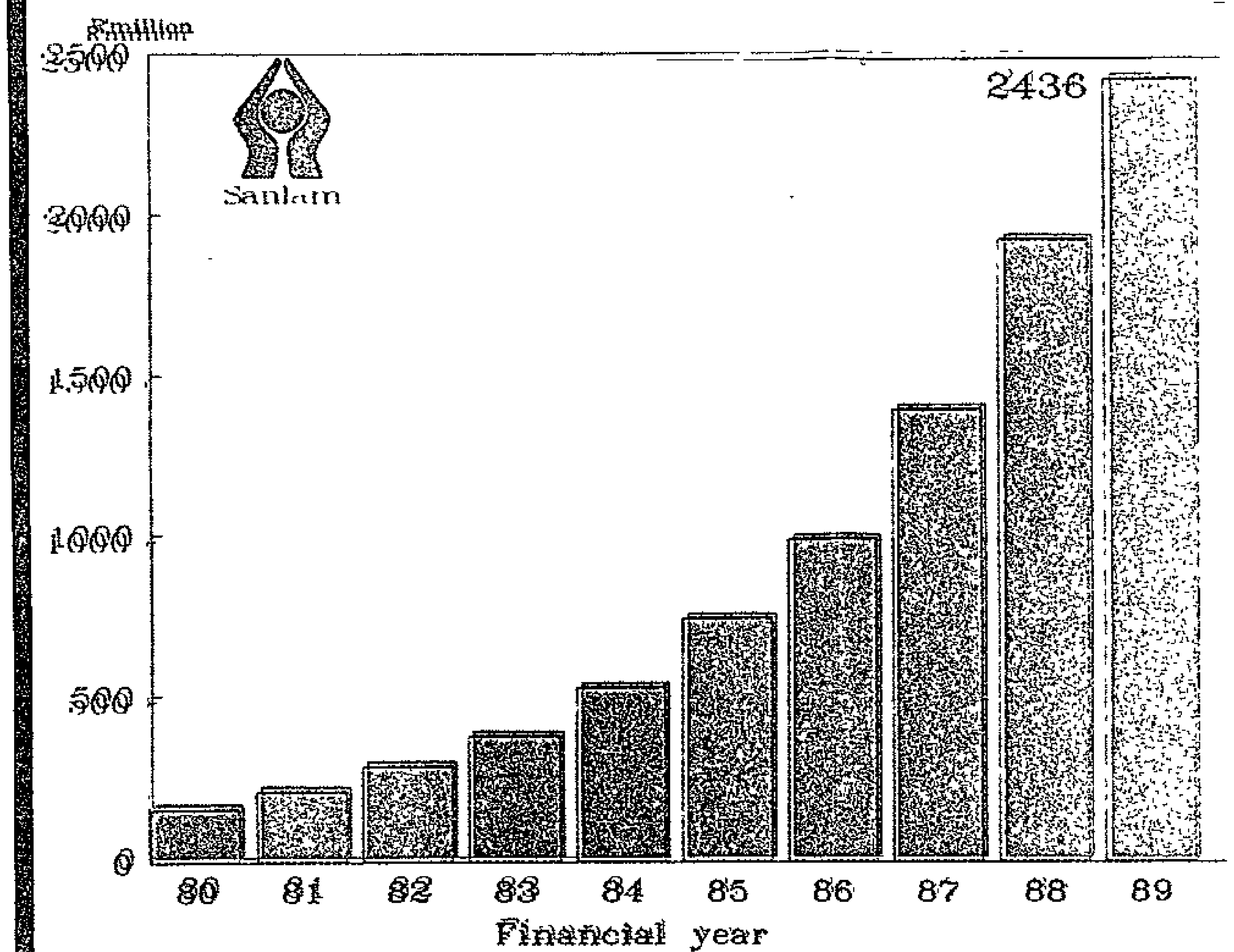
Support from English speakers had grown in the past five years from 23,3% on new premiums to 28,6%.

"Successful investment strategies and sturdy growth in dividends pushed investment income up to R2 451m. This income has increased by an annual average of 32% in the past decade.

"Total income reached R8 487m. This means that on average some R34m found its way to Sanlam each working day."



This pie chart shows how Sanlam is currently investing policy holders' funds.



Sanlam is currently paying out as much in one day in policy benefits as it did in one month in 1978. In the past year, almost R1 500m was paid out under individual policies and R1 000m in group benefits.

(58)

BUSINESS

The fears that sent the JSE into panic

W. Mail - 20-26/10/89

This week's crash on the Johannesburg Stock Exchange was not only triggered by the plunge in share-prices elsewhere in the world. KURT JENSEN reports

EVEN with hindsight it is difficult to explain what went wrong on the Johannesburg Stock Exchange this week.

Certainly panic selling by private investors following Wall Street's seven percent decline last Friday was a major reason. But it was not enough.

Even before the plunge share prices had shown a noticeable weakness which many analysts argue was just accentuated by this week's fall.

But there is enough evidence to suggest that near-panic selling on Monday was the immediate cause of the R40-billion wipe-out on the JSE.

After Wall Street had dropped by over 190 points on Friday the 13th, local investors had time over the weekend to build up fears of a renewed crash similar to the near-collapse of share markets on October 19 1987, almost exactly two years ago.

When the market opened on Monday morning the selling orders started streaming in and many blue chip shares fell on a few deals as the big institutions stayed away from the market.

Over 11,7-million shares changed hands and the market fell by 10,6 percent. On Tuesday it took a volume of 12,5-million shares to recover some six percent of the previous day's losses.

The big institutions picked up most of the shares when they hit their lows on Tuesday.

Turnover in many blue chip shares reached levels not seen for some time.

But the institutions remained wary of developments on Wall Street. On Tuesday afternoon trading remained cautious after the release of higher than expected US trade deficit figures hit early Wall Street trading.

The renewed collapse did not occur and the losses on the Dow Jones index were limited.

The JSE responded on Wednesday with slight gains and dealers believe that caution will remain the name of the game over the next few days.

For the record, the JSE overall index plunged by 10,6 percent on Monday, recovered six percent on Tuesday and gained a further 0,6 percent the following day.

Fears of a renewed crash did not materialise as shares are fundamentally much healthier than preceding the October 1987 disaster. Price-earnings ratios are much lower and dividend yields are looking substantially improved.

But the decline in share prices had already started at the end of August after the index hit its all-time record high of just over 2 800. The market is now about 15 percent below this level, taking into account the recovery by mid-week.

Three fundamental reasons can be advanced for the current weakness on the market:

- The financial rand has strengthened since August, rising from R4,40 to R3,90 to the US dollar. Prices of mining and mining finance shares have plunged by a similar margin as they have become more expensive for overseas investors.

Investors are keenly aware that any further improvement in the financial rand would depress prices of mining and mining financial stock even more.

- The gold price has been extremely volatile since the beginning of the year, despite circumstances which should have been beneficial for the metal — international turmoil (for example, in China) and rising inflation in the major industrialised nations.

- Last week's rise in interest rates has obvious negative effects on the economy. It also caused investors to move some of their money from the share market to short-term interest rate instruments.

But it is the intention signalled by the Reserve Bank's bank rate hike that is really unsettling the market.

The increase is aimed mainly at protecting the exchange rate of the rand and preventing it from depreciating further against other currencies.

The result of this is that the gold mines can no longer rely on a depreciating rand and a steady increase in the rand gold price to keep them out of financial trouble. On Monday the rand gold price fell to R969, its lowest level in almost six months.

By the same token rand-hedge stocks like Richemont, Minorco and De Beers, the stars of the market over the last two years, are also likely to see their rand earnings fall as the currency appreciates.

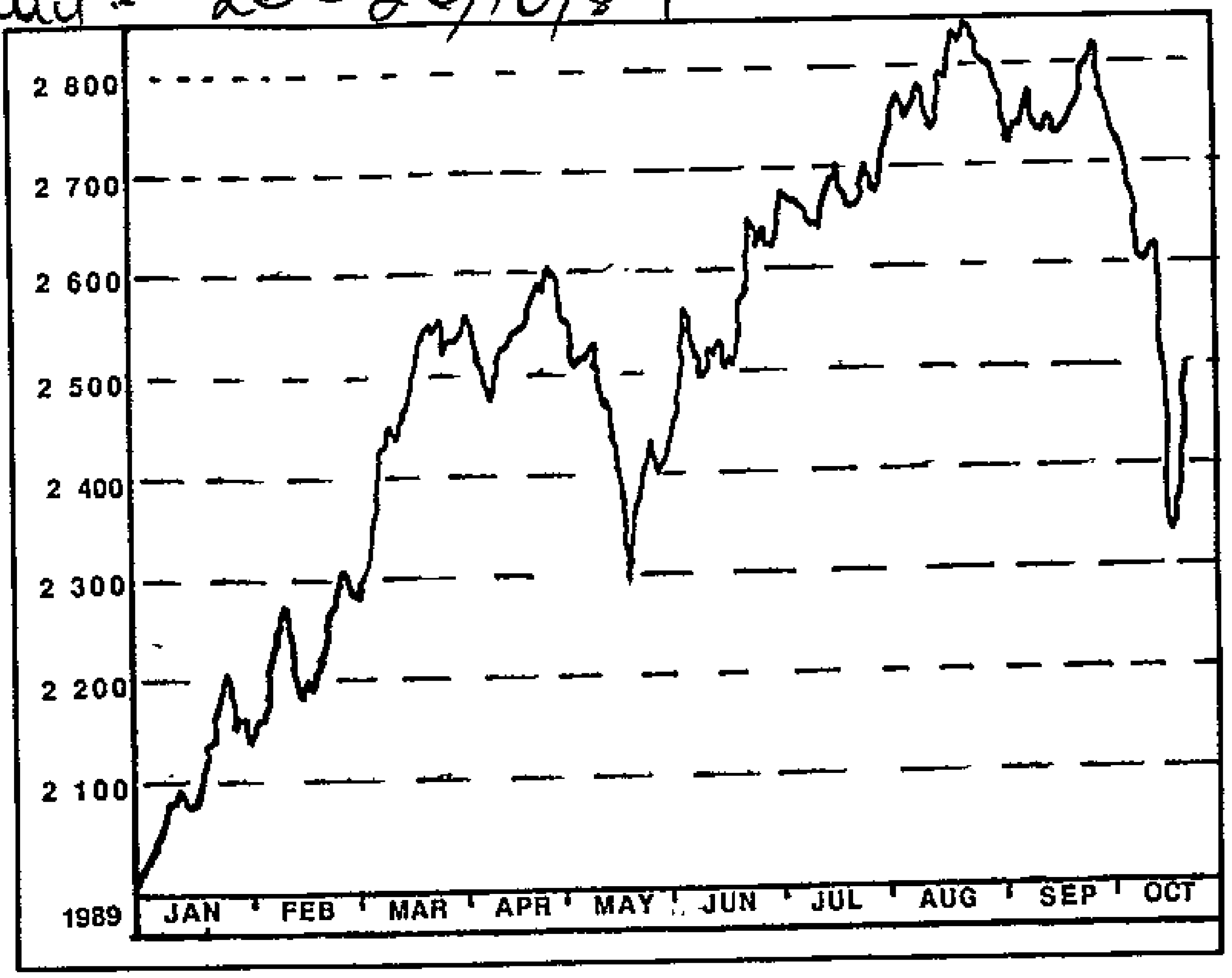
Local stock market could be extremely vulnerable to a firmer rand which would reduce foreign earnings of local companies and lower their profits.

This development combined with lower raw materials prices overseas could have a major impact on the value put on many producers.

By Wednesday the JSE looked as if it had settled down and was ready to consolidate its position.

But given the expected decline in the economy and lower export earnings in some quarters, profit increases of most companies will be limited.

The JSE is certain to reflect this weakness.



The JSE's all-share index, with its peak in mid-August

FNB earnings leap

Cape Times 26/10/89

58

Recovery: New MD's shake-up takes effect

Own Correspondent

JOHANNESBURG. — In a remarkable recovery achieved by slashing costs and improving management of assets and liabilities, First National Bank Holdings yesterday announced a 32,5% leap in earnings to 377c a share for the year to September 1989.

The figures are in sharp contrast to earnings growth of 12% in 1988 — a sluggish performance which continued into the first half of the 1989 financial year. But the turn-around in the second half was nothing short of spectacular. Pre-tax profits in the second half were 51,1% higher than in the same period in the 1988 financial year as new MD Barry Swart's shake-up started taking effect.

Swart said yesterday: "We said at the interim stage we would concentrate on profit-maximisation even if it means some loss of market share — and that is exactly what we did."

Growth in assets was only 7,8% — an astounding slow-down after 36,6% growth in the previous financial year. Advances grew by only 9,4% (1988: 28,9%) as lending criteria were tightened significantly.

Profits were maximised partly through a programme of ruthlessly trimming expenditures. For the full financial year, operating expenditure rose by 15,6% — significantly down from the previous year's 19,8%. Swart notes that in the second half of the year, operating expenditure rose by only 4% from the first half.

The bottom-line was also helped by a lower tax rate — down to 39,3% from the previous year's 42%. Swart ascribed this to "timing differences" and the bank's off-shore activities.

A negative factor was the bad debt charge, which jumped by 45,9%. Swart acknowledged this was troubling, but ascribed it to the current economic climate as well as to the agricultural sector — "the carry-over from seven years of drought."

Dividend growth kept pace with inflation: the ordinary dividend was raised by 15,5% to 130c with cover increased to 2,8 times (1988: 2,3 times). First National, like other banks, is aiming for cover of three times, although Swart says it should ideally 3,3 times "in this high inflation environment."

The share price reflected the market's appreciation of First National's achievement by firming 50c to R18.50 despite a generally softer bias in the market.

Sanlam notches up first with R6-bn in premium income

Star 26/10/89 (58)

By Derek Tommey

Although the past months have been poor ones for the life insurance industry, this has not stopped Sanlam from again producing excellent results for the year to September.

Sanlam has again increased its market share (partly through a substantial penetration of the English-speaking sector), producing a huge increase in investment income and significantly containing costs.

These developments are a tribute to the organisation's expertise in many areas of business, its substantial public appeal and the high quality of its management.

However, Sanlam's figures also contain the distressimg news that heart disease is the biggest killer of its policyholders, which these days must represent a good cross-section of white South Africa, and that violence is the second-biggest killer.

Figures issued by the Life Offices Association show that in the year to June the industry as a whole increased its premium income by less than six percent.

In sharp contrast, and in what must be regarded as a considerable achivement, Sanlam increased its premium income by R862 million, or 17 percent, to R6,036 billion in the year to September.

This makes Sanlam the first life office to receive more than R6 billion in premiums in a financial year.

Sanlam managing director Pierre Steyn says: "The growing support from the public underscores the quality of Sanlam's products and the excellent proceeds that are earned for policyowners."

Sanlam's premium income passed the R1 billion mark for the first time in 1983. Over the next three years it doubled and in the following three years it trebled.

Recurring individual premiums, which are the backbone of Sanlam's business, increased by 29 percent last year, while the number of new policies rose 10 percent to an average of more than 2 000 a day.

The millionth contract for "The One Policy", launched less than four years ago, was written during the year.

Sanlam maintained its leading position in the group and pension business, pushing up its income by about R300 million to more than R2,3 billion, giving it more than 30 percent of the market.

Some years ago Sanlam realised that it had virtually reached saturation point in the Afrikaans market and that further major growth would have to come from English speakers.

Since then it has been making a major effort in this direction — with a high degree of success.

Mr Pierre Steyn

Mr Steyn says English speakers accounted for 28,6 percent of new premium income in the year just ended, against 23,3 percent five years ago.

"Sanlam's new premium income from English speakers is greater than the total new premium income of the third-largest life office in South Africa," he says.

Part of the reason is that Sanlam is attracting considerably more support from insurance brokers who now account for more than 30 percent of the company's new business, says Mr Steyn.

Sanlam scored in the investment field in 1988-89.

Investment income rose 41 percent to R2,45 billion, a similar increase to that of a year ago. Sanlam's own assets at book value rose by about 33 percent to R22,8 billion.

In addition, its wholly owned subsidiary, Sankorp, controlled R50 billion in other assets.

The company's total income rose R1,57 billion to R8,49 billion — equal to about R34 million each working day.

Payments in September amounted to R2,5 billion, of which 21 percent (just over R500 million) was in death benefits. Living policyholders therefore received most of the policy benefits.

Administrative expenses were R289 million (R225 million) and amounted to 3,4 percent of total income, the same as over the past two years.

"Sanlam has maintained the lowest cost ratio in the industry," says Mr Steyn.

First National shows marked improvement

(58) Star 26/10/89

Mr Barry Swart

By Ann Crotty

First National Bank has reported stunning results for the 12 months to September.

Earnings have surged 32,5 percent to 377c (284,5c) and a dividend of 130c has been declared — 15,6 percent ahead of the previous 112,5c.

The performance is well ahead of expectations.

At the half-way stage earnings were up by only 10,8 percent and there seemed little scope for significant improvement in the second half.

Analysts were looking to a full-year earnings increase of 10 to 15 percent.

Because of a number of problems (including changes in top management, difficulties with the implementation of the Hogan computer system and tough trading conditions) there was a feeling in the market that it would be two to three years before FNB got into a reasonable growth phase.

The figures reflect a spectacular performance in the second half when pre-tax income was up to R238,5 million. This represents a 57,4 percent increase on first-half income of R151,5 million.

And, dismissing the seasonal impact, it represents a hike of 51,1 percent on the second half of financial 1988.

Behind the sharp improvement was the much tighter control of non-interest costs and improved asset/liability management.

The figures indicate that, at least with regard to the latter, there is still scope for improvement. Total assets increased by only 7,8 percent to R30,3 billion (R28,1 billion), with advances accounting for R23,1 billion of this — up 9,4 percent from the previous year's R21,2 billion.

MD Barry Swart suggests that the year-end balance sheet figure does not give an accurate reflection of the average level of increases in advances. This, he says, was probably closer to 15 percent, indicating that FNB's asset growth was in line with the market's.

Interest income in the 12 months was up 60 percent to R4,5 billion (R2,8 billion) but, reflecting the higher level of interest rates, interest expenditure surged 79 percent to R3,4 billion from R1,9 billion.

Despite the surge in interest cost, net interest income managed to show a 24,5 percent advance to R1,2 billion (R955,2 million).

Doubtful debt provision was up 45,9 percent to R181,6 million (R124,5 million). Mr Swart describes this as the "sole embarrassment in these results".

The bulk of the bad debt provision, which he says has occured, was suffered by the commercial bank, with much of it relating to the agricultural sector where the effects of difficult trading conditions are now being felt.

The balance of the bad debt experience was fairly evenly spread.

Significantly, Wesbank's tight control system continues to produce the goods. Although Wesbank advances were up by about 20 percent, there was little increase in its bad debt experience.

But Mr Swart says that after an excellent three years, the card division is now showing bad debts. This, he believes, is understandable, given the squeezed conditions that consumers are enduring.

Other operating income rose 14 percent to R794,2 million. After deducting R1,4 billion (up 15,6 percent from R1,2 billion) for other operating expenditure, pre-tax income showed a 27,3 percent improvement at R390 million (R306,4 million).

Mr Swart seems particularly pleased about the effects of the tighter control on costs. He says that this, combined with the increase in non-interest revenue, means that the gap, which has to be funded by the interest turn, is narrowing.

The tax rate was 39 percent (42 percent). Income from associates, chiefly Southern Life, was up 27,6 percent to R37,4 million (R29,3 million).

Net income was up 32,6 percent to R274,3 million (R206,8 million).

The 15,6 percent increase in dividend payment results in an increase in dividend cover from 2,3 times to 2,8.

Mr Swart says that given the inflationary environment, he would like to see a dividend cover of at least three times, with 3,3 times being the ideal.

As a result of the solid performance, FNB's return on shareholders' funds was up to 22,7 percent (20,3 percent) and return on total assets increased to 0,9 percent (0,73 percent).

Mr Swart is budgeting for a 15 percent increase in advances in financial 1990, but points out that the strict government measures might restrict this.

But benefits from an effectively implemented Hogan system, increased awareness of costs and improved interest rate patterns could see FNB pull out a reasonable growth figure.

Investment guidelines 'not sound'

Cape Times 27/10/89

By BRUCE WILLAN

THE new investment guidelines which replace the much critised prescribed assets requirements are not merely guidelines and many of them are not sound according to Francois Marais, assistant GM of Sanlam.

The new regulations, recently published in the Government Gazette, set fixed limits on investments which must be complied with.

Marais contends that the new regulations were drawn up with only partial consultation with the industry.

But, he says the desirability of these restrictions was never really discussed.

"In its relief at being rid of prescribed assets, the industry viewed them as an unavoidable evil," says Marais.

The regulations set two types of limits on the investments of funds.

There are limits on exposure to a few specific assets.

A pension fund may not for instance invest more than 5% of its assets in a single property or more than 10% in the listed shares of a single company.

While Marais says these requirements are desirable and place no obstacles in the path of sound portfolio management, he argues the same cannot be said for the second type of restriction which sets limits the types of assets.

"For example, a pension fund may invest no more than 65% of its assets in shares, no more than 30% in property and no more than 85% in shares and property.

"Nothing positive is gained from these requirements — on the contrary — they have several undesirable and unfavourable consequences," he says.

Marais says it was argued that the purpose of the regulations was "to ensure a distribution of investments by pension funds".

However, he is of the opinion that the vast majority of pension funds' obligations increase with salary increases and are therefore directly linked to inflation.

"The best possible asset spread for such a fund over any period in the past was a portfolio which was fully invested in shares. There is no merit in restricting share investment to 65%," he says.

The new regulations still allow funds to invest 100% of its funds in government securities, semi-government securities and cash.

Marais contends this is the worst distribution of investments available.

Furthermore Marais says it is undesirable and unnecessary to attempt to force asset spread by regulation.

He points out that in spite of no restrictions in the UK, balanced portfolios often have 30% or more of their assets in government securities.

In this way portfolio management is free to adapt its asset spread to suit circumstances for the best returns.

Marais argues the initial object of the old prescribed assets, which was to protect funds through investment in guaranteed assets, has been reversed by the ravages of inflation.

But, he says prescribed assets became a captive source of loan capital for the government with interest rates which could be kept low artificially.

"Undesirable as it was for the industry — the government at least benefited from the old requirements — which is more than can be said for the new requirements — no one gains from them," he says.

The imposition of the unnecessary restrictions will create a lot of unproductive work for the industry, the Registrar's office and will accomplish nothing positive for the members.

He says it is a great pity industry did not see its way clear to move from an over-regulated environment to deregulation in one step.

"We must look to our regulation mentality for the real purpose of regulations, new regulations had to be instituted to replace the old ones at all costs, regardless of their actual merit," he said.

58 W. Mail 27/10-2/11/89

The lender who takes the risks the banks won't

No access to cash kills the hopes of small-time entrepreneurs. But one unconventional lender is prepared to stick her neck out. By PHILIPPA GARSON

THE biggest problem many small entrepreneurs face is lack of access to finance — they don't have the assets to put up as security for bank loans and they usually don't have a track record to prove their creditworthiness. That makes raising finance from conventional sources — the banks and even the Small Business Development Corporation — near impossible for the small, start-up business person.

But an unusual one-person lending institution in Johannesburg is prepared to take the risks other lenders don't dare.

Get Up, designed for very small business people, grants loans averaging R500 without demanding any security — and it gets most of its money back.

Get Up's founder, Lin Anderson, who as Lin Menge was an assistant editor on the Rand Daily Mail, started the scheme in 1985 when the newspaper closed and she found herself without a job.

Now, nearly five years later, her brainchild has blossomed into a busy lending scheme, and Get Up, which lends money to the people banks steer clear of, has given out more than 3 000 loans totalling nearly R770 000.

Initially many people showed interest in the project, but hovered on the side-lines. Then Get Ahead — another small business assistance group — contributed funds and the scheme got underway. Now financial aid comes from foreign companies but, says Anderson, the non-profit organisation is beginning to pay for itself and has got back two-thirds of the thousands of rands lent so far.

Get Up gives loans to small-time entrepreneurs who lack the security or financial clout to secure conventional loans. "We try not to duplicate the work of other organisations (like banks and the SBDC) and we lend to people these groups wouldn't even consider," says Anderson.

"We started with R25 loans and now people can borrow up to R5 000." But she adds the average loan is about R500 — a cut-off point for the SBDC which averages loans of roughly R30 000.

The scheme gives loans on a trust basis and doesn't stipulate repayment periods or take legal action against non-payers — a set-up most institutions would consider too risky to contemplate.

"Our attitude is simple," says Anderson: "Most people can't put up the kind of security banks require. They simply don't have anything and it will be a long time before they do. Even with a change of government people may get their land back but they won't own houses overnight."

A sign that people are actually "doing something" is security enough for Anderson: "If we build a relationship with them, it is in their interest to keep up their side of the bargain. The advantage to repayment is that we'll help them again, and if they can't get loans from us, they are very unlikely to get loans from anyone else."

But Get Up finds its clients through community networks rather than simply lending to unknown people off the street.

The organisation has several coordinators scattered around the country who round up groups of viable borrowers in their communities. A member of a group will not be able to secure new loans unless the other members are paying up. This kind of peer pressure encourages repayment, says Anderson.

There are presently several coordinators keeping 44 books in total, and each book records the financial transactions of an area group.

Loans are given at an interest rate of 20 percent a year, a figure which Anderson says stays fixed despite a changing economy and which is 'designed to suit the illiteracy problem of many of our borrowers".

And an overdraft scheme with a ceiling of R5 000 ensures that borrowers can secure further loans before full repayment. Entrepreneurs — especially those in the manufacturing industry — seldom get instant payment for their goods and as a result, repayments to Get Up are irregular.

Business ventures aided by the lending scheme include manufacturers of sandals, handbags, clothing and candles as well as hairdressers, spaza shop-keepers and building contractors.

Anderson says she receives hundreds of calls from people clamouring for loans — a level of demand which the organisation cannot meet.

Anderson says most small-time business people she deals with employ family members, who of course do not get paid.

She sees the mushrooming informal sector as important not because it solves mass unemployment but because it enables a limited sector of the population "help the mass of unemployed people".

She describes the bulk of her borrowers as very poor. Although most of these entrepreneurs work extremely hard, very few small businesses "simply take off and keep going for the sun". She says the organisation does not like to boast about its success stories, because "this week's success is often next week's failure".

Anderson admires the time and effort some in big business have put into helping small business ventures, but adds that they are usually insensitive to the myriad of obstacles and inconsistencies small-time entrepreneurs face.

"Big business feels it is dangerous to involve itself in these ventures which deviate, which do not run smoothly and which are not easy to control." But there are those companies which "put up with the wrinkle" such Jet Stores, which has a contract with some of her borrowers who supply a city store with clothing.

Cuts in cost of life cover

FINANCE STAFF

58

88/10/29

OLD Mutual has thrown the insurance industry a challenge by announcing a new premium-rating system which could cut the cost of life cover by up to 40 percent.

The company believes its system is a first for South Africa, and possibly for the world, and is the result of more than nine months' actuarial research.

It allocates points in six categories to assess risk which ensures that clients' ratings are specific to their individual situations.

Until now most companies assessed client risk on three broad parameters — health, smoking history and age.

Mr Stuart Fish, Old Mutual's assistant general manager (marketing), said this did not take into account that among smokers, for example, there were individuals who might be lower risks than some non-smokers.

Old Mutual has now added income, education, age, sex, the size of the policy and whether or not the client is an existing Old Mutual policy-holder to the smoking factor.

Points allocated in each category determine the client's individual rating.

Mr Fish gave an example of a 35-year-old man seeking life cover of R500 000 for whom premiums could range from R241 a month down to R178 for a high points score.

For a 60-year-old man the same cover could range from R1 395 down to R997 a month.

"We expect the market will once again follow our lead as happened in 1983 when we introduced the first programme to provide more accurate assessment of client risk," said Mr Fish.

"With more than two million policies in force we have been able to assess accurately the risk involved in assuring lives according to a system which takes into account the socio-economic profile of each client," he said.

1,9715 from the London trad- been trying to penetrate the the market

Brokers bank on bullion's bounce

58

Star 28/10/89

DEREK TOMMEY

THE Johannesburg Stock Exchange came to life yesterday following the surprise rally in the gold price to above $372 an ounce. It shrugged off the past few weeks' feeling of gloom and doom, which had been generated by uncertainty about the economic outlook overseas, and warnings locally of hard times ahead, and closed the week on a note of cautious optimism.

A broker said that he had not yet advised his clients to buy gold shares. But he was quite excited about the rise in the gold price to its highest level in four months. Much would depend on how the gold price behaved next week.

Mrs Dana Wakefield, an analyst with Davis Borkum Hare, said the charts were beginning to show a build-up of energy which was sustaining the gold price. But she believed that it would need to break above $375 and hold this level for two to four weeks before people would be convinced that gold was at last in a bull phase.

Other rallies

Her caution is justified. Gold has staged two other rallies this year but neither was sustained.

Brokers said buying by individuals and jobbers created most of the activity in gold shares yesterday. The institutions remained on the sideline, and were likely to continue to do so until they were certain the improvement in gold would continue.

Only a little foreign interest in golds was seen, even though the price of ASA, the South African gold share listed on the New York Stock Exchange, spurted $2 to $46 last night, its highest price for some time.

However, the gold experts who attended the *Financial Times* gold conference in Switzerland in July are unlikely to be surprised by the latest strength of gold.

The general view expressed at the conference was that the downside potential was limited and technically the market was oversold. It was also reported that because of the strong demand there was a physical shortage of gold in the bar sizes used by the jewellery trade.

Indications are that the jewellery industry, buoyed by growing living standards in many areas of the world, will buy all gold on offer at $360 an ounce.

But bullion dealers say that for the gold price to rise above this level an upsurge in investment demand is needed. Demand for gold from investors has been virtually nil in recent years because they did not see how they could profit from buying the metal in the prevailing depressed conditions.

However, some dealers believe that there has been a significant improvement in investment demand but that it has been concealed by extremely heavy Russian gold sales.

Market talk is that Russian gold sales this year exceeded 400 tons (or 12 million ounces), which is a significant increase on the 258 tons sold last year and the 303 tons in 1987, and suggests that Russia has been forced to run down her stockpiles.

Only in 1986 were Russian sales last at this level, and it is interesting to note that the fall in Russian sales towards the end of 1986 was followed by a bull market in the metal.

It is an interesting speculation that the latest rise in the gold price could be associated with an end to Russian sales.

However, South Africa too might have had a part on the rise in the metal price.

(Holcom Futures)

GOLDEN BULL: "Hi, I'm back". But is he?

Production figures show that mine output dropped by 100 000 ounce in September from August which could have helped to tighten the supply position.

Additionallly, it seems that the Reserve Bank has been able to hold back some of the current gold output from the market recently, which also could have contributed to a shortage.

Key role

South Africa's key role in the gold market has tended to be underplayed because its economic difficulties have led it to sell all current production and a hefty part of its reserves.

But the Governor of the Reserve Bank, Dr Chris Stals, reported this week that for the first time for 18 months South Africa had been able to increase its net gold and foreign exchange reserves.

This indicates that gold sales from the reserves could at last have ended, which could cause a considerable tightening in the market. And it could indicate that part of current production is also being withheld, which is also affecting the supply position.

The exciting aspect of all this is that the more gold South Africa can withhold from the market, the higher the metal price should go, further reducing the need for South Africa to sell gold.

It is a little too early to see if South Africa can reach this desirable situation — but it is clear that the Government and monetary authorities are trying hard to achieve it.

It looks like insurance — but it's not

58

THE growth of co-operative indemnity schemes, or lookalike insurance products, is causing concern among insurers and broking firms.

By Robyn Chalmers

Legislation allows co-ops to run indemnity schemes as long as they do not use the word insurance in their rules or documentation.

Concern has arisen that members of the public could become involved in the schemes, believing they are buying bona fide insurance.

Prestasi Brokers managing director Gys Steyn believes some dangerous misconceptions could be developing.

Superficial

"These schemes and the people running them are not registered insurers in terms of the Act. So the first question is whether they are providing cover through reinsurance.

"If this is the case, on what basis does a reinsurer extend cover to individuals operating outside the provisions of the Act?

"Because the Act does not apply, there would appear to be no underwriter. Therefore, if the rules of a scheme indemnify the operators or intermediaries from liability in the event of business failure, who bears the risk?"

Mr Steyn believes the public could be mislead about the difference between an insurance policy and a co-op indemnity scheme, especially because the two often use similar terminology.

He says co-op documents Prestasi has in its possession show a superficial resemblance to insurance policies.

"The staggering thing is that the rules of one co-op state that the susbscriber has only one chance each year to quit the scheme. Furthermore, he has virtually to sign away his controlling function in favour of the managers and directors."

Mr Steyn says that even if the insured takes his single annual chance to quit, he has to give three months' notice. If he quits at any other time any claims paid out in that year can be reclaimed by the scheme. The member is not entitled to compensation on any outstanding claim.

Prestasi has put pressure on the authorities to reconsider the go-ahead given to operators of co-op indemnity schemes.

Mr Steyn says the credibility of the insurance sector could be undermined by operators of the schemes.

"The public thinks that the insurance sector has been tightened up since the collapse of the AA Mutual short-term operation. That is true. But it has a false sense of security when it comes to co-op schemes.

Wreck

"A generation ago we saw the failure of Parity and Auto Protection. There have been failures in the recent past.

"Another crisis would wreck the industry's credibility because the public is unlikely to appreciate the distinctions between co-op cover and genuine insurance."

Corbank launches drive for MBOs

S/Times 29/10/89.

Business Times Reporter

CORBANK merchant banking group has strengthened its position in the management buy-out market.

It has formed Corbank Leveraged Investments (Corvest), which will specialise in advising on and structuring management and leveraged buy-out opportunities.

Corvest will initially have R30-million to help finance buy-outs. It will be prepared to invest in buy-out companies, says Corbank chief executive Laurie Korsten.

The new company already has three or four proposals.

"We believe that disinvestment and corporate restructuring activity will not decline," says Mr Korsten.

"Managements are showing an increasing willingness to take equity risk in order to share more directly in the wealth they are creating."

He says managers can normally fund only a small part of the purchase themselves, and commercial bank loans may not be available or entail too high a level of gearing.

"This is where our money can help."

Critical

Corvest will be headed by three executives from First National Merchant Bank — Neil Page, Dick Merks and David Rissik — who have had wide experience in MBOs and development capital projects. They will have a minority interest in Corvest.

"We have worked together for four or five years and our combined experience gives us skills in three critical areas — finance, marketing and technical," says Mr Page.

The formation of the company is a logical move for Corbank. Mr Korsten became an MBO pioneer at Volkskas when he played an important role in the Hudaco buy-out.

Corbank also played a big part in the Beares restructuring and helped Peter Clogg in the Group 5 buy-out.

Some of SA's biggest MBOs have been driven by disinvestment, and Mr Page says there are still opportunities.

"US companies, particularly, find the new tax burden on their South African subsidiaries onerous."

SA groups are also watching their focus more carefully and may be tempted to sell subsidiaries which do not sit comfortably with the core business.

High interest rates may, on the surface, make an MBO look less attractive, but they also have an upside, says Mr Page.

"High interest rates can mean that prices become more realistic. It becomes more of a buyers' market."

Car hopes

• From Page 1

on the capital built up.

Wesbank managing director Peter Thompson says: "New-car purchases for the ordinary man have become a dream. In 1983, the repayment for an average compact car was R310 a month. Today, it is more than R900. A longer contract would put cars within reach of motorists again.

Mr Thompson says the monthly repayment of a car worth R28 000, after a 15% deposit and GST, is R953 over 42 months. If the contract were extended to 60 months, the repayment would fall to R773 a month.

A car worth R48 000 would require R1 683 a month under the present rules and R1 380 a month over 60 months.

"The quality of vehicles is superb these days and the average life of a car has increased dramatically since 1983. It makes sense to extend repayment to 60 months."

Nada's Mr Richardson says 301 000 new cars were sold in 1981. The forecast for this year is 220 000. The industry would be in trouble if sales fell below 210 000.

Total vehicle sales, including light, medium and heavy trucks, are forecast at 350 000 or 380 000 annually for the next five years.

The present squeeze coincides with plans by the industry to spend R550-million a year between 1990 and 1997 to meet Phase VI of the local content programme.

Mr Richardson says that in 1980 there were 3,3-million vehicles in SA, of which a million (29%) were older than 10 years.

The stock of cars increased to 4,1-million in 1985 and 1,3-million (31%) were more than 10 years old.

In 1989, the car stock was 4,7-million and 1,7-million (36%) were older than 10 years. At current levels, it will take about 12 years to replace the car stock.

Mr Vermuelen says that in the last six months of 1988, new-car sales amounted to 19 720 a month. In the first nine months of this year, average monthly sales fell to 18 867.

Used-car sales have also fallen. In 1988, used-car sales averaged 39 820 a month, but fell to 37 800 a month in the first half of this year. June sales were 37 100.

Corporate and fleet purchases made up about 50% of new-car sales only a few years ago, but today they represent 70%. Small cars made up about 50% of the market in 1980, but now represent 68%. Their share is forecast to rise to 70% next year. Some fleet owners now buy second-hand cars.

'Allocation to favour small investor'

Cape Times 30/10/89

Iscor shares oversubscribed

Own Correspondent

JOHANNESBURG. — Iscor's public offer has been more than four times subscribed and has drawn over 250 000 applications, valued at more than R1,2bn, for the 150m shares available.

Mineral and Energy Affairs and Public Enterprise Minister Dawie de Villiers said yesterday there were several thousand applications still to be processed, but it could safely be said that the offer attracted applications for more than four times the number of shares on offer.

He said more than 250 000 applications for 600m shares were received and nearly 80% of the applications came from people applying for up to 1 000 shares.

There were more than 65 000 applications (27%) for the minimum of 100 shares.

Seen against the background of uncertainty which gripped the world's financial market in the closing days of the offer and which knocked share prices on the JSE, the issue could be described as very successful, he said.

The merchant banks to the issue, Finansbank and Senbank, were working on the basis of allocation and this would be announced tomorrow afternoon.

The allocation would favour the smaller individual investor, said De Villiers.

More than 86% of Iscor's employees had taken up shares in the free offer to them.

Those who did not take up their full quota in the discount offer would be able to do so at a later stage as the shares were being placed in a share trust.

Iscor employees could exercise their rights to their shares on two further occasions, in November 1990 and November 1991.

As previously reported, the preferential offer of 1,2bn Iscor shares to selected institutions was fully subscribed.

Iscor shares are to be listed on the JSE next Wednesday.

De Villiers said the public offer was aimed to appeal to the man in the street and he was gratified that South Africans found the issue so attractive.

The Star
Finance

Royal group gets off to a good start

58
3/10/89
Star

Finance Staff

The Royal group, created earlier this year through the acquisition of Royal Beech Nut by Lovasz Chemicals, has made a good start to operations.

The principal operating company Royal Corporation (Royal) yesterday revealed earnings showing a growth of 32 percent on the pro-forma figures for the six months to August.

The recently listed pyramid company, Royal Group Holdings (Royhold), which holds a 52 percent stake in Royal, had identical earnings and dividends.

Royal was formed when Lovasz bought Royal Beech Nut, Manhattan Confectionery and part of Kellogs.

Royal achieved earnings of 5,4c a share for the six months, a rise of 32 percent over the pro-forma 4,1c previously.

Other comparisons show turnover up by 15 percent to R75,2 million, operating profit up 26 percent at R5,8 million, pre-tax profit up 38 percent and taxed profit up 37 percent.

The directors say trading is seasonal and that the group traditionally performs better in the second half.

They are confident of achieving the 18c a share earnings forecast in the pre-listing statement.

They expect a three-times-covered 6c dividend for each group by the end of the year because no interim dividend is paid.

They expect significant benefits to arise from the merger of Royal's chemical interests with those of the Holpro group, which was announced in August.

Both Royal and Royhold are trading at about 160c, at which price they yield 11,3 percent on forecast earnings and 3,8 percent on projected dividends.

American investors provide boost for JSE

Star 31/10/89

By Derek Tommey

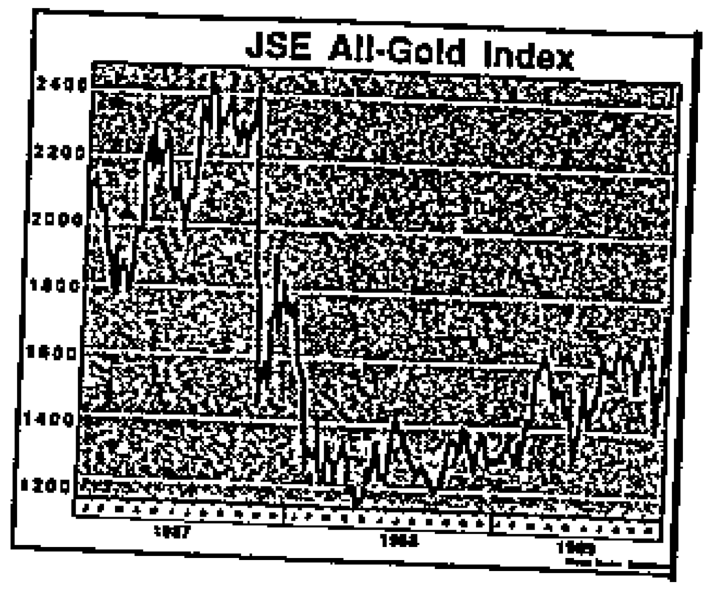
The good news from the Johannesburg Stock Exchange is that American investors are again net buyers of South African gold shares.

American money, after an absence of several years, made the running on the JSE yesterday, pushing the All Gold index up to a two-year high.

American purchases were not particularly large, brokers said. But what money there was, together with the willingness of Americans to bid up the prices of the shares they wanted, gave the gold board a bloom it has not had for at least two years.

This is not just good news for the market. It is good news for the entire country, suggesting that American confidence in South Africa has grown significantly in the past few weeks.

In recent times Americans have been favouring American, Canadian and Australian gold shares but have not been very well rewarded.



Shares of the giant Homestake mine, for instance, are yielding 1,3 percent. Newmont, reputed to be the lowest cost North American producer is yielding 2,2 percent. Another American favourite, American Barrick, is giving a return of 1,0 percent.

Because they can use financial rands to make share purchases American investors can buy Vaal Reefs on a historic dividend yield of 8,4 percent, Beatrix on a yield of 8,1 percent, Freegold on a yield of 12,4 percent, Dries on 6,4 percent and Western Deep on 6 percent.

Until recently foreign investors were selling more South African shares than they were buying.

Just over a fortnight ago, in the week ended October 13, the deficit was of the order of R73,5 million.

Now there has been a dramtic swing. Only the week before last, American investors returned, leading to net foreign purchases of South African equities through the JSE of R6,3 million.

Although only a modest start, it obviously grew last week and is likely to be much larger this week.

Brokers are not too happy to stick their necks out and give specific reasons for the turnaround in American investment opinion. But they point out that the uncertainty about the future of US and other major economies could make gold and gold shares an attractive alternative investment.

They also point to the country's improved imagine overseas. This, together with the removal of the threat by Senator Kennedy to make it illegal for Americans to own South African gold shares, plus the higher returns available on them, must attract new investment, they say.

There is also the possibility that currency speculators, with no currencies in which to speculate at the moment, might try to run up the gold price.

However, South African analysts are not as enthusiastic about gold shares as Americans appear to be. The reason is that what seems cheap to Americans looks dear to South Africans.

Local investors expect a return of 6 percent on a good gold share which, because they do not have access to the financial rand, is unobtainable. They also see increased foreign investment and a higher gold price leading to a firmer rand and no change in the revenues received by the gold mines.

This is the reason why the JSE gold share index, which was up 120 points at one stage yesterday, closed only 99 points higher. For although Americans were buyers, South Africans were sellers.

Higher costs hit Suthsun

Finance Staff

An increase of R5,3 million in overall financing costs offset a 61 percent rise in trading profit at Southern Sun Hotels in the six months to September.

Attributable earnings fell to R1,1 million (R1,6 million).

Group turnover rose by 23 percent as a result of increased occupancies and an improved average room rate.

Unit occupancy was 62 percent for the six months under review and reflected a six percent advance on the previous year, with international tourism being the main contributor.

Dividends and earnings of associates benefited from an improved contribution by Sun International, while rentals and leasing charges, the majority of which are linked to turnover, increased by 17 percent.

As in the previous year it is not considered appropriate to declare an interim dividend, but the policy of distributing 70 percent of attributable earnings at the year end will be maintained.

Group occupancies during the second half of the year are traditionally better than those of the first half and present indications are that this trend will continue with occupancy levels expected to improve in the second six months.

Overseas bookings, in particular, are reflecting significant increases, although this is likely to be offset by a "softer" local market in the light of the current constrained economic conditions, the directors comment, adding that earnings for the full year should improve on last year.

Star 31/10/84

US investors reappear on JSE and push up gold

Star 31/10/89

58

Foreign investors, in particular from the United States, emerged as buyers on the Johannesburg Stock Exchange yesterday, pushing the all-gold index to a two-year high.

This followed on a rise in the gold price to three-and-a-half month highs in London yesterday.

In a challenge to the weakening US dollar the metal touched $380 at one point in hectic trading yesterday, but fell back to record a $3 gain on the day at $377,25.

In Hong Kong this morning gold fell by $2 to open at $376,80.

Dealers say that the metal was likely to continue meeting resistance at the crucial $378 barrier.

However, if it manages to rise substantially above that level and maintain the higher rate for a few trading days gold could then well rise again to about $400.

The failure of gold to maintain its earlier high levels led to a slight selling of gold shares on the JSE in late afternoon trading.

Nevertheless, American money made the running on the JSE yesterday, pushing the all-gold index up by 99 points to 1760.

Yesterday's six percent rise in the value of gold shares pushes the gains since Wall Street's Friday 13 fall to just under 27 percent.

● See Page 24

Africa gets third of exports

SA's trade with region is increasing

Star 7/11/89

By Michael Chester

No less than one third of all South African exports of manufactured goods are now flowing north to black neighbouring states in a drive to establish new "economic bridgeheads" in the rest of the continent.

The disclosure came from Mr Kent Durr, Minister of Trade and Industry and of Tourism, at the bi-annual conference of Executive Council of the Federated Chamber of Industries in Johannesburg yesterday.

Acceptance

"We must look at our neighbours with new eyes," he told business leaders. "We have often been told that South Africa's path to political acceptance by the outside world runs through Africa — and this may equally apply when it comes to economic bridgeheads."

The Department of Trade and Industry was now laying new stress on the importance of neighbouring countries as potential trade partners.

The statue of Cecil Rhodes at the tip of South Africa in Cape Town pointed northwards, with the inscription: "Your hinterland is there." The message carried even more force now.

"Africa is coming to terms with reality," said Mr Durr. "And we are part of that reality. Also, we are coming to new terms with Africa."

Nor did South Africa intend to try to leap-frog near neighbours such as the so-called Frontline states in longer term ambitions to tap more distant and more difficult markets.

The whole sub-continent of southern Africa was now regarded as a primary trade zone, with the potential to develop into a single market to the benefit of all nations in the region.

In turn, the zone could be turned into an export springboard into markets all around the world.

Mr Durr emphasised that South Africa's aim was mutual benefit from inter-dependence.

Though South Africa had usually regarded an annual economic growth of around 5 percent as adequate, fresh studies by the Industrial Development Corporation showed the manufacturing sector needed a minimum sustained growth rate as high as 8 percent a year over the next decade.

"Part of the answer in the whole sub-region is for all to exchange adverserial postures for co-operative postures on economic matters," he said.

Dismal outlook for unemployed in the '90s

By Michael Chester

New counts by the National Manpower Commission have sounded a warning that the unemployment toll in South Africa threatens to climb from a current 3 million to as high as 8 million by the end of the 1990's unless solutions can be found for faster job creation.

Even with an economic growth rate of around 3 percent a year unemployment may threaten no less than 44 percent of the overall labour force in the year 2000.

The estimates were divulged in Johannesburg yesterday by Dr Frans Barker, acting chairman of the NMC, at the bi-annual conference of the Executive Council of the Federated Chamber of Industries.

He told businessmen that to accommodate school-leavers streaming into the labour pool at least 350 000 new jobs needed to be created every year — eight times faster than the average rate so far in the 1980's.

Though official counts based on population surveys showed that black unemployment shrank from 789 000 to 513 000 between 1986 and mid-1989, the total soared to between 3 and 4 million if it included the informal sector and subsistence farming.

"Scenarios of future unemployment are dismal," said Dr Barker.

The solutions rested on faster economic expansion — requiring the removal of balance of payments problems caused by political pressures and a cure to skilled labour shortages.

CAPITAL-INTENSIVE

Problems were compounded by sanctions, disinvestment and the reluctance of foreign banks to provide financial assistance. They were worsened by deficiencies in the education system.

More problems had been caused by tendencies in the industrial sector to become too capital-intensive rather than place more emphasis on expansion programmes based on labour intensity to accelerate job creation.

Blame also had to be carried by labour problems and basic distortions between the price of labour and the price of capital equipment.

Longer term solutions needed to be based on:

- More government and private sector expenditure on schemes aimed at finding jobs for unskilled labour — such as housing programmes.
- More direct links between wage increases and productivity performance, forcing a higher priority for effective education and training.
- Development of the small business and informal sectors, by more deregulation, more sub-contracting by bigger companies, and more training schemes for the unemployed.

Direct Government intervention to alleviate the plight of the unemployed was essential.

"Widespread poverty and unemployment," said Dr Barker, "cannot be reconciled with a stable and prosperous society — a prerequisite for successful political progress."

1/11/89

58

Panel will ruin scheme, say investors

Leisure company again in turmoil

Star Line

JUNE BEARZI

A recently appointed committee which was to represent unhappy Flexi-Club Foundation members has triggered dissatisfaction among several major investors who have sunk R5 million in the venture.

These investors say the attitude of some committee members would destroy, not save, the holiday points scheme.

This is a new twist in an ongoing saga highlighted by Star Line in which the bosses, Mr Larry Botes and Mr Bill Nosworthy, faced charges a few weeks ago that all was not well with their Bryanston companies, Summer Leisure International and Flexi-Club.

The five-man committee was elected three weeks ago at a Milpark Holiday Inn meeting to ensure that investors did not lose out. But since then many of the 3 000 investors have labelled as "excessive" the committee's requests that they lay out R200 000 for its expenses.

They have also been angered by alarmist and allegedly ill-researched interim reports and referrals to liquidation proceedings sent out to members.

This weekend 26 major investors met to vote in a five-man liaison group to help get the club back on its feet.

According to a liaison group member, Mr Fred Yates, a Johannesburg businessman with R109 000 in Flexi Club:

"I have seen financial documents showing the Foundation has R18 million in surplus assets over liabilities and I am happy that it is sound."

He said although he believed Flexi-Club had administrative and cash flow problems due to its rapid growth, he considered it a unique, worthwhile concept.

Mr Yates added: "I believe members can help at this stage by paying their levies. Management has undertaken to re-imburse us when the cash flow problem is resolved."

Mr Yates said the liaison group would act free of charge to protect members' investments and keep them informed of developments. He said Flexi-Club's executive director, Mr Bill Nosworthy, had agreed to co-operate with them.

Mr C Edeling, chairman of the Milpark committee, who does not own points in the scheme, told Star Line he had reached a deadlock with Flexi-Club. Their lawyers told him his mandate was withdrawn as he had allegedly been hostile to the management and had not acted in the best interests of Foundation members.

Star 1/11/89

Iscor forges bond with public

58

By Derek Tommey

The Government's first effort to make people of all races more conscious of share investment (while raising well over R3 billion for its own account) has been an overwhelming success.

As a result of the Iscor share issue, the JSE has acquired another 300 000 shareholders who, the Government no doubt hopes, will just as enthusiastically support its future privatisation projects.

Initially Iscor thought it would acquire about 150 000 shareholders, although the more optimistic were talking about 180 000.

However, on the basis of today's share allocation, Iscor has acquired more than 300 000.

These comprise 254 000 from the general public and more than 50 000 from Iscor employees and financial institutions.

Full tribute for the overwhelming support for the issue must go to its persuasive advertising campaign, which must rank among the most professional ever seen in this country.

But there is a feeling in financial circles that getting 300 000 shareholders for Iscor is only the first step on the road to making people more aware of the advantages of share ownership and capitalism.

The Government now has to demonstrate that these people have made the right decision in subscribing and that share-ownership is a profitable activity.

Full allotment

The share allocation, not unexpectedly, will have made most of the applicants fairly happy.

All who applied for shares will receive some, and the 200 000 people who applied for 1 000 shares or fewer will receive a full allotment.

The preference given to small investors was fully in line with expectations that the share allocation would be more political than financial.

It has been evident from the start that the share issue would be aimed firstly at expanding the number of people who own shares, and secondly at giving every small investor a worthwhile stake in the steel giant.

Johannes Hamman, managing director of Finansbank, which, together with Senbank, managed the issue, said yesterday: "We have done what the state set out to do — spread share ownership as widely as possible within South Africa.

"The state's decision to satisfy in full every applicant up to 1 000 shares and thereafter weight the allocation in favour of the smaller, rather than the larger, applicant, highlights how serious it is about encouraging share ownership among all South Africans."

The largest application was for 10 million shares. This is a little surprising in view of all the forecasts that the small investor would be favoured.

After taking into account the interest lost on the money while it was in Iscor's hands, this applicant's 100 000 Iscor shares actually received will have cost him about 280c each.

The share offer was well supported by Iscor employees. White-collar workers took up 99 percent of their free shares and 95 percent of their discount shares — receiving a total of 10 million shares.

Blue-collar workers took up 87 percent of their free shares and 57 percent of their discount shares — a total of 47 million.

Iscor employees who did not take up their entitlement will have another chance in a year's time because the employee shares not subscribed for will be kept in a trust.

About the only applicants who are likely to be slightly disappointed are the financial institutions.

They are receiving only 95,5 percent of what they sought, instead of the 100 percent they expected.

The reason is that applications from Iscor employees were larger than expected and it was necessary to trim the allotments to institutions.

Iscor shareholders will now be waiting for November 8, the day the shares will be listed on the Johannesburg Stock Exchange.

"Guestimates" are that Iscor shares are likely to trade initially at 220c to 230c. This is partly based on the fact that Iscor shares are currently trading in the futures market at 215c to 219c.

However, it is believed that as the year wears on and the stags sell off their holdings, Iscor shares could rise strongly and a price of R3 a share is being forecast by the New Year.

Rates hike 'the only solution'

SA's forward cover losses to top R16bn

B Day 1/11/89 58

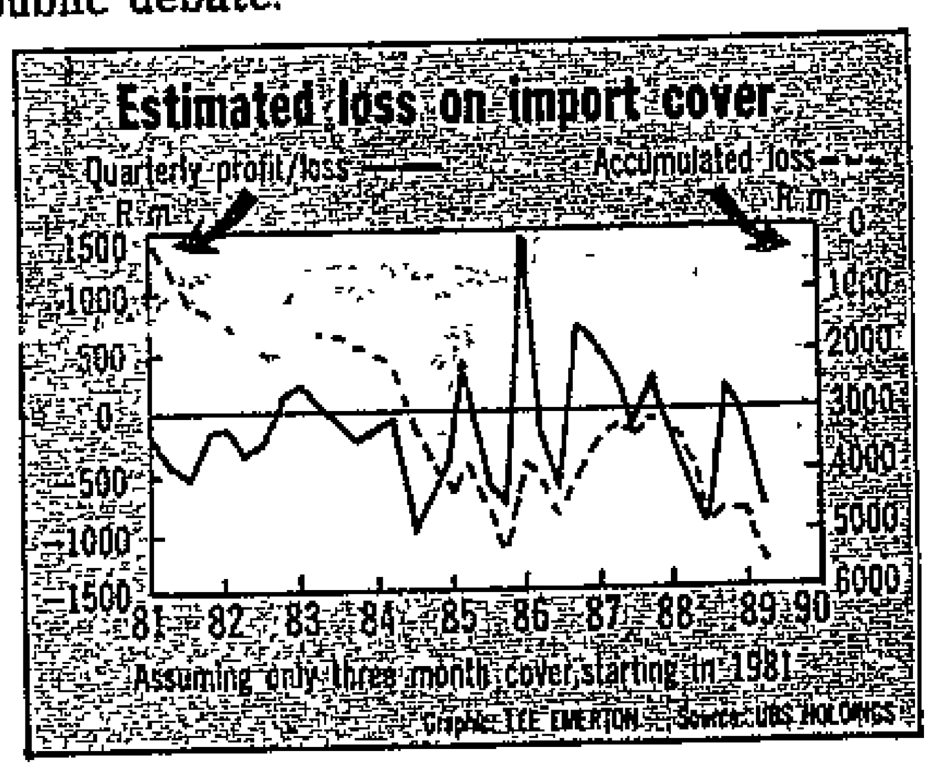
SA's losses in terms of forward cover costs are now an estimated R15bn and set to rise a further R1bn this year, a study has found.

UBS Holdings' chief economist Hans Falkena argues that the only way to stop further losses — for account at the Treasury but ultimately borne by local residents — is to increase interest rates.

A copy of his report was sent to the Reserve Bank, which could find no fault with its empirical data.

Falkena argues that to staunch the losses, the prime rate should be three percentage points higher, at 24%. "For every single percentage point below this level, approximately R400m a year will be lost on import cover alone."

Moreover, he shows that government has attempted to finance the losses by printing money. "To finance forward cover losses by means of 'inflation taxation' is tempting only from a political point of view, because this taxation method bypasses parliamentary approval as well as public debate."



BARRY SERGEANT

ZILLA EFRAT reports that Reserve Bank Governor Chris Stals, who had not seen the study, said last night the scheme's resulting large losses were well known, but it had the advantage of allowing importers and exporters to use available foreign finance, although this did decrease demand on local money and capital markets.

Termination would restrict further economic growth, and result in the use of only domestic savings. The rand would depreciate further and influence the inflation rate. The exchange rate and the balance of payments situation would be affected — and "in the end, SA would pay".

Stals said it boiled down to choosing between two options: the subsidy or higher interest rates, increased inflation and a lower rand. This was a difficult decision and it was debatable which was in the long-term interests of SA. Both created problems, were not without pain and required some sacrifices from residents.

Falkena's study shows that the Reserve Bank — which provides forward cover contracts to importers, exporters and the country's creditors — cannot itself provide against such losses, not having sufficient dollars for this purpose.

"Unfortunately, the Bank does not have sufficient dollars for this purpose." In fact, SA's net foreign exchange reserves became negative again in the second quarter of 1989.

"Without sufficient foreign exchange reserves, the Bank is effectively forced to grant forward cover on fiduciary terms to the private sector."

The report says that from Treasury's

☐ To Page 2

Forward cover

58 B Day 1/11/89

☐ From Page 1

viewpoint, it would be "far cheaper to subsidise selected debtors in the economy — such as farmers in need, where output probably accounts for only 3% of GDP — than to hand out a blanket subsidy in the form of too cheaply priced forward cover to all importers and (SA's) creditors".

Falkena says a real interest rate in SA of "2% below that dictated by the US rates (currently the case) could cause a further loss on import cover of more than R1bn during the coming year".

Because the decline of the rand has been so predictable, and domestic real interest rates too low compared with those of our major trading partners, "risk-free arbitrage profits can be made".

Falkena says that "for a long time the true extent of forward cover losses has been obscured because forward cover was provided to public enterprises for periods up to 10 years. Only when these foreign loans were repaid (as is happening now) were the book losses transformed into real losses. Over the past few years several of this type of loan were settled and as a result the losses on forward cover provided soared by billions of rands to an estimated R15bn today."

The study shows that since 1981 accumulated losses on import cover alone now exceed R6bn.

Falkena argues that a domestic real interest rate level that ignores real interest rate patterns abroad will result in a continuously "undervalued" forward exchange rate.

"This will have a detrimental effect on the country's foreign exchange reserves as 'leads and lags' will be set in motion. Furthermore, the money supply will rise the moment the Bank monetises the incurred forward cover losses. This in turn may have serious consequences for inflation, thus leading to a further depreciation of the rand."

Falkena shows that ultimately the financial burden of the forward cover losses is carried by local residents. He says the ways of financing the burden are: through the Budget — which implies higher tax; ation; by printing money — "causing inflation, which will harm the unemployed, pensioners and people with fixed incomes in particular"; or by borrowing money in the capital market — increasing government's interest commitments, implying higher taxes/inflation.

"To date," says Falkena, "government, via the Reserve Bank, has mainly financed forward cover losses by printing money."

● Comment: Page 12

SA faces R15bn losses

Cape Times 1/11/89

Own Correspondent

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UBS Holdings' chief economist Hans Falkena argues that the only way to stop further losses — for account at the Treasury but ultimately borne by local residents — is to increase interest rates.

A copy of his report was sent to the Reserve Bank, which could find no fault with its empirical data.

Zilla Efrat reports that Reserve Bank Governor Chris Stals, who had not seen the study, said last night it was well known the forward cover scheme had resulted in large losses, but it had the advantage of allowing importers and exporters to make use of available foreign finance, although this did decrease demand on local money and capital markets.

Stals said the termination of the scheme would restrict further economic growth, and result in the use of only domestic savings.

The rand would depreciate further and influence the inflation rate.

The exchange rate and the balance of payments situation would be affected — and "in the end, SA would pay".

Stals said it boiled down to choosing between two options: the subsidy or higher interest rates, increased inflation and a lower rand.

This was a difficult decision and it was debatable which was in the long-term interests of SA. Both created problems, were not without pain and required some sacrifices from residents.

Falkena argues that to staunch the losses, the prime rate should be three percentage points higher, at 24%.

"For every single percentage point below this level, approximately R400m a year will be lost on import cover alone."

Moreover, he shows that government has attempted to finance the losses by printing money.

"To finance forward cover losses by means of 'inflation taxation' is tempting only from a political point of view, because this taxation method bypasses parliamentary approval as well as public debate."

The Reserve Bank makes no bones about its desire to get out of forward forex markets, but is constrained from doing so by the debt standstill and high inflation.

Falkena's study shows that the Reserve Bank — which provides forward cover contracts to importers, exporters and the country's creditors — cannot itself provide against such losses, not having sufficient dollars for this purpose.

"Without sufficient foreign exchange reserves, the Bank is effectively forced to grant forward cover on fiduciary terms to the private sector."

The report says that from Treasury's viewpoint, it would be "far cheaper to subsidise selected debtors in the economy — such as farmers in need, where output probably accounts for only 3% of GDP — than to hand out a blanket subsidy in the form of too cheaply priced forward cover to all importers and (SA's) creditors".

Falkena says a real interest rate in SA of "2% below that dictated by the US rates (currently the case) could cause a further loss on import cover of more than R1bn in the coming year".

Because the decline of the rand has been so predictable, and domestic real interest rates too low compared with those of our major trading partners, "risk-free arbitrage profits can be made".

Falkena says that "for a long time the true extent of forward cover losses has been obscured because forward cover was provided to public enterprises for periods up to 10 years.

"Only when these foreign loans were repaid (as is happening now) were the book losses transformed into real losses.

"Over the past few years several of this type of loan were settled and as a result the losses on forward cover provided soared by billions of rands to an estimated R15bn today."

The study shows that since 1981 accumulated losses on import cover alone now exceed R6bn.

Falkena argues that a domestic real interest rate level that ignores real interest rate patterns abroad will result in a continuously "undervalued" forward exchange rate.

"This will have a detrimental effect on the country's foreign exchange reserves as 'leads and lags' will be set in motion.

"Furthermore, the money supply will rise the moment the Bank monetises the incurred forward cover losses. This in turn may have serious consequences for inflation, thus leading to a further depreciation of the rand."

Cape Times 1/1/87 58

Sats appoints five pension fund managers

JOHANNESBURG. — Sats has moved closer to privatisation by allocating part of its pension fund to five private fund managers — Old Mutual, Southern Life, Liberty Life, Sanlam and independent portfolio manager Allan Gray.

The allocation of an undisclosed part of the fund, which has a cash flow of about R40m a month to invest, follows a period of about 18 months in which major portfolio managers pitched for the account.

Sats pensions chief Gideon van Zyl yesterday confirmed market talk that the five managers had been appointed but declined to reveal the amounts involved.

"We have appointed private fund managers to improve the returns on our investments. Previously, Sats was forced to invest in gilts and semi-gilts but now that the fund no longer faces those constraints we are going for the best returns," Van Zyl said.

He added further allocations would be made to private fund managers.

Asked whether the fund would now invest mainly in equities, he said: "Obviously I cannot say that is what our fund managers will do. We will go for maximum returns."

But since the Sats fund currently has no exposure to equities, it is likely to invest in JSE stock to gain a more balanced book.

Private management of the pension fund will go a long way towards reducing the fund's deficit — the actuarial shortfall between liabilities and assets. The deficit has been cited as a major obstacle in the way of selling government's stake in Sats to the private sector.

Former Sanlam chairman Andreas Wassenaar put the deficit at R6bn but industry sources say it could be considerably lower. The last official statistics are for March 1979, when the shortfall was R3,5bn.

Steps such as increasing members' contributions have been taken to reduce the shortfall.

In addition, the Sats fund is also putting in place efficient new adminsitrative systems based on private sector methods.

SA faces R15bn losses

CN Tr/T? 1/11/89

(58)

Own Correspondent

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. and CAPE 80c (71c + 9c tax) (58) B. Day 1/11/89 A TIMES MEDIA PUBLICATION GREY PERSPECTIVES

Iscor mania doubles the number of private SA investors to 300 000

BARRY SERGEANT

ISCOR mania has doubled SA's number of private shareholders from an estimated 150 000 to about 300 000.

The penultimate announcement ahead of next Wednesday's listing on the JSE was the basis of allocation, given yesterday.

The small man won big, with applications for 100 to 1 000 shares 100% allocated. The allocation works on a steeply sliding scale up to 999 900 shares.

Applications for a million shares and more are allocated 4% with a maximum allocation of 100 000 shares.

There were about 64 000 applications for the minimum of 100 shares. About 80% of the applications were for up to 1 000 shares. There were 43 applications for a million shares or more. One investor applied for 10-million shares, and would receive 1% or 100 000 on the basis of allocation announced.

Johannes Hamman, MD of Finansbank, joint promoter of the issue with Senbank, said he was "absolutely delighted with the level of interest". Privatisation Unit's Eugene van Rensburg said the state was "delighted with the response".

The public offer of 150-million shares was 4,16 times subscribed — applications for 623,5-million shares were received from 254 877 applicants. Senbank MD Doug Anderson said along with Iscor employees who had taken up the offer of free and discount shares, it was estimated that Iscor would have 300 000 shareholders.

Senbank's Bernard Kaiser said this figure was bound to drop. About 400 institutions that qualified for the preferential offer were each given 95,5% of their applications. The merchant banks had already substantially scaled down informal indications given to them by institutions.

By definition, the institutional subscription could not be oversubscribed by more than a small margin.

According to the prospectus, qualifying Iscor management and executives were entitled to apply for shares of 200c each up to listing date at a cost of 1c a share, the balance to be lent from a trust at an interest rate to be determined by the board.

Of Iscor's 60 000 employees, 87% of blue-collar workers had taken up free shares (200 each) and 57% discount shares. The corresponding percentages for white-collar workers were 99% and 95%.

Kaiser said the state would earn about R25m interest on the money from applicants before the money was either handed back to investors for oversubscriptions or formally handed over to the state.

The 1,85-billion shares in Iscor are held:

- ☐ General public: 150-million;
- ☐ Iscor employees, pensioners, associated companies, organisations of the group and selected institutions: 1 307-million;
- ☐ Existing preference shareholders on conversion of the preference shares: 439 272;
- ☐ The State Share Trust: 92,5-million;
- ☐ The Industrial Development Corporation: 300-million; and
- ☐ The state: 28.

300 000 SA investors get Iscor shares

Star 1/11/89 (69)

Finance Staff

Iscor's listing next Wednesday will bring over 150 000 new shareholders to the Johannesburg Stock Exchange.

Iscor itself will have over 300 000 shareholders, comprising about 240 000 private investors and about 54 000 Iscor employees who took up the free allotment of 100 shares each and who also applied for shares at a discount of 20 percent on the offer price.

The large number of shareholders is part of the State's privatisation policy.

"We have done what the State set out to do — spread share ownership as widely as possible," Mr Johannes Hamman, MD of Finansbank, one of the merchant bank's involved in the issue, said today.

Almost 80 percent of investors in the Iscor share issue will receive in full the number of shares for which they applied.

At a press conference yesterday, Iscor announced that over 80 percent of potential investors sent in applications for less than 1 000 shares and these investors — totalling about 67 000 — would receive the full number of shares.

An application of between 1 100 and 2 500 shares would entitle the investor to only 1 000 shares.

After this the number of shares granted to an applicant would rise according to a set formula (see chart).

Investors, who asked for between 30 000 and one million or more shares would receive on average 4,5 percent, subject to a maximum allocation of 100 000.

Almost 255 000 investors applied for the 150 million shares at 200c each on offer to the public and applications for 623 million shares were received.

A spokesman for the steel giant said that cheques to refund shares not granted would be posted today.

Iscor also announced that financial institutions, who were offered 1,2 billion shares on a selective basis, would get 99,5 percent of their applications.

● See Page 21.

(58) B.Day 1/11/89

Interest in Frasers as share price improves

ANALYSIS
STEPHEN RICHTER

DIAGONAL Street's mini-crash on October 16 has shifted investor attention away from the industrial board, but Frasers is an exception as the share price has jumped substantially over the past month.

On the face of it, there would seem little incentive for investors to purchase Frasers in preference to other blue chip industrials. Frasers is basically an investment holding company controlled by Tradegro, which itself has been out of favour among institutional investors.

Frasers NAV appears to be the primary reason behind this share's recent strength. At the end of its latest financial year in June, Frasers controlled 100% of the shares in Smart Centre, a clothing chain with 149 shops.

In addition, Frasers had material interests in Metro and Rusfurn as well as a relatively small stake in Cashbuild.

The stakes in Metro, Rusfurn and Cashbuild were all acquired in 1987, when Frasers disposed of its main trading interests to Tradegro, with the exception of the Smart Centre chain.

As payment for the trading interests, Frasers became the owner of 13,4-million new Metro ordinary shares, 33,8-million new Rusfurn ordinary shares and 1,4-million new Cashbuild ordinary shares.

This transaction also had a material effect on Frasers' financial statements. With most of the trading interests sold, turnover shrunk to R105m in the latest financial year, compared to R541m in 1987. Operating income recovered to R13,7m during the latest year from R6,8m in 1988, but is still short of the R27m recorded before the deal with Tradegro.

But the income statement benefited significantly from the attributable after-tax profit generated by the associated companies which amounted to R19,5m in financial 1989, compared with less than R1m earned from this source before the transaction.

Financial

After climbing steadily, earnings a share were given a significant shot in the arm by the Tradegro acquisitions and amounted to 155,8c in the latest financial year, compared with 68,4c in financial 1987. This enabled the directors to raise the dividend by nearly 100% to 41c from 22c during this two year period. The transaction also had a significant impact on the balance sheet.

Shareholders' funds increased to R180,8m during the latest year compared with R99,3m in financial 1987.

Consequently, net asset value has increased substantially to 1 139c against 622c over the same period.

While Frasers' increased NAV should have pushed the share higher during the past two years, its performance was disappointing. Frasers only reached a high of 715c in 1988 and in early October of this year, the price stood at 560c.

But on October 4, it was announced that Frasers and Tradegro would dispose of their investments in Rusfurn.

The Frasers stake generated R47m for the group and raised NAV by 29c to 1 167c. Tradegro owned 98,2m Rusfurn and received a total consideration of R137,5m. The effect of this disposal is to reduce Tradegro's interest-bearing debt to 8,9% of total capital.

Since Tradegro currently holds a 54,2% controlling interest in Frasers, it would be logical to assume some investors are speculating that Tradegro might be interested in purchasing the remaining Fraser shares it does not currently own.

Consequently, the disposal of Rusfurn appears to be the primary catalyst behind Frasers recent price jump, but with the shares currently changing hands at approximately the same level as NAV, it seems that Frasers is now fully valued.

The managements of Frasers and Tradegro are unwilling to comment at present, but indicate that an announcement will be forthcoming in mid-November concerning this matter.

Banks squeezed to reduce credit

(58) B. Day 2/11/89

GRETA STEYN

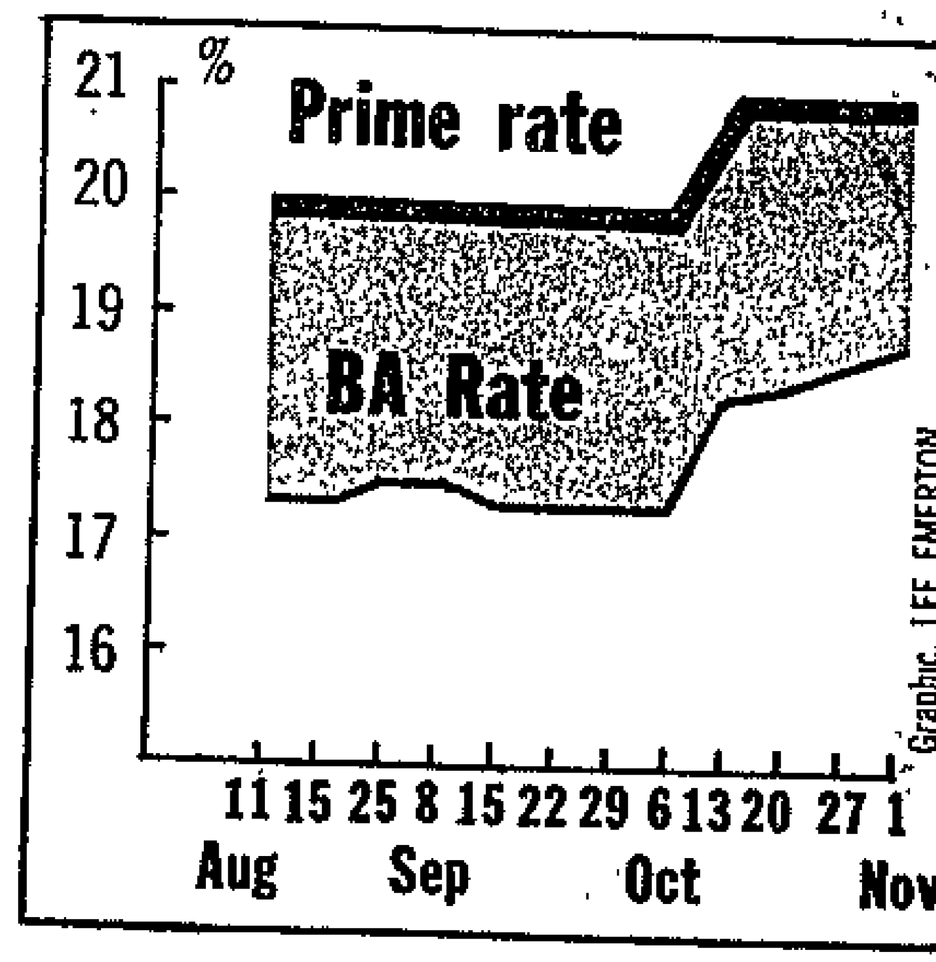
THE Reserve Bank is putting the squeeze on banks in an effort to force them to curb credit extension.

The Bank offered no help in the form of extra liquidity during a week which saw banks' margins virtually wiped out in the scramble for cash. Bankers who had hoped for some relief yesterday described the cold-shoulder treatment as the Bank's strategy to stop them from creating too much credit.

The month-end, when liquidity is usually tight, was exceptionally difficult. Call rates went above the prime overdraft rate of 21% with some banks paying as high as 22%. Bankers said if prime had been a purely market-determined rate, it would have been raised this week, but they had not appealed to the Bank on this score.

Trust Bank MD Kobus Roetz said: "There is undoubtedly great pressure in the money market — the shortage surged to well over R4bn, call rates went up to 21,5% and other rates have also been rising. On the face of it, prime should rise based on market signals. But one should not over-react over a particularly difficult month-end. We have to sit this one out in the hope the pressure will subside soon."

Already there was some relief yesterday as the call rates subsided to 19%-19,75% and other rates came off their highs. Six-month NCD's, which had been as high as 19,50% over the month-end, eased back to 19,35% — unchanged from a week ago. The key liquid three-months BA rate stayed at its higher level of 18,70%.



Standard Bank treasury chief John Lloyd said banks faced difficult trading conditions for the next few months.

"But as the slow-down gains momentum it should become easier."

A dealer at a discount house said the general feeling in the market was that Bank rate would rise if foreign interest rates rose.

"The mood in the market is cautious rather than bearish," he said.

Bankers and economists agree economic fundamentals do not at this stage signal a clear need for higher interest rates. Money supply growth slowed substantially in September, the inflation rate came down as well and the gold price has been firmer.

Interest rates were too low for years — Stals

(58) B. Day 2/11/89

KAY TURVEY

THE economic hardships being experienced were created because interest rates had been too low for the past three years and not because current interest rates were too high, Reserve Bank Governor Chris Stals said yesterday.

On the tougher line on monetary policy he has pursued since becoming governor, Stals said SA could not have low interest rates today without having high inflation tomorrow.

Speaking at the Federated Chamber of Industries annual meeting in Johannesburg yesterday, he said that, as with exchange rates, interest rates should be allowed to reflect underlying supply and demand conditions in the market.

The market was the best determinant of interest rates. This made it difficult to predict movements.

For example, a week before September's one percentage point hike in bank rates the Reserve Bank was unaware that they would raise rates, he said.

Intervention by the central bank should only be directed towards the elimination of short-term fluctuations and temporary disruptions in the market, such as at month-end, Stals said.

In the longer term, he reiterated, interest rates should yield a positive real rate of return and not be unduly out of line with real rates of interest among SA's major trading partners.

Hinting that monetary policy would remain tight for some time, Stals said once the economy had slowed sufficiently to relax economic measures, this easing should be led by a relaxation of fiscal policy to encourage savings, although a

☐ To Page 2

Interest rates

☐ From Page 1

disadvantage in lowering taxes was that the lower income groups who paid little tax would not benefit.

The economy was unlikely to slow until late next year and even then measures should not be eased too soon. There were three measures through which the grip on the economy could be relaxed. Monetary policy could be relaxed, government expenditure curtailed or taxes reduced.

Commenting on inflation which is fuelled by excessive growth in money supply, Stals said money supply targets should have been set far lower. This was despite the fact that M3 had not been within the targets, since they were revised upwards at the beginning of the year.

Preferential forward cover rates were receiving attention.

SA's losses in terms of forward cover costs were estimated at R15bn, but if government was not prepared to fund these losses the economy would have to accept higher interest rates, Stals said.

Investment in people seen as key to profit

59

Bday 21/11/89

RAND-AIR managing director Brian Shekleton believes his company's average annual growth rate of 37% over the past 14 years can be attributed to employing the best people, efficient asset management and sound understanding of how customers view plant utilisation.

Rand-Air is a Non-listed Company Award finalist for the fourth successive year.

Training

The company has a staff of more than 200 employed in 16 depots nationwide. They attend training courses, seminars and personal development programmes costing over R250 000 annually. Investment in training is rising to match turnover and profit growth.

This investment is accompanied by a close scrutiny of consumer needs.

Rand-Air's share of the R75m a year compressor hire market is not publicised. However, the company is undoubtedly a market leader.

BRIAN SHEKLETON

In the last 12 months it has spent some R6m on new plant and equipment. More spending is planned, putting Rand-Air in a position to exploit competitors' weaknesses.

Says Shekleton: "The last few years have seen our competitors either reluctant or unable to invest in capital equipment.

"This is firstly because they haven't got the markets and secondly because they find it difficult to get the necessary credit facilities.

"This presented us with an ideal opportunity to increase market share through opening new depots and small company buy-outs.

"We shall continue our expansion into new geographical areas when the time is ripe."

Speaking about the changing uses of plant, Shekleton says: "The contractor accounts for a substantial percentage of Rand-Air's customer base.

"For him, plant hire continues to be an aid to effective capital planning, especially as the cost of plant is rising.

"More contractors are today looking at their plant as a profit centre, rather than a cost centre.

"In the past, the reasoning tended to be: 'If I buy this compressor it will cost me R50 a day and if I hire it I will pay R80, therefore I will buy it.

"Nowadays, the outlook is 'how much will this compressor cost me for each day it will actually be in use, contributing to the profit of the contract as a whole?'"

But it is not only the construction market which Rand-Air has researched. In the mining and manufacturing sectors, too, the company strives to lead the way with the introduction of innovative products and services.

Benefits

Two examples of this approach are the on-site service unit, which brings to major sites all the benefits of a local compressor hire depot, and the clean air package, an add-on hire designed to refine, purify and dry the air delivered for industrial use.

BDay 2/11/89

Iscor teaches hordes of new investors about the market

BARRY SERGEANT

NEXT Wednesday government will be paid the balance of its R3,7bn proceeds from the privatisation of Iscor and the JSE will allow the market to finally value its issued 200c shares. And while government shrugs off criticisms that it is selling the family silver, it is convinced that it has achieved a sensational success in its first full-blown privatisation.

The best evidence for this is that the public offer of 150-million shares was 4,16 times subscribed and that the number of SA's private shareholders has doubled to 300 000.

It is not known what percentage of this number is new shareholders. But there is no doubt that the Iscor campaign captured tens of thousands of incipient new capitalists.

SA's first full privatisation is also the largest corporate offer in SA's history. When the share is placed on the JSE's boards at 11am next Wednesday, new shareholders — including thousands of blue-collar Iscor employees — will be paying attention to concepts such as price to earnings ratio, market capitalisation and dividends.

Iscor's immediate challenge will be to ensure that it achieves the rating of a blue chip — something only the market can decide.

The Privatisation Unit's Eugene van Rensburg says that the number of smaller investors who applied exceeded expectations. "The main objective of Iscor's privatisation from the state's viewpoint was to give as many South Africans as possible a chance to own shares."

JSE executive president Tony Norton, who returned yesterday from a tour of five stock exchanges — Mauritius, Tokyo, Taiwan, Hong Kong and Singapore — says share ownership is the "quintessence of free enterprise".

The importance of popularisation of investment, he adds, "cannot be overstressed".

Government made no bones about the fact that it would do everything possible to ensure the success of selling Iscor.

In the end, the main consideration was pricing. There is unanimous agreement that the 1,85-billion shares were fairly, if not conservatively priced, at 200c each.

The merchant bankers to the issue, Senbank and Finansbank, were ultimately entrusted with deciding on the 200c offer price. It is generally expected that the share will settle at around 230c on listing day, reflecting the normal 15% premium that is paid for the privilege of having a freely trading listed share.

But the point is that, as Senbank's Bernard Kaiser argues, the entire issued 1,85-billion shares could have been sold to institutions.

Indeed, in their informal "pink paper" applications, 400 qualifying institutions indicated that they would subscribe to twice the shares available to them.

After intensive discussions and research the promoters decided that the public offer would consist of 150-million of the 1,85-billion shares. The 4,16 public subscription suggests that the decision was conservative, but the army of Iscor promoters are delighted with the outcome.

It is the small investor, who was given a chance to get a slice of a solid enterprise, who will be remembered as the most outstanding feature of the Iscor phenomenon.

Says Norton: "After Black Monday in 1987, the 'small man' left the market in droves. With Iscor, he is now tentatively putting his toe back in the water."

Norton argues that one of the most important consequences of Iscor is that "privatisation was privatised". The process of taking Iscor to the JSE was given to squadrons of professionals in private enterprise — two merchant bankers, four sponsoring stockbrokers, lawyers, accountants and consultants.

They all found themselves on a learning curve. Says Kaiser: "Being the first of its kind there were no predetermined rules to follow. We had to try to handle it like a normal listing, but there had to be flexibility.

"One of the problems is that Iscor, unlike, for example, SAA, was a low-profile operation, not dealing directly with the public. Its identity, staff of 60 000, strategy and objectives had to be skilfully presented to the public."

The promoters quickly discovered that no privatisation abroad could serve as a guideline for the Iscor phenomenon. It was, says Kaiser, a homemade brew.

"One thing we've learned is the power of advertising. It created knowledge of Iscor, and it established the concept of privatisation."

Norton, while agreeing that education of the meaning of share ownership is important, says that participation is the crucial factor.

"I can guarantee that on Iscor's listing, those with shares will experience a change in thought processes. When reading a newspaper, they will find themselves turning to the share prices first, and then going about what they normally do.

"They will find themselves suddenly becoming interested in finance and economics. With participation, the new investors will become active rather than passive players in the country's economic process."

Norton says that the importance of private share ownership cannot be overstressed.

"In the Far East, unlike the JSE, markets are totally dominated by individuals. This Monday, for example, the Taiwan Stock Exchange, which trades for three hours a day, turned over US$6,9bn worth of shares.

"While the JSE's market capitalisation is about half of TSE's, a good day's turnover is about R100m. Investors in the Far East markets are avid students of every possible piece of information they can get on stock exchanges."

It is generally agreed that privatisation — one of the legs of deregulation — cannot exist in a vacuum. So far, much confidence on the economic front has been expressed in the troika of President F W de Klerk, Finance Minister Barend du Plessis and Reserve Bank Governor Chris Stals.

Among many initiatives taken to invigorate the economy, the privatisation of Iscor is but one. But there are many details that must be attended to before private share ownership develops the muscle it deserves. Perhaps the most important is creating an environment where savings are seen as more important than spending. The troika has repeatedly said it wants inflation down.

Iscor, says Norton, should be seen as one of the many planks in integrated economic reform.

"SA is in a renaissance phase, on a high risk road, but the way to the high road is there. The country has never been a basket case."

In the meantime, the Iscor experience has paved the road for future privatisations. The basis of allocation announced this week showed that the smaller investor will be heavily favoured when state assets are sold.

In the process, it is arguable that the economic environment has acquired an element of excitement and, perhaps, electricity.

Says Norton: "Share ownership is economically and socially desirable. It should be be seen as a way of protecting and enhancing personal wealth. It should be seen as addictive and fun."

Supported by a cast of hundreds of thousands, Public Enterprises Minister Dawie de Villiers will be on the floor of the JSE next Wednesday to see what the world really thinks of Iscor.

Silver languishes as surplus builds up

SS 3/11/89

By Neil Behrmann

LONDON — Silver, the most depressed precious metal is still suffering from the hangover of Nelson Bunker Hunt's attempted corner of the market a decade ago.

The price of $5 an ounce compares with its all time peak of $50 an ounce in January 1980.

It was between mid-1979 and early 1980 that silver soared to $50 from $8 when Mr Hunt, his brother Herbert and several other associates bought all the available silver on exchanges in the US and London.

It was that attempted corner that precipitated a gold rush that carried gold to a peak of $850 in January 1980 from $280 mid-1979.

"Mr Hunt's attempts to squeeze the silver market ten years ago is still indirectly to blame for today's market depression," said Lesley Edgar, managing director of Sharps Pixley, London brokers.

Some 100 million ounces of silver once held by Mr Hunt and Middle Eastern Associates, are no longer overhanging the market. Yet the price surge of 1979, precipitated a surge in mine production and scrap recovery and encouraged silver consumers to economise on silver usage.

Silver's history of volatility is also discouraging investors. Even in the present uncertain investment climate, investors are prefering "quality assets" such as treasury bills and bonds to gold, silver and platinum.

Although prices rallied briefly following the tumble on world stock markets three weeks ago and the weaker US dollar, precious metals are out of favour for the moment because of high interest rates and a determination by governments to curb inflation.

Yet the psychology could change quickly if, as many brokers predict, the dollar falls out of favour and slides suddenly.

Some analysts contend that silver is cheap now that prices are languishing at levels last seen in the mid seventies. "Bargain hunters believe that silver offers the best value amongst precious metals," according to Drexel Burnham Lambert.

A further decline in prices will lead to mine production cuts in the US, says the firm. Scrap merchants are converting smaller quantities of metal into silver, while low quotes are discouraging exports from India and the Soviet Union.

Silver prices could also be boosted by strikes in leading producing nations Peru and Mexico.

Meanwhile total fabrication demand for silver has risen six years in a row. Japanese demand grew by 70 percent in the first half of this year and the nation plans to issue a silver commemorative coin that will require 4,5 million ounces.

Compared with huge annual surpluses of more than 100 million ounces in the first half of the eighties, world silver supplies and consumption are now virtually in balance.

Despite intermittent rallies in the past few years, improvements in the supply demand balance have failed to drag silver into a higher price range.

"There's just too much silver around," says a London bullion dealer.

"A huge silver stockpile at exchanges, refiners ,consuming industries and government warehouses of at least 617 million ounces is the market depressant," says Shearson Lehman Hutton in a report.

This year alone, inventories at Comex in New York jumped "by a staggering 46 million to 221 million ounces, because of producer deliveries, de-stocking by fabricators and sales by disenchanted investors," says Rhona O'Connell, London-based precious metals analyst at Shearson Lehman Hutton.

Still looking around

(58)

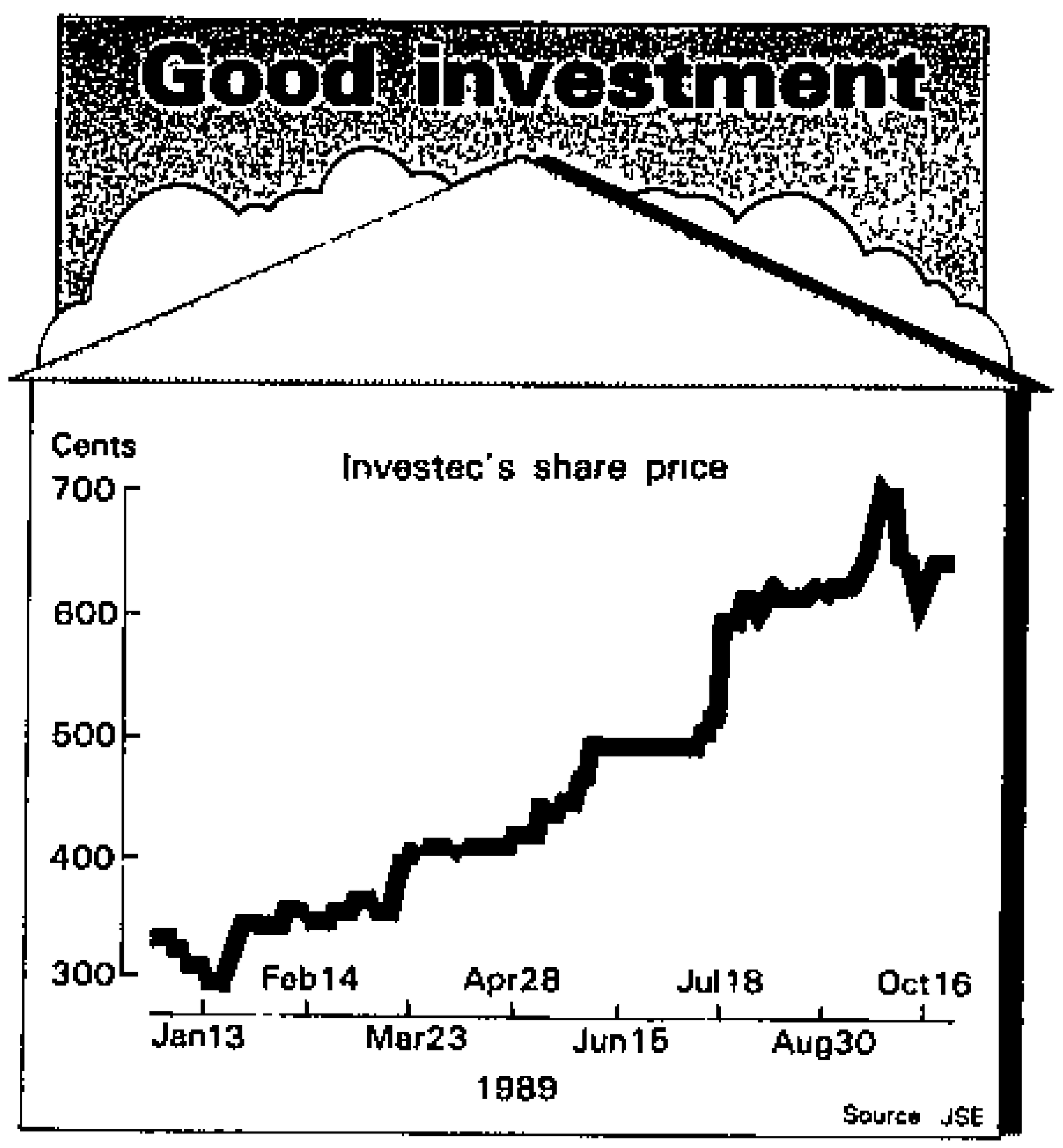
Investors are wondering where the group's energies will focus next

Investec's share price has climbed sharply since the beginning of the year — clearly suggesting a market rerating of the group long before the recent bids for Board of Executors (BoE) and Corbank. But with the excitement of the bids, Investec became far better known; and now that they have fallen flat, investors are wondering what the group will set its sights on next.

Executive chairman Bas Kardol says there are not many companies left — not in the fields where Investec is looking. "BoE has the ideal spread on a national basis as far as we are concerned, and Corbank could have taken us to where we want to be 12 months faster, mainly because of their merchant bank lending operation and foreign exchange department," he says.

The emphasis will thus be on organic growth and, with cash at about R250m-R300m at any particular time, assets can continue to grow at a rate in excess of 50% a year.

An important consideration for any bank at present is its capital ratio — and Kardol points out that the latest BA9 returns show Investec has a ratio of capital to assets of 7,5%, considerably higher than the average 4%-5%. He is also emphatic that the takeovers Investec was pursuing would not have created a need for capital.



There is of course also the possibility that Investec could itself be taken over. With an average annual growth since 1985 of 23% in EPS, 81% in funds under administration, and 64% of net income after tax and transfer to internal reserves (Kardol points out that there has never been a transfer *from* reserves), Investec would seem a desirable prey. However, Inhold owns 75% of Investec and 85% of Inhold shares are tightly held, with management and staff owning 53,4% and institutions 25,2%; and IGI still has 9,9%.

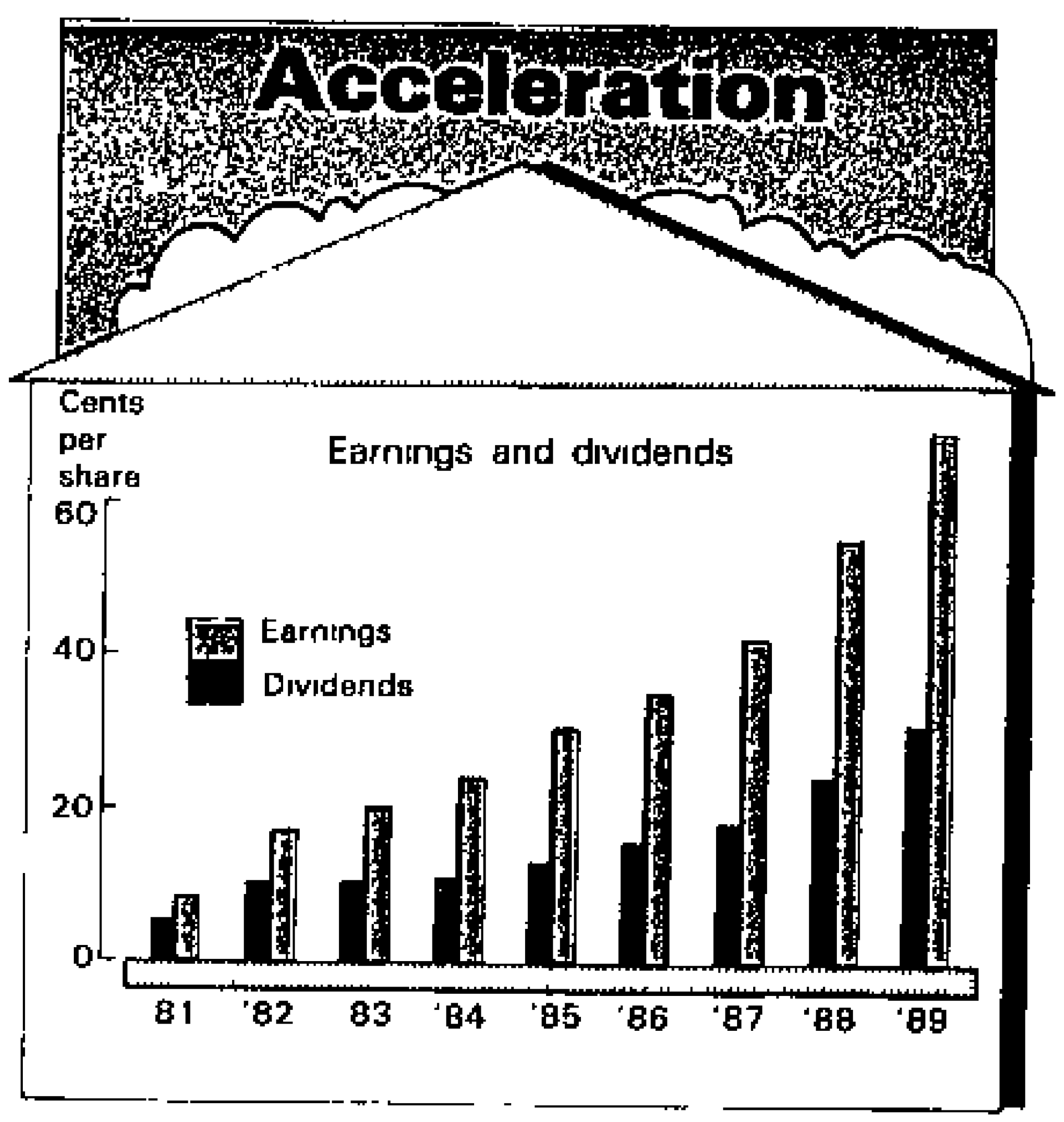
This also means that the share is not highly marketable. Of the total of 20m shares on issue, an average of only 37 000 was traded a month in the past year. Despite this disadvantage, in the present calendar year there was a massive rerating of Investec against the Banks and Financial Services index. At the end of 1988, Investec had a dividend yield of 7,2% against that on the index of 5,9%. At the end of last week they both had a dividend yield of 5,2%.

For a long time after listing in 1986, Investec management complained that investors did not understand their business and that the share was consequently underrated. As the current dividend yield is 5,5% against the banking sector average of 6,5%, it would appear this is no longer true. The only shares in the sector given a better rating are the banking and building society giants (Nedcor, SBIC and UBS), Investec's holding company Inhold, and — one which may rankle — BoE.

A major factor in the change of investor perception was the appointment of Kardol — formerly an executive director of Barlow — as executive chairman. Investec was formed in 1974 by Ian Kantor and IGI chairman Michael Lewis and was bought by management in 1976. Ten years later, Kantor went to the Netherlands and, when the group was listed in 1986, investors could not understand how it could operate with a CE in Holland.

Kardol says Investec would have had a local CE much earlier, had it not been for complications which arose from the merger with Metboard in 1985. Kardol and MD Stephen Koseff both praise Kantor's strategic thinking and are pleased he has remained on the board and that they are still able to have discussions with him.

Much was made of the problems with the Metboard merger by the BoE management in the recent attempted takeover. Investec management says comparisons are not valid. Koseff explains that the first problem with Metboard was that Metboard was "not as profitable as it was supposed to have been as one or two property developments became a problem." The second was that the MD



emigrated and two directors resigned shortly thereafter.

There was also a problem with styles: the one was an old trust company and the other a younger aggressive organisation. The result, according to Koseff, is that the merger held Investec back in the short term as management attention had to be centred on Metboard — but it has proved to be a good investment in the long term.

Certainly the merger meant a leap in Investec's size. Funds under administration jumped from R186m in 1985 to R774m in 1986 and total assets from R101m to R221m. Because of the issue of additional shares, net worth a share increased only from 174,4c to 185c.

Kantor's move to Europe held considerable advantages for the group. Though details of the overseas operations are not made public — as with many SA companies now — Kantor has built up a business of considerable size in the five years since he left SA. As can be seen from the analysis of gross income (**see pie chart**), the international division produced 5,4% of income in the year to end-March 1989, though only 1,67% of earnings. This is budgeted to increase to 2,16% in the current year, but indications are this figure will be exceeded and the division will assume increasing importance in the years ahead.

Banking (which includes investment banking) is still the most important profit earner and investment banking margins are better than in most of the group's other businesses — as shown by the fact that it contributed 16,25% of gross income but no less than 25,97% of earnings. The budget indicates an interesting reversal of this situation in the current year, forecasting gross income at 19,68%; but the profit contribution is expected to fall to 13,69%. The reason is that investment banking is highly volatile and could have less importance this year.

Koseff is emphatic that the banking function concentrates on the professional market and the middle to upper corporate markets. He considers that the really cut-throat competition is at the top of the market and that the margins there are too small to be of interest. Other target markets are statal and parastatal bodies, institutions, and high net worth individuals, where portfolios should be more than R600 000.

Group operational activities include merchant banking (for which Duros Merchant Bank — now to be called Investec Merchant Bank — was acquired), banking, property management and trading, property finance, investment and asset management through Metboard, and the international business. The latter covers corporate finance, including international taxation and foreign exchange management, international holdings and notional disinvestment, arranging financing packages and trading SA overseas debt.

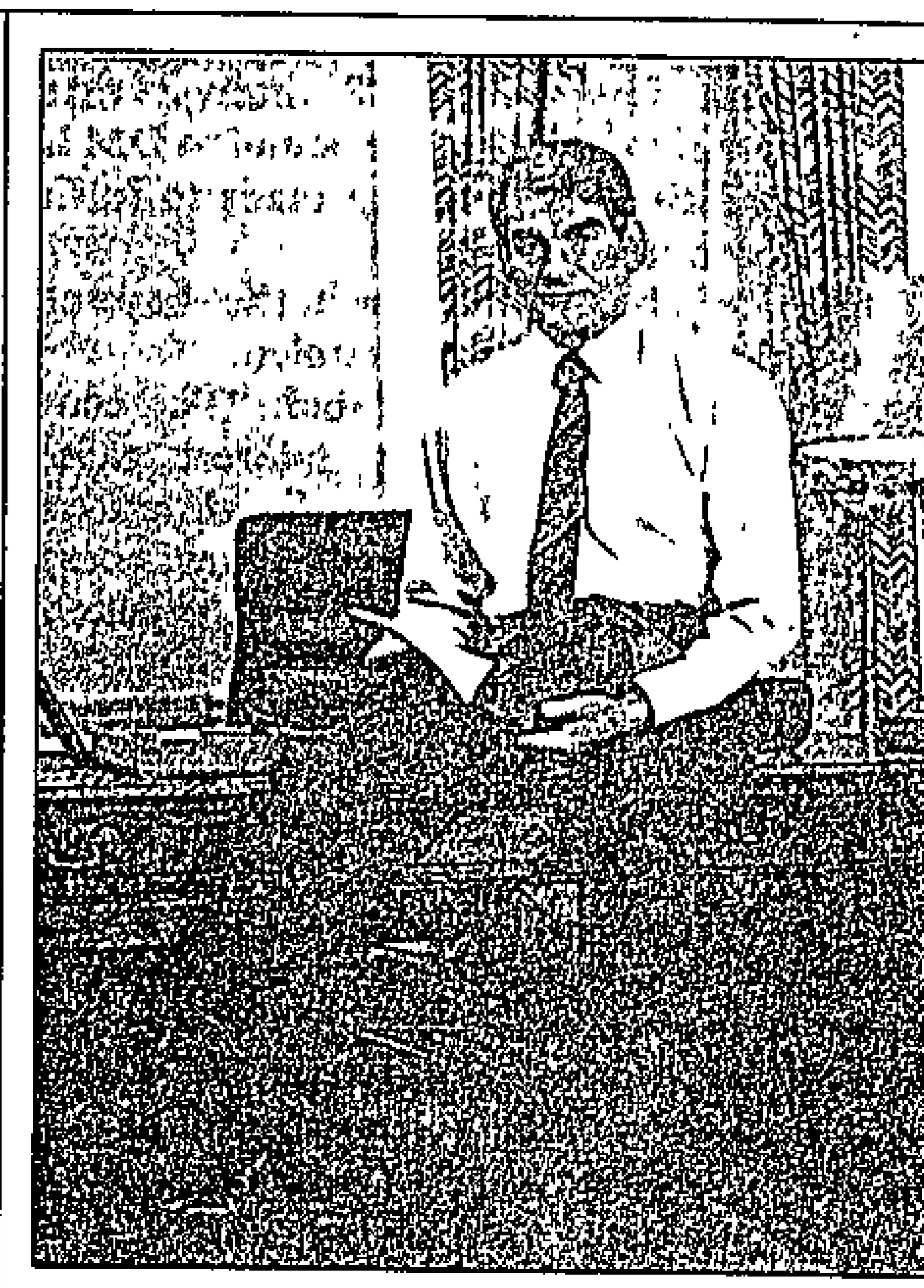
Investec is specific about the services it is prepared to offer and, says Kardol, the group would have to be forced into retail banking. One of the reasons it is not keen to enter this market or to run cheque accounts is the wide network and heavy additional investment in computers this would require. Investec's network currently covers only Johannesburg, Pretoria, Durban and Cape Town; and overseas in Zurich, Amsterdam, London and Geneva.

Though Koseff says the group has consistently spent more than absolutely necessary on computerisation, and is thus very well provided for its present operations, the amounts spent are small compared to those of the retail banks. Nevertheless, it is expected to rise from 6,4% to 7,7% this year, before declining again.

The property section has been considerably expanded after the year-end, as Investec acquired I Kuper which has made the group one of the largest independent property managers in the country.

Koseff emphasises that group income must be balanced between "volatile" income and "annuity" or regular income. The latter consists of income from property management, most of the income from the banking division and most of Metboard's income. In addition, there are other sources not subject to the wide fluctuations experienced by trading operations (which incorporate property trading, gilts and Krugerrands, as well as index futures), corporate finance, project finance, and investment banking.

Kardol says that Investec's strength lies in its ability to service customers. The time taken to approve a loan can be as little as 48 hours and is never more than a week — and Kardol says the group has excellent credit control. As a general rule, exposure to any one client is kept to less than 1% of total assets of less than 10% of share capital and reserves. In addition, the borrowing rate is matched with the investment rate; open positions are hedged and liability periods are balanced by assets and short-term funds.



Chairman Kardol . . . strength lies in service

Some 18 months ago, most of the Investec capital market team left, but Koseff says they have been replaced and the section is now being run by Peter Cahi. The treasury division is now headed by Stewart Heyn, who was with Citicorp for 23 years.

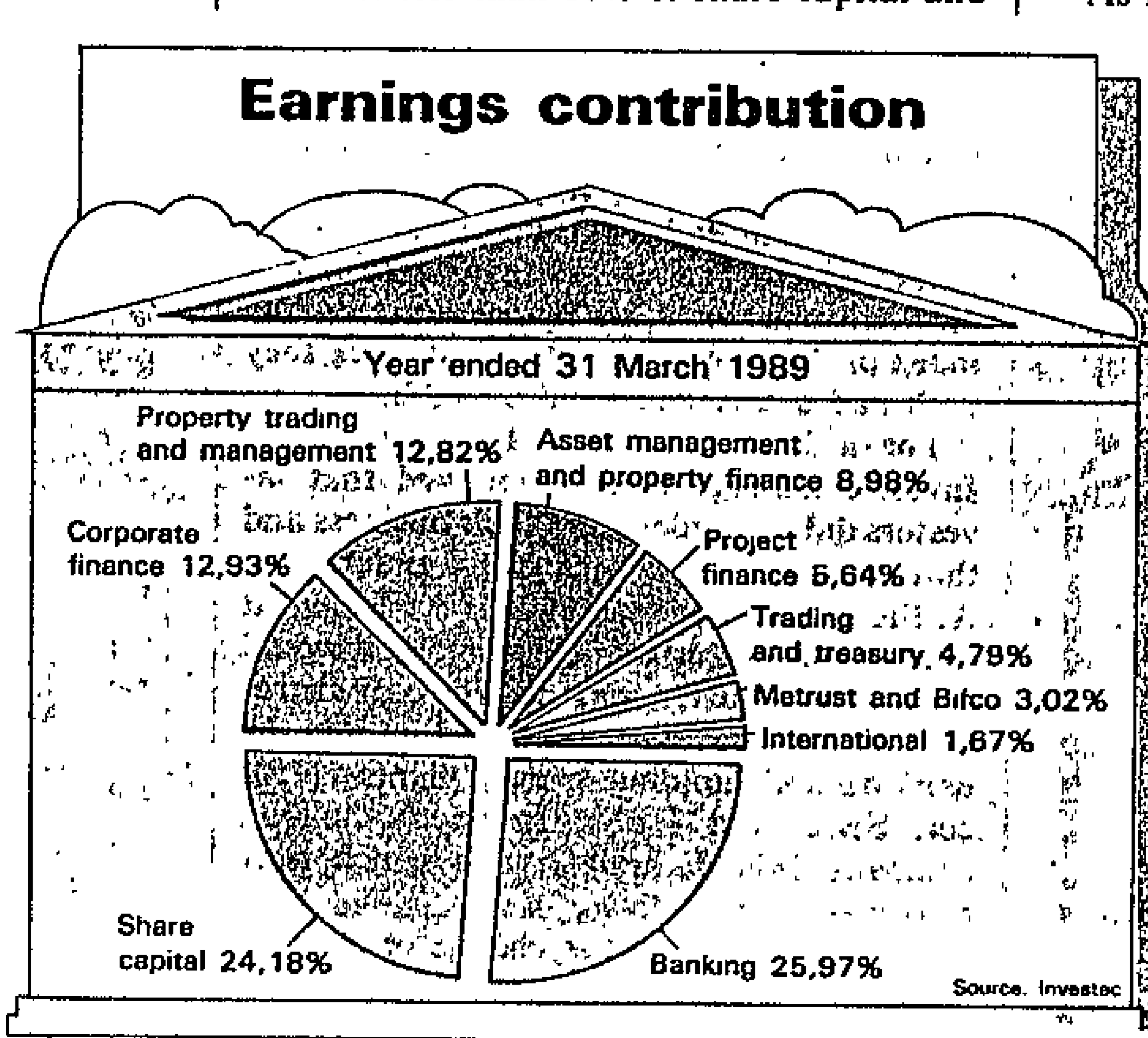
A section which is currently being developed is the foreign exchange division, which is expected to start contributing by the beginning of the next financial year.

Kardol says that Investec plans to grow equally in all four main local areas: merchant banking, banking, property, and property finance and asset management. He does not see the group entering a new financial field such as insurance.

As far as analysts are concerned, there is some worry that the failure of both attempted acquisitions — especially as they were entered into at the same time — may indicate to investors that Investec is a group which fails with both barrels. They strongly commend the group's performance and the appointment of Kardol, but suggest that any further failed bids could have a bad impact on the share's rating. Koseff points out that two acquisitions were, however, made in June and July. Obviously they lack the glamour of the unsuccessful bids.

So the intention of the Investec management to grow organically rather than by acquisition would seem to be a wise one at this time. Certainly it seems unlikely that growth will slow and Investec should remain one to watch.

Pat Kenney



(58)

BUSINESS

Same numbers, same sums, but not the same answers

3-9/11/89

Two different economists examine the foreign exchange drain and come to very different conclusions. HILARY JOFFE reports

TWO economists who this week highlighted South Africa's losses on forward cover for foreign trade transactions have drawn some different policy conclusions from the figures.

Both Volkskas Bank's Adam Jacobs and the United Building Society's Hans Falkena highlighted the foreign exchange drain the country was experiencing as a result of losses on the forward cover (insurance) the Reserve Bank provides importers and exporters.

In Volkskas' latest Economic Spotlight, Jacobs estimates losses on forward cover, a result of the deterioration of the rand, amounted to more than R15-billion by the end of June. Falkena gives the same figure in a special United report on forex cover.

Falkena concludes from this that interest rates must go higher — he suggests a prime overdraft of 24 percent over the next 12 months (compared to the current 21 percent) would be needed to prevent South Africa losing about R400-million a year on import cover. Losses in the current year could be R1-billion. He also argues the Reserve Bank should stop providing the cheap foreign cover it has offered until now.

But Jacobs suggests caution — the Reserve Bank could not withdraw from the forward foreign exchange market without the serious consequences resulting from a sharp hike in interest rates and a further deterioration of the rand. He stresses instead that the financial authorities must implement more change in the domestic economy in order to protect the balance of payments, rather than relying on the depreciation of the rand. In particular, he focuses on the need to cut government spending.

Both their studies dovetail to some extent with Reserve Bank governor Chris Stals recent decision to raise interest rates in response primarily to interest rate rises overseas, in order to prevent capital outflows.

The Reserve Bank provides cheap forward cover primarily to encourage businesses to borrow trade credit overseas. Importers, for example, can buy cover from the Bank which will insure them against the possibility of the rand falling against the dollar between the date they agree to purchase foreign goods (priced in dollars) and the date they actually have to pay for them.

The Reserve Bank takes losses on the forward cover if the rand falls — since it has to make up the original dollar price — but it is the Treasury which actually foots the bill. And that can mean an outflow of capital reflected in the balance of payments.

Normally traders would borrow money in any country which was most payable, depending on relative interest rates in real terms (taking inflation into account). But through its forward cover system the Reserve Bank encourages importers to borrow overseas, even when real interest rates are higher there. This delays capital outflows because the importers borrow in foreign currencies, and only have to use South Africa's foreign exchange resources to repay their loans later on.

As Falkena explains: "The Reserve Bank often encourages importers to obtain trade credits from foreign banks as local borrowing would imply immediate pressure on the foreign exchange reserves, which are often at a critically low level.

"To make such foreign borrowing attractive, the cost of foreign funds (the United States BA rate plus South Africa's forward cover cost) has to be lower than the domestic credit cost (South Africa's BA rate). For the greater part of the 1980s this has in fact been the case."

Inflation rate, % change	1988	1989	1990
USA	4,2	5,0	5,25
Japan	3,0	2,0	2,75
West Germany	1,3	3,0	2,75
France	2,7	3,5	2,75
Italy	5,0	5,75	5,0
United Kingdom	5,0	5,75	5,25
Canada	3,4	4,25	4,25
Total (OECD)	3,4	4,5	4,5

Table. VOLKSKAS BANK

In effect the Reserve Bank quotes future (forward) exchange rates which are lower than market rates. And if the rand declines, it incurs losses.

"The reasons for the accrued forward cover losses are thus quite simply a combination of too low forward cover rates (resulting from too low domestic interest rates) and a recurrent large and rapid depreciation in the value of the rand."

Falkena notes for example that since the beginning of 1988 the dollar has appreciated by an average two percent a month while the average monthly cost of forward cover has been only 0,4 percent over the period.

Capital flight, legal and illegal, means there is virtually no room left to finance forward cover losses through the budget, Falkena says. "Under these circumstances a domestic real interest rate level below that of our major trading partners simply implies inflationary financing, a weak currency, more capital flight and an unavoidably lower long-term potential GDP growth rate."

It would be cheaper for the Treasury to subsidise particular borrowers — such as farmers — than to hand out the "blanket" subsidy to importers offered by cheap forward cover.

Jacobs makes a similar point: the forward cover the Reserve Bank provides in effect subsidises the price of imports. Normally the depreciating rand should have a protection effect, making imports more expensive. But the forward cover subsidy partly neutralises this, Jacobs notes.

"The costs (the losses suffered by the Reserve Bank for which the Treasury accepts liability) will eventually be passed on to the taxpayer."

But Jacobs emphasises that adjustments will have to be made to the domestic economy. A major problem is inflation. "If one takes the accelerating inflation rate in South Africa into account and weighs this up against that of the seven major industrial countries in the West (ours is over three times higher than the average of these countries), inflation as a problem rates very high on the priority list which will have to be addressed in the management of the economy."

Jacobs also argues in favour of positive real interest rates. But monetary policy is not enough — fiscal discipline is also required.

He points to the fact that government expenditure as a percentage of gross domestic product has increased from 25,1 percent in 1978/79 to 27,3 percent in 1988/89.

South Africa can no longer afford the government's practice of dissaving — using borrowing to finance current expenditure — given the scarcity of capital. The government has absorbed an increasing proportion of the country's scarce savings, says Jacobs — its deficit before borrowing as a percentage of private saving increased from 37,1 percent in the 1970s to 46,3 percent in the 1980s and 78,1 percent in 1988.

Gold price tops $380

NEW YORK — Gold put in a sudden spurt in early New York trading yesterday and was quoted at a three-month high of $381, against $373,65 Wednesday.

However, it fell back later to close at $380 in New York and declined further in Hong Kong this morning, opening at $379, $4,80 up on Friday's close.

Gold also made a strong showing in late London trading, moving up from Wednesday's close of $373,25 to $375,25.

Dealers were at a loss to explain bullion's sudden surge as the dollar had been trading steady against most major foreign currencies. Traders said the dollar was holding steady despite reports that the Bank of Japan sold dollars.

Gold briefly touched $380 last Friday in New York but during the past week slid backwards to be quoted at around $373 on world markets.

In London, the dollar gained against the British pound. It cost $1,5662 to buy one pound, cheaper than $1,5815 late Wednesday. Dealers said the pound fell on reports that a senior member of the UK government was involved in insider trading. — Sapa-Reuter

Nampak's turnover reaches R3-bn mark

58

Star 3/11/89

By Ann Crotty

Despite the considerable deterioration in the economy that was evident during the third and fourth quarters of financial 1989, Nampak managed to boost earnings by 28 percent to 458c (358c) a share in the 12 months to end-September. A dividend of 166c (133c) a share has been declared.

An estimated five percent of the increase is attributable to the change in status at Metal Box from a 54 percent subsidiary to a wholly owned operation.

This contribution (equivalent to about 23c a share on the larger share base) is net of the cost of financing the R280 million acquisition which was funded by cash (R160 million) and shares (R120 million).

The 28 percent advance is well ahead of chairman David Brown's annual report forecast for a 20 percent earnings improvement. It is also at the top end of market expectations.

It was evident from Consol's results (June year-end) released a few months ago, that in the three months to end-June the packaging sector was beginning to feel the impact of the slowdown in economic activity. It has also been evident that this situation deteriorated further in the three months to end-September.

So analysts were expecting to see a much slower pace of earnings growth from Nampak in its second half.

This was not the case. A break-down of the two six month periods shows that the 30 percent advance recorded at the half way stage was followed by a very creditable 26 percent advance in the second half.

For the full year, turnover was up 22 percent to R3 billion (R2,5 billion) and operating profit increased 26 percent to R391,7 million (R310,9 million). MD Mr Don McCartan points out that this reflects a volume rise of 5,5 percent.

Referring to the slowdown in activity over the year, he notes that at the half way stage volumes were up by 7,5 percent and that financial 1988 enjoyed a volume increase of 10 percent.

Operating margins were up from 12,3 percent to 12,7 percent. This was achieved despite the absorption of some cost increases as heavy competition in a tightening market restricted the ability to lift prices. The margin improvement reflects the considerable benefits of the higher levels of capacity utilisation.

The overall level of utilisation is currently running at 75 to 80 percent with ongoing capex in the region of R200 million a year (in 1989 rands) directed at specific areas of operation.

For financial 1990, Mr McCartan is looking to capex of around R250 million compared with R201 million in 1989. The increase reflects the hike in the cost of imports and not a greater real commitment to capex. With the group facing a leaner economic period (and given the 18 to 24 months lead time) there is currently no pressure to increase capacity.

Interest payments more than doubled to R58,4 million (R21,3 million) reflecting the hike in borrowings — from R180 million to R350 million — and the higher level of interest rates. The sharp increase in borrowings is attributable to the combined effect of the cash outflow for the acquisition of Metal Box, the R200 million capex and, funding the increased stock and debtor levels that accompanied the increase in turnover. Gearing was up to 43 percent from 38 percent.

The tax rate was down to 35 percent (36,7 percent) and is expected to hold at around 36 to 40 percent while capex remains at current levels.

Attributable profit showed a 40 percent gain to R214,6 million (R153,3 million). This was diluted to a 28 percent improvement on the increased number of shares in issue.

Although its exposure to the more resilient food and beverages sectors will cushion the impact of the general economic downturn, there is little doubt that 1990 will be tough year for Nampak. Financial 1984 and 1985 showed that Nampak cannot entirely escape the ravages of a weak economy.

58

3/11/89

58

FIRST NATIONAL 58

Margin priority

First National's MD Barry Swart becomes quite defensive when asked why FNB's advances dropped in the past six months. At end-September 1988, total advances were R21,1bn, rose to R23,4bn by end-March but then slipped fractionally to R23,1bn by end-September this year.

FIRST'S FIGURES

	1988	1989
Net interest income (Rbn) .	1,19	0,96
Advances (Rbn)	21,10	23,09
Total assets (Rbn)	28,15	30,35
Attributable profit (Rm) ..	206,8	274,3
Earnings (c)	284,5	377,0
Dividend	112,5	130
Return on assets (%) ..	0,73	0,90
Return on equity (%)	20,3	22,7

"Don't forget it's only a snapshot of our position. On average, advances are 15% higher this year than last," is his answer. But it is an answer which to an extent begs the question of First National's present strategy and Swart need not be defensive. The bank's priority now is to improve its banking margins and return on assets either to fund necessary capital growth internally or in anticipation of an eventual rights issue.

In fiscal 1988, return on assets was 0,73% against the 1,4% estimated in the 1988 annual report as necessary to sustain a capital:assets ratio of 5%, twice covered dividends and annual asset growth of 16%. This past year, return rose to 0,90% underscoring the tighter control of costs achieved under Swart's management, but still below 1,4%. As a counterbalance dividend cover has been raised to 2,8 times from 1988's 2,3 and Swart reckons cover could be hiked to 3,3 times over the next few years.

In addition, First National's improved return on assets was achieved despite a further squeeze on interest margins. Last year, interest income rose by 60,5% to R4,56bn while interest expenditure was 78,7% higher at R3,37bn. It resulted in an increase in net interest, but the squeeze remained in place.

The upshot is that Swart does not need to be defensive about First National's business performance, it is starting to work. In any event, Swart believes, reasonably enough, there is little point in chasing business at any cost. In the past year, doubtful debt provisions were increased to R182m from R125m, largely because of specific provisions against non-performing loans. Farmers, in particular, are defaulting as nominal interest rates have soared, but Swart adds the problem is spreading to consumers and corporate borrowers.

The bad debt trend is unlikely to ameliorate in the current year, particularly if another percentage point hike in prime is introduced early next year. That means that this year will concentrate on asset management, even if that means forgoing opportunities to lend to less-attractive clients. Containing asset growth, too, will remove some pressure to raise additional equity capital.

This year's performance will depend heavily on the Hogan system to which all branches are now linked. First National is the largest bank anywhere to install Hogan and, in fact, was responsible for much of the system's adaptation to a large branch network rather than to the small networks it was designed to serve in the US. Cost in cash and

FNB's Swart . . . not chasing business

customer frustration has been enormous but Swart says the system is operating properly, processing as many as 100 transactions a second and giving First National a systems edge over some competitors.

Advances to farmers are unlikely to grow fast, while the man in the street is virtually out of the car market and auto loans by Wesbank are predominantly to fleet operators. Rate of home loan lending has slowed appreciably and this year there is unlikely to be a material increase in total advances which stood at about R4bn at end-September. Smallish corporate borrowers are starting to pull in their horns as the economy remains sluggish and capital spending plans are affected by surcharges on imported machinery. In contrast, there are lending opportunities in the project finance sector and, presumably, in the home loans market as the new R3bn initiative on black housing gets into gear.

Everything adds up to a year of consolidation with the likelihood of a pegged dividend allowing cover and retentions to rise.

Jim Jones

S Times 5/11/89

59

White ants at work on dollar stability

THE dollar has every to reason to weaken — on fundamental grounds.

Markets can and do change their opinions and direction with lightning speed They sometimes continue to subscribe to old reasoning.

The dollar has so far not embarked on a major slide — mainly because most people have not wanted it to, investors continuing to supply America with their savings.

In the past two months, sentiment about the dollar has been bullish It has taken considerable central bank intervention to prevent it from reaching higher levels.

These attempts were derisively written off by most commentators who considered them a waste of time The only true way of effecting a change in direction of the US currency would be to change real yield considerations. Capital presumably moves rationally and is attracted to countries with the highest real interest yield.

In late August, real interest yields on dollar assets started to cross into negative territory While US interest rates along the entire maturity spectrum remained higher than in Europe and Japan, inflation-adjusted rates in America for the first time in two years fell below those on the Continent and in Asia.

There is a strong correlation between long-term currency trends and real interest-rate differentials. Inflation differentials have to be compensated for in the long term because this is the extent of perceived exchange-rate risk.

If real US rates fall below those of other countries, investors are not adequately rewarded for the exchange risk inherent in the higher American inflation rate. So although nominal interest rates in the US may be higher, they are not rewarding the investor adequately for the exchange risk he is running, seeing that US inflation is also higher.

Risk and return in the short term are not always only a yield consideration. The rational investor takes political considerations into account as well.

Interest, exchange and inflation rates are all visible, but political risk is another matter

The US has been the political "winner" relative to China, Japan, Russia, Eastern Europe and even Germany and the UK As long as this idea is prevalent, it can cancel out a considerable negative real-interest rate differential.

Commentators have generally been correct in reading sentiment about the dollar, whose fall from Dm1,95 recently was not due to the negative real interest-rate differential. Instead, jitters associated with the sudden dip in equity prices, beginning in New York, put investors on hold — along the lines of "what is going on?"

THE REX COLUMN

CEES BRUGGEMANS reviews the world and South African scene . . .

With the dollar marked down, rumour fuels rumour The US stock market was due for a correction after a 30% run-up in share prices earlier this year. Now all of a sudden company profit performances are disappointing, it is feared the economic slowdown could injure more and more companies, the US trade deficit improvement is stalling, Federal Reserve funding may not go as smoothly, in effect any old jitter would do.

But all of that merely takes one's eye off the ball. The yield considerations are firmly against the US, while the political considerations presumably still favour it.

Other reasons for a weaker dollar may simply not be fundamental enough because yield should rule supreme on that dimension. In the final analysis, all these jitters should be reflected in expectations of lower US interest rates and therefore an even larger negative interest differential.

Japan does not want to increase its interest rates further in defence of the yen (and compensate for the political discount being forced upon it) for fear of dislocating share and land prices.

It seems to have directed its main financial institutions to slow down their appetite for foreign securities, in this way taking pressure off the yen The UK has been badly affected by the Lawson departure, the markets selling the pound down on expectations of an unacceptable inflation performance.

Besides promises that it will not turn out that way, only another base-rate increase would calm the markets, but that would lead to economic and political overkill.

Germany may believe it has done enough on the monetary front to strengthen the mark and to dampen inflationary tendencies. But the German economy continues to perform strongly, and it remains to be seen if its central bank board will remain agreeable not to raise rates again.

If Germany were to raise rates once more, most of Europe and Asia would presumably follow even after a European Monetary System realignment, now expected in early 1991.

In contrast, US rates have probably not seen their low The third-quarter gross national product growth of 2,5% suggests continued slowing, but the threat of recession remains as yet distant.

With inflationary forces still evident, the Federal Reserve may be expected to be careful not to lower interest rates too fast. However, the potential exists for further easing in the next few months.

Either US easing and/or non-American tightening would widen the unfavourable real interest-rate differential against the dollar. In spite of the political fundamentals remaining in favour of the US, capital flows could at some point start reflecting the reality that America is for a while no longer the place with the best returns.

The timing of this mood change is impossible to predict, mostly because the non-quantifiable political considerations are difficult to pin down. But at some point sentiment could shift against the dollar, not for negative or panic reasons, but simply because it is no longer giving the best results.

Such a shift, when it comes, will presumably be welcomed by central banks everywhere. In Europe and Asia it will help stem inflationary forces, and US exports may get their second wind.

Although a weaker dollar would penalise our terms of trade, it could have a beneficial impact on capital outflows, especially if the rand were to remain stable for longer.

It would therefore not be a higher dollar price of gold that would come to our rescue, as in non-dollar terms it continues to show little life.

The true choke chain on our economy remains on the capital account and any easing there next year will be sorely needed because the foreign debt repayment will be onerous enough.

More benefits for elderly

PRESTASI has negotiated improved benefits for SAARP members who have a Golden Years Policy.

The additional benefits for SAARP policyholders who live on approved protected premises — retirement villages with high-security measures — are:

- A discount of 10% on the house contents premium.
- Exemption from vehicle excess if the vehicle is stolen or is damaged in a theft attempt while on protected premises.

The benefits came into effect this week.

Prestasi says the 10% discount on contents premium is an extension of the 5% Neighbourhood Watch discount granted to all policyholders.

"For some time Prestasi has regarded retired people as a low-risk group — hence their cheaper premiums But when they move to a retirement village where strict security measures are maintained, they become an even lower risk.

"This is the reasoning behind Prestasi's decision to award these special discounts to SAARP members. It is also Prestasi's way of showing its appreciation for the excellent security measures employed to protect residents and their property"

PEOPLE AT THE TOP ARE ON THE MOVE SEE PAGE 13

APPOINTMENTS

PAGES AND PAGES OF THE BEST JOBS IN SOUTH AFRICA

MANPOWER MIRROR by ROBYN CHALMERS

Iscor listing stirs trade unions anew

58 S. Times 5/11/89

ISCOR'S listing on the Johannesburg Stock Exchange has rekindled trade-union opposition to privatisation.

When it became clear that the Government was serious about privatisation in 1987, trade unions came out strongly against it. The Iscor listing has caused unions, employers and the Government to reconsider these objections.

In summary, organised labour believe privatisation will mean:
- Weaker trade unions and greater pressure to improve productivity.
- Retrenchments and a higher unemployment rate.

HARRY SCHWARZ ... purely business approach not enough

- An increase in the costs of services, such as health care and transport.
- An even greater concentration of wealth and power in the hands of such giants as Anglo American, Sanlam, Gencor and Rembrandt.
- The share offer to employees of privatised companies will be small and give workers little control over the organisation concerned.

The National Union of Metalworkers of SA (Numsa) — the representative union in Iscor — issued a statement in July this year to express its opposition to Iscor's privatisation.

"The workers and unions have not been consulted on the process. Very limited information has been supplied to them about the event. Numsa members strongly object to the proposed privatisation of Iscor."

Probably the main reason for Numsa's continued opposition to Iscor's privatisation was that the Government steadfastly refused to consult it on the employee share ownership programme (Esop), among other matters.

In July, Iscor announced that it would make 10% of its shares available to employees. Numsa was not consulted, but was expected to accept and rejoice.

[redacted]

I have pointed out before that union opposition to Esops stems from poor marketing on the part of the organisation and a lack of consultation.

Iscor was no exception. The result was that Numsa advised its members to take up the preferential share offer with the intention of selling the shares immediatly and setting up a trust fund from the profits.

Iscor reported at the close of the share offer on October 23 that 70% of the 70-million shares available to employees had been applied for. Most members who applied for shares had signed an agreement to transfer profits on sale to the trust fund.

It all seems pointless — why not merely give employees a bonus?

Privatisation is vitally important in terms of SA economic policy. In theory, it is a means of improving economic performance and should provide more scope for investment, growth and profitability for the private sector.

The phrase black economic empowerment was developed in response to the need to include the majority of the population in the economy.

Listening to black leaders and many white businessmen, the need to negotiate black inclusion in the economy is almost as important as a new political dispensation.

[redacted]

Privatisation provides an opportunity to bring this about, yet the Government has done little to elicit the support of blacks.

A poll by the Markinor-Bates Privatisation and Deregulation Monitor found that one in four blacks surveyed understood the concept of privatisation, and only 26% supported it.

In an open letter to Administration and Privatisation Minister Wim de Villiers published in the Sunday Times in September, Democratic Party financial spokesman Harry Schwarz identified this.

"Privatisation needs to bring greater efficiency in management, incentive to management and workers, and not to bring price increases in monopolistic conditions to provide profits for the fortunate who have obtained shares brought at attractive prices.

"A purely business approach to privatisation is, in my view, not enough. The interests of consumers cannot be ignored."

Politics behind rise in strikes

THE number of mandays lost because of strikes in the third quarter of 1989 was almost double that of the first two quarters of this year.

Between July and September, FSA-Contact's Industrial Relations Information Services found that 934 798 mandays were lost compared with 75 442 in the first and 457 713 in the second quarter.

The third-quarter figure is a 53,6% increase over the same time last year.

[redacted]

Mike Beaumont, managing executive of the FSA-Contact industrial relations division, says the previous equivalent or greater number of mandays lost was the third quarter of 1987.

More than 6-million mandays were lost then, mainly because of the Chamber of Mines-National Union of Mineworkers dispute (4,6-million) and the Post Office-Potwa strike (630 000).

Not included in the total for the third quarter of 1989 is the national protest action during the election campaign in September. More than 3-million workers are estimated to have been involved in the two-day stayaway.

This figure would enormously and disproportionately inflate the statistics for the third quarter and is thus stated separately from the orthodox strikes.

[redacted]

The manufacturing sector once again lost most mandays in the third quarter — 448 368. The major contributors were the Everite-CAWU and Plascon-Sacwu disputes, each costing more than 180 000 mandays.

The motor industry lost 216 592 mandays, strikes of about 10 days at most major manufacturers contributing to the total.

The report says the increase in the number of mandays lost from the first and second and specifically the second to third quarter this year may be attributed to several factors.

It says the co-ordination, solidarity and resolve of many trade unions have seemingly altered this year.

The union movement has regrouped after setbacks in collective bargaining in 1987 and 1988 when few demonstrable advantages flowed from industrial action and State intervention increased.

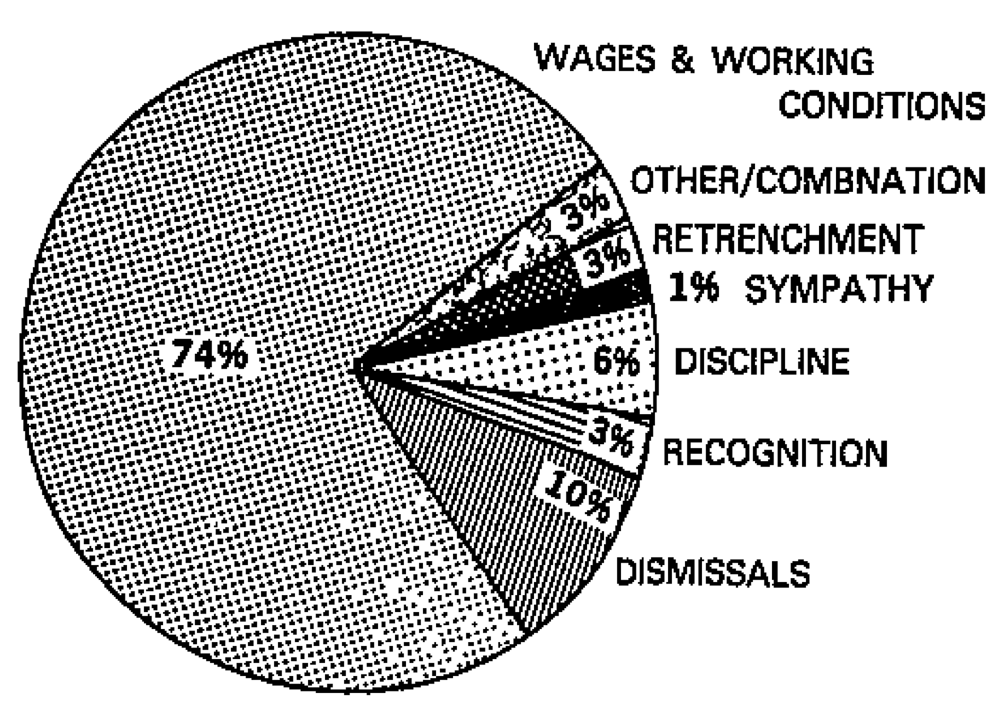
Mr Beaumont says: "We believe that the mood, confidence and resolve of workers cannot be divorced from the political climate and the current mobilisation of public and community within the mass democratic movement.

"It is anticipated that the potential for industrial action will intensify with the increase in political tensions in the country."

The importance and priority of wages, and remuneration in general, to workers are shown by the abnormally high incidence of industrial action (74%) attributed to these factors.

CAUSES OF STRIKES

3RD QUARTER 1989



Personnel register

A REPORT on this page on October 15 said the SA Board of Personnel Practice had changed its registration requirements. It implied that the change eliminated university qualifications.

The report should have stated that certain categories of highly experienced people were being given the opportunity to register as practitioners (the highest grade) without necessarily following the university stream.

They would qualify either through the technikon stream, or a board examina-

THE WEEK ON THE JSE

So-great believers in golds

By Julie Walker

GOLD'S fluctuations in the $370s represent at best a 2% climb, yet the JSE all-gold index jumped disproportionately by 11% to 1 836 points this week.

Such is the super-optimism among SA investors, especially in light of the fact that the rest of the world's bourses weakened.

The rand rallied to 262c to the dollar, stemming the rise in the gold price. It rose from R988 to R997. In contrast to golds, Krugerrands were only R5 higher at R1 127.

Krugers are not subject to strikes, rising working costs or mining problems, yet they hardly responded to the rise in gold. Sentiment changes fastest on gold shares in spite of unchanged fundamentals.

There was foreign buying of the quality counters, with Driefontein adding 12% to 5 275c, Vaal Reefs up by the same percentage to R380 and Kinross adding 17% to R66 although it is with dividend of 150c. Randfontein added R24 to R226 ahead of a 10-for-one share split tomorrow.

58

SMART

Marginals also found favour. ERPM put on 26% to 1 100c, and Durban Deep added a third to R12 to make the week's biggest climbers. Among smaller mines, Primrose gained 10c to 100c, Gazgold 4c to 45c and South Roodepoort 5c to 70c.

Mining houses looked smart. Anglo American hit R100 again — it was R90,50 on Monday. Gencor put on 35c to 955c and Johnnies climbed by R25 to R815. Its shares will also be sub-divided 10 for one.

Gold Fields of SA added 950c to R9 150c, and Rand Mines rose R10 to R100.

Platinum added $9 to $490 on the back of gold, and the shares responded. Rusplats picked up R7,50 to R73,50, Impala added R5,50 to R54,75 and Lebowa put on 40c to 970c. Lebowa, Rustenburg and JCI jointly announced expansions at Atok, and a probable new mine on the Platreef.

Aurora Granite hit a low of 120c after reporting losses and development problems on its new quarry. But the price picked up to 140c.

Industrials were quietly firm, most of the attention being channelled into the mining boards.

Barlows added 150c to 4 150c ahead of results. Many of its companies have reported for the year.

SA Breweries picked up 75c to 2 475c.

First National Bank shone among financials after announcing much-improved results. The shares climbed from 1 885c to R21. The preferred ordinaries must be due for a run. They put on 50c to 1 950c, yet should never trade at a discount to the ordinaries.

Bankorp eased 15c to 350c — there is a rights offer at 340c. Trust Bank was unchanged at 195c. There is a cash offer at 200c, or 50 Bankorp for every 100 Trust in a move to take out the 21% minority.

Volkskas picked up 75c to R12, and UBS was 50c up at 550c. Nedcor added 50c to 1 000c. Investec eased a quarter to 625c after good results had been discounted. Even Corbank rose 25c to 110c as sentiment about banks improved. They tend to do well after interest rates peak.

R2,92 for R2 Iscor share

68

Business Times Reporter

ONE of the richest individuals in SA is gnashing his teeth over the State's decision to spread the Iscor privatisation issue as widely as possible.

He applied for 10-million shares and attached a perfectly good cheque for R20-million. The application represented a fifteenth of the shares allocated to the public.

Because every one of about 203 000 applicants for 1 000 shares or less is being accommodated, this rich individual will receive the maximum of 100 000.

Richie Rich will have received "change" of R19,8-million by Thursday.

The State will have had use of his R20-million for at least eight days.

At the current prime overdraft rate, the application would thus have cost R92 054 in interest. Richie Rich is paying R292 000 for 100 000 shares — R2,92 apiece.

Most commentators expect Iscor shares to open at between 220c and 250c when dealing starts on Wednesday. But some contend that given a reasonable stock market and no shocks from abroad, Iscor shares could reach 300c in a year.

In seeing to it that every one of 255 000 applicants received a stake, the State has achieved its purpose of popularising share ownership in SA.

But brokers are bracing themselves for a flood of tiny selling orders from Wednesday. More than 62 000 holders have only 100 shares. Assuming the price opens at 230c, brokers will receive brokerage of R2,76 and a basic charge of R1 — R3,76.

They believe it will cost them R8,40 to handle such a deal, so they stand to lose R5 on every 100-share transaction. They will break even only on deals of 300 shares or more.

SUNDAY TIMES, Business Times, November 5, 1989

DIAGONAL STREET by JULIE WALKER

Group Five keeps an eye on margin

58 S. Times 5/11/89

GROUP Five shares were offered at 330c earlier this week on a historic dividend yield of 14,2%.

Chief executive Peter Clogg says the dividend should grow in the current year in line with a rise in earnings. The current share price is only 2,5 times historic earnings of 131c.

Can Group Five be regarded as suitable for impecunious widows needing income?

Apart from market sentiment being strongly against the sector, the downside looks limited for the diverse construction group. Not least of the positive factors is R56-million cash in the bank at the last balance sheet.

THWARTED

Two years ago another construction conglomerate made a bid for control of Group Five with a view to breaking it up at the cost of nearly 16 000 jobs. The bid was thwarted by a management consortium comprising SM Goldstein, Group Five executives and others.

In a way, the bid conjured up a spirit among them which has shown itself in a surprisingly strong performance in two years. Every manager is required to own shares in Group Five to help get the best out of him.

The consortium owns 37% of Goldstein and 38% of Group Five Holdings. Group Five Holdings owns 54% of the Group Five operating company, which in turn has 45% of Goldstein. Completing the magic cube, Goldstein has 45% of Group Five Holdings.

The structure of the operating company is outlined in the annual report under the appealing title of profit centres. Among the most profitable is roads. Mr Clogg says the order books look good for another year, but expects a cut in government spending thereafter.

The fuel levy used to go into the road-building fund, but is now taken by the Treasury.

The roads division includes dams, earthworks, bridges and railways and investments in toll roads.

A 50% stake in a granite quarry near Rustenburg was also bought last year. Production is expanding and the profits are flowing in.

Civils — reinforced concrete structures — has picked up a bit, says Mr Clogg. The market remains competitive, and Group Five will seek prospects outside SA. It will tender for work on the Lesotho Highlands project.

Too much turnover at too

PETER CLOGG ... prepared for rough ride

low margins characterises the building business of Group Five and most of its competitors. Last year less than R1-million profit was made from turnover of R333-million.

Acceptance of work only where the margin is acceptable is expected to boost profit to R6-million on turnover of R370-million. Three-quarters of that business has already been secured.

The developments division provides property services to Group Five as well as developing commercial, retail and industrial properties, usually for resale. Conditions are expected to tighten in the next two years.

Housing looks grim, says Mr Clogg. The top end of the market is becoming saturated, but there is huge demand at the lower end for affordable homes. There is little room for profit margins.

TANDEM

Housing is the first sector to be affected by a downturn in the economy, but is quick to respond to a change in economic outlook. Group Five will be poised with experienced management, land and contracts to take advantage.

Projects is a multi-disciplined division offering design, management and construction services. It has built gold, platinum and diamond recovery plants, and won the heavy-lift crane contract for Mossref.

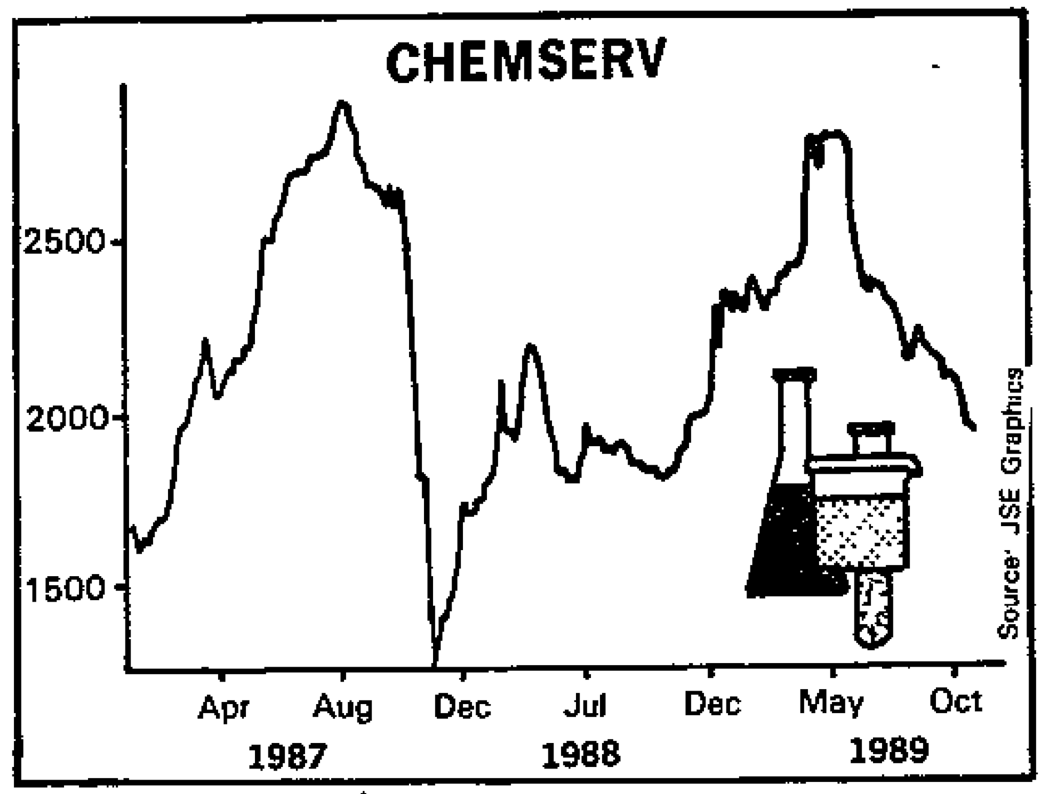
On the books are more beneficiation plants and Mossref contracts. There is even a contract wo[illegible] for the fabrication of a bridge to go to Texas.

Group Five bought the construction interests and the water and sewerage privatisation business Aqua-Gold from SM Goldstein in the past year. Aqua-Gold operates more than 50 small water schemes. Mr Clogg believes the division will grow in tandem with the Government's objective of privatising public services where possible.

Mr Clogg says Group Five should be able to ride out an economic downturn. It is diversifying more within the realms of its experience than looking for lusher grass in unrelated fields only to encounter problems.

As Mr Clogg says, his welfare and that of his colleagues depends on the performance of Group Five and its ability to pay dividends. They will not let other shareholders down.

The risk in buying Group Five shares is more about sentiment than the quality of the company's earnings prospects. I think it is worth the risk on the grounds of minimum downside in the share price.



Guide to hedging

SOUTH Africa's fast-growing derivatives market is the topic of a workshop organised by the Investment Analysts Society.

To be held in Sandton on November 22 and 13, the course is an in-depth, hands-on insight into the functions, participants and investment applications of options, futures and forward-cover markets.

It will show delegates how to take positions for much less cash than is required in spot markets. The main benefit to investors is in hedging their portfolios against adverse developments.

About 25 000 contracts valued at more than than R3-billion a month are traded in SA.

Until now, only financial instruments such as JSE indices, Eskom long-dated stock and Krugerrands have been traded. There is a possibility that currency futures will be introduced next year — enabling South Africans to hedge against a falling rand.

Commodity futures might also be traded. The Maize Board has expressed interest in hedging mealie sales through futures contracts — a common practice among farmers abroad.

Many of SA's leading lights will address the workshop. They include Gad Ariovich of Fergusson Bros Hall, Stewart & Co, Alberto Bottega of Rand Merchant Bank, Heather McLeod of McLeod Asset Consulting and David Bullard of the Johannesburg Options Market.

The topics range from an ABC guide through case studies to the use of futures and options in portfolio management.

Chemserv hiccups

CHEMICAL Services chief executive Peter Francois is not unduly concerned because his group's earnings edged up by 5% in the six months to June.

Most of the 16 operating companies did well. They make a host of speciality chemicals.

But it is hard for any group to keep on growing at the 38% compound annual rate shown by Chemserv in the past five years.

The slowdown in the rate of growth in earnings is attributed to two setbacks. Raw materials were bought by one division when the price was high (they have since fallen), and a major foreign supplier halved Chemserv's credit terms for no real reason.

QUALITY

Working capital requirements obviously rose. The annual report says that the company's gearing should fall between 40% and 70%, currently 48%. With interest rates like these, who needs borrowings?

Mr Francois says there should be some. He implies that if management cannot do better with borrowings than it costs the company in interest, it should not be running the show.

High interest rates benefit Chemserv indirectly. Although it dominates in all its areas of business, there are small competitors. It is they who are struggling to service debt.

Customers also demand top quality, and it is Chemserv's ambition to earn the SABS 0157 standard at all of its eight plants by the end of 1991. So far, one part of one site has made the grade.

Mr Francois did not enlarge when I said I had heard that an acquisition was in the offing, but I got lucky. He answers his own phone, and polite though I am it was difficult not to overhear the conversation.

"I was trying to speak in code," he says. "There are two possibilities but I don't know if we'll take either of them."

He believes it is more important to start ventures to produce new speciality chemicals. There is a strong research team, and the directors travel abroad looking for opportunities. Import surcharges make SA manufacture look more realistic.

As have most manufacturers, Chemserv has learnt from experience that the workforce counts. Mr Francois says both sides have come to realise that working together is the best way.

Mr Francois does not miss much. In spite of a lengthy telephone interruption he did not forget my last question. He has earned a reputation for being right about what is to come. The other directors, like him, have backgrounds in chemistry.

PIQUED

He does not expect Chemserv earnings to show much growth in the current financial year to December. I got the feeling he was a little piqued with the mere 5% interim rise.

At 1 975c the shares are 825c off the May high and only 7% higher than a year ago, on 6,4 times historic earnings. The price has fallen on low volume — it does not trade much at the best of times.

My view is that Chemserv will regain its premium rating when the hiccup is cured. I don't think it will take too long. The well-covered dividend looks secure.

(58) S.Times 5/11/89

Sequel to Business Times profile about a JSE success story

Brokers Frankel on the carpet

By David Carte

FATHER and son stockbrokers Leslie and Sidney Frankel face censure or suspension by the JSE because of a report in Business Times on October 15.

After it appeared, the two were required to appear before the committee of the JSE on a complaint from at least one stockbroking firm that they had broken stringent JSE rules about talking to the media. Max Pollak & Freemantle was one complainant.

The committee still has to rule on the matter, pending the recovery of Sidney Frankel from surgery.

The Frankels' appearance before the committee, the complaint against them and the identity of the complainants are supposed to be confidential. But as author of the "offending" report, I was given sketchy information by Mike Thompson, deputy president of the JSE.

Mr Thompson invited me for coffee and a briefing on what brokers may and may not say in print.

Mr Thompson said some members of the committee believed the Frankels had erred in not "begging" Business Times to change the report and in particular for not pressuring me into striking out any reference to competing brokers. I told him that the references to other brokers were entirely my own. The Frankels had not mentioned any other broker. In my opinion, I said, my references to other brokers were harmless.

I told Mr Thompson that newspapers were not bound by JSE rules and reserved the right to publish what they liked within the law.

LESLIE FRANKEL

SIDNEY FRANKEL

John McIvor, senior partner of Max Pollak & Freemantle, telephoned and angrily objected to a sentence which said: "The Frankels explored the possibility of acquiring venerable old firm Max Pollak & Freemantle."

Mr McIvor believed I should have checked the information with him — but Business Times is confident about the veracity of its information.

Business Times gave a letter to Sidney Frankel stating: "This is to confirm (1) that our story on Sunday was initiated by me and (2) that you were not the source of our information that your firm had made an approach to acquire Max Pollak & Freemantle ...

"You warned me the story would be sensitive. I told JSE president Tony Norton I intended to do the piece and asked for guidance on the rules. He said the rule was basically that you could not say anything bringing the JSE or any other broker into disrepute. He also advised me to let you read the piece in case it contravened any rules.

"When you read the story, you said you could not comment on the bid for Max Pollak & Freemantle and advised me to check it with them. I was sure enough of the facts not to bother. It was common cause across the floor of the JSE and was only an incidental part of the story.

"I had no cause to believe the fact would be in dispute until I received a phone call from John McIvor on Monday morning.

"Mr McIvor was apoplectic and foul-mouthed. He made a verbal assault on me ... He also threatened me ...

"At your request I also removed from the story a statement that Mr McIvor (personally) had rejected the bid.

"I would like to place on record that we chose to write about your firm for the same reason we wrote about Normal Lowenthal six weeks ago. We felt you and your father were interesting personalities doing some newsworthy things.

"We expect to profile other brokers from time to time ..."

At the briefing, Mr Thompson was cordial. He said brokers were feeling their way into a new era in which they were permitted to speak to the media. He said they were bound to make mistakes from time to time.

Mr Thompson offered to let me have a copy of the rules binding brokers on condition that I did not quote it. I declined to accept it, saying I wanted nothing off the record — as well as freedom to publish.

I told him I believed the Frankels had done nothing to bring disrepute to the JSE or to any of their rivals. They were powerless to prevent my writing the story and could not stop my saying anything about other brokers.

I contended that if anything had brought discredit to the JSE, it was the behaviour of the complainant firm or firms, which gave the impression that the JSE was a self-serving club intent on suppressing information and competition.

(58) S. Times 5/11/89

Earnings rise again despite interest rates

By David Carte

AFROX fired on all cylinders to lift earnings 16% in real terms in the year to September.

The gases, welding and hospital blue chip lifted turnover by 28% to R728-million. Trading profit soared 32% to R149,3-million.

That was a real increase because the profit was struck after R15,5-million of additional depreciation to allow for inflation.

Because of capital spending in gases, welding and at the Glynnwood Hospital, borrowings were much higher. With rates up sharply as well, the interest bill more than quadrupled to R16,7-million. The tax rate rose to 48,6%.

Modest

As a result, real earnings growth was a more modest 16% to 170,5c (146,7c) a share. A final dividend of 60c has been declared making 100c for the year. Dividend cover of 1,7 by inflation-adjusted earnings is equivalent to historical cost cover of 2,2.

The latest results mean that inflation-adjusted earnings have grown at an annual average compound rate of 18,4% for the past six years.

Afrox managing director Peter Joubert says gases, welding, cryogenic vessels and other interests accounted for 80% of turnover and 90% of profits. Hospitals contributed 20% of turnover and 10% of profits.

"Gases are a pretty stable business, but welding is vulnerable to the economic cycle. It depends utterly on fixed investment and infrastructure spending, which we believe will turn down a year from now. Hospitals do something to counter cyclicality in welding."

Pointing out that beneficiation of minerals is a future growth industry, Mr Joubert is confident about gases in the long term.

Another area of strong growth is liquid petroleum gas, which is being used as fuel by blacks who can no longer get wood, or who have been urbanised. Gases and good management are Afrox's chief claim to blue-chip status.

Industrial Research & Development, which makes cryogenic (low-temperature) vessels and tankers, continues to excel. It manufactures for Afrox and its competitors in gas. It is also doing well with exports. An aluminium mine skip is proving highly successful at Vaal Reefs.

Two other projects on which Afrox placed high hopes have been disappointing. First, was an ingenious computer-aided diagnosis system which enabled a nursing sister using a Hewlett Packard touch-screen computer to diagnose illness as effectively as a general practitioner and even to recommend treatment and medicines. It ran into "enormous inertia" in the medical profession. There were also problems with the programme, so Afrox has shelved the venture.

Second, a programme by which Afrox trains black school principals and senior teachers to manage schools has remained small. Afrox had hoped it would become a multi-million-rand business. Now this peripheral activity is shared with Sankorp.

PETER JOUBERT ... all puffed about gas

Eskom gains from Reserve Bank loss

58 B.Day 6/11/89

GRETA STEYN

THE Reserve Bank's forward cover losses have been Eskom's gain, to the tune of billions of rand used to meet the corporation's financing requirement for the year and to invest in the money market.

Eskom budgeted to receive R2,3bn during its current financial year from an inflow on the roll-over of dollar forward cover contracts during a period of rand depreciation.

Known as "swap cash flows", the corporation has budgeted to invest roughly half of the amount in high-yielding money market assets, while the other half would go towards meeting its financing requirement of R3,8bn for the year.

Eskom is, of course, not the only company to get a cash injection from the Bank's forward cover losses. But its budgeting shows how a major corporation can benefit from buying rand/dollar forward cover when the rand is plummeting against the dollar. The corporation received R1,3bn from this source in 1988, of which only R70m was used for funding and the rest was invested.

The Bank's losses — Eskom's and other corporations' gain — occur when the rand has depreciated in the market to a level below the exchange rate fixed in the forward cover contract. When the contract is rolled over, the corporation makes on the difference between the two exchange rates — it sells dollars bought cheaply back to the Reserve Bank which has to pay the more expensive market rate.

The cash injection is an inflow of liquidity into the money market — and the effect is to inflate the money supply. Concern is mounting about the extent of these losses, with both Senbank and the UBS highlighting the dilemma in recent reports. Senbank economist Mias Nieuwoudt puts the losses — debt the Treasury owes the Reserve Bank — at R16,5bn already. In one year alone, the Bank lost R10bn.

But if the rand's steady depreciation against the dollar of the past two years was reversed, the situation would turn around of its own accord.

Similarly, Eskom has also not had it all its own way on forward cover. The corporation's financing manager Willem Kok said at the weekend the actual net inflow from this source should be "marginally less" than the originally budgeted R2,3bn

☐ To Page 2

Eskom gains

58 B.Day 6/11/89 ☐ From Page 1

— because of outflows on the roll-over of dollar/third currency contracts.

"The dollar was stronger than we had anticipated," he said.

Eskom is also expected to budget for a substantial reduction in inflows on the roll-over of rand/dollar forward contracts next year. If the Bank takes steps to pull out of the market, this would also have an effect. But Kok would not be drawn on whether the corporation has taken such a move into account in its planning.

"That is a question you have to ask the Reserve Bank," he said.

The Bank has said pulling out of the market would result in higher interest rates and a weaker rand. But to offset the money-creating effects of the forward cover losses, the Bank has sold government stock in the market to reduce liquidity. According to Finance director-general Gerhard Croeser, government will end the fiscal year with about R7bn in the bank — part of which will be used to reduce Treasury's debt on forward cover losses.

JSE braced for scramble to cash in Iscor shares

By Sven Lünsche

With a day to go before Iscor's debut on the Johannesburg Stock Exchange — the biggest flotation yet in South Africa — market officials are doing everything to ensure a smooth listing.

To prevent a collapse of the JSE's main computer and to allow dealers more time to handle the buying and selling orders, the exchange has announced a change in trading hours tomorrow and the next two days. Shorter but more frequent breaks between trading have also been introduced.

JSE officials say the computer system has been tested to cope with the expected flood of stagging transactions.

At 11 am tomorrow, Iscor shares will be registered on the industrial board and stockbrokers expect a wave of selling as thousands of investors scramble for small profits.

SHAMBLES

Some share-watchers believe the biggest flotation in the country's history could become a shambles as people scramble to get their money.

Iscor shares have been sold to more than 300 000 individuals. Previous experience suggests that many private investors will sell as soon as possible.

This trend could be exaggerated when about 54 000 Iscor employees receive 200 free shares each.

Members of the National Union of Metalworkers have been advised by the union to sell their shares as soon as possible.

Many analysts worry that the JSE computer system will not be able to cope.

At the height of the 1987 market crash, about 12 000 transactions were registered in one day.

The new computer system is able to cope with about 20 000 transactions a day.

Indications are that the share will open at levels of around 220c — a 10 percent premium on the offer price of 200c.

Star 4/11/89

DTI seeks greater role for exports

The Department of Trade and Industry's (DTI) involvement in foreign trade promotion is to be increased, the Minister of Trade and Industry and of Tourism, Kent Durr, announced on Monday night.

Addressing the AGM of the South African Foreign Trade Organisation (Safto), he said the entire function of foreign trade within the department was being restructured.

"We regard it as essential that the DTI's involvement in foreign trade be elevated to a higher level of departmental responsibility."

Mr Durr said all the DTI's foreign trade activities would be modernised to ensure more efficiency and professionalism at all its offices abroad. An intensive screening and retraining of personnel had begun.

These offices would operate on a management by objective basis in future.

In the department's new export development scheme the emphasis was now not only on quantity, "but for the first time the scheme will encourage higher levels of beneficiation".

The scheme had been thoughtfully developed in co-operation with the private sector and was "simple, flexible, performance-based, provides protection against exchange and inflation rate movements and requires minimal administration."

Mr Durr said he had never been more optimistic that South Africa may "return to our normal and rightful place in the world."

He added: "I am convinced that we are finally coming to terms with each other and with Africa and the world. We are building a new South Africa and as we do so, perceptions of our country are bound to improve." — Sapa

58

2/11/90

Improving gold price can benefit industrials too

58 Star 7/11/89

By Derek Tommey

Gold shares have moved to the centre of the stage on the Johannesburg Stock Exchange. But investors should not allow their fascination with this sector of the market blind them to the merits of the good industrial shares, say share analysts.

One important reason, they point out, is that the expected higher gold price, which is behind the rise in gold shares, will help industrial shares as well.

Mr Peter Trengove-Jones, head of research at Simpson, McKee, said that industrial shares were not expensive at their present prices.

But for the time being they would have to play second fiddle to gold shares.

But this should make them attractive medium term investments and provide investors with good buying opportunities. He could see the better industrial shares becoming scarcer.

Mr Trengove-Jones believed that investors should start looking at the second rank industrial shares for medium to long-term growth.

Since the 1987 market crash investors have concentrated on "rand hedges" and completely neglected the rest of the industrial market.

The result of this has been that the good second-ranking industrials have been lumped with the poor ones and both types of shares have declined owing to the illiquidity of the market.

Once liquidity returns to the market, as it would if the gold price were to increase, the second-rank industrials — that is shares with a market capitalisation of between R150 million to R500 million — with good track records could move strongly.

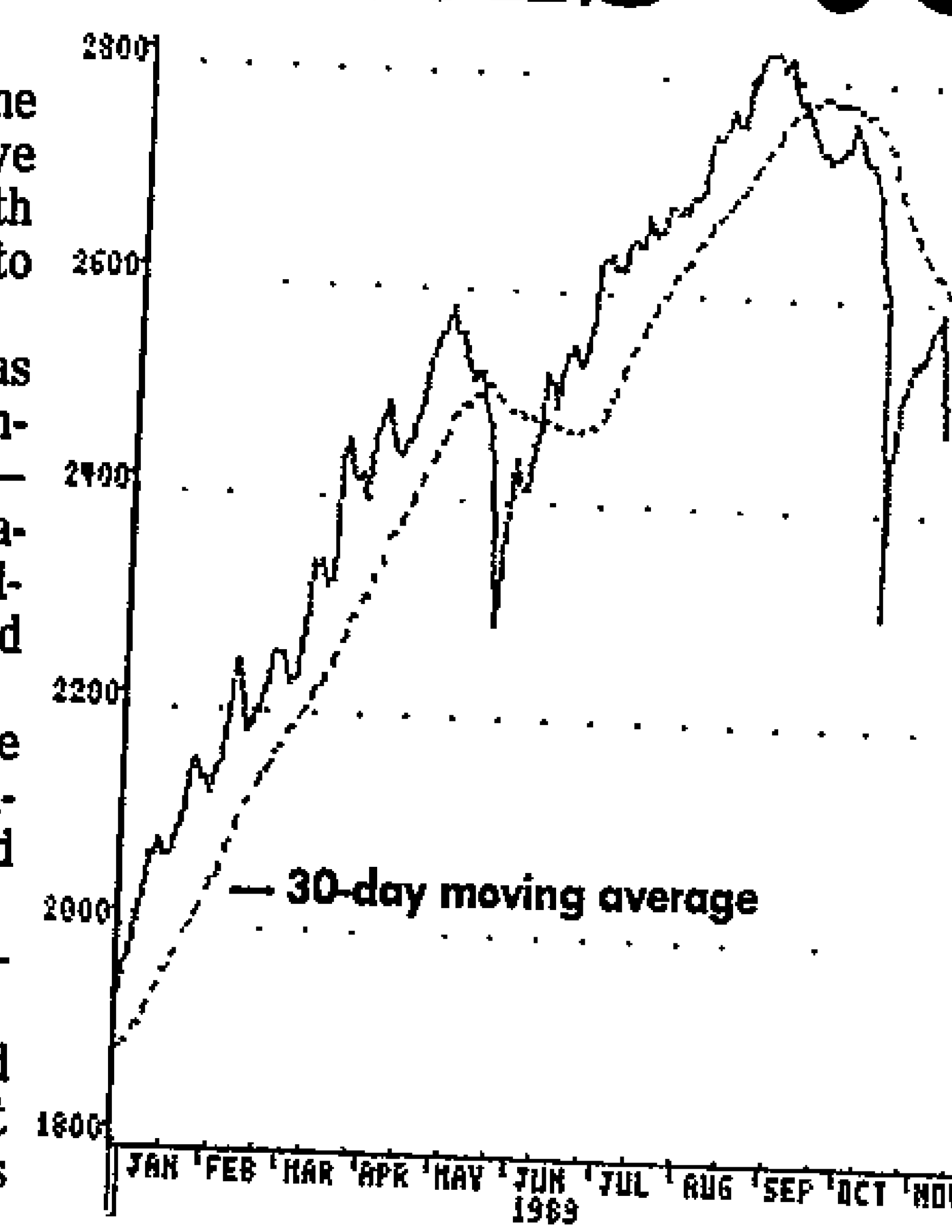
A similar view on the industrial share market was expressed by Mr Chris Gilmour, an analyst with Max Pollak and Freemantle.

He said he was not as negative on industrial shares as were some analysts.

Until now the industrial market had been led by the rand hedge stocks, but with the rand stabilising other industrials were likely to have something to offer.

He expected industrial profits to grow by between 17 percent and 18 percent in the next 12 months or so, which would be higher than inflation and continue to offer investors a reasonable return.

However, he admitted that gold shares were likely to make the running in the



Industrial index. *Stock Market Solutions*

coming months. A big demand was developing overseas for South Africa gold shares. This had led the London stockbroking firm of James Capel to re-open its gold share dealing room.

Market analysts believe that many industrial companies, relying on the private individual and such activities as building and car retailing, could find business conditions growing more difficult in the next 12 months.

The high interest rates is part of the monetary authorities' plan to confine the growth in domestic spending next year to one percent in real terms and could lead to increased costs and greater competition. Moreover, these conditions could continue for some months.

However, there would still be some growth and the aggressive and lean organisations should still be able to increase turnover in real terms and profits as well.

But they add that conditions could change dramatically if the gold price were to reach, say, $400 an ounce.

Assuming the exchange rate of the rand remains around where it is at present, there would be an increase in the money in circulation, spending would pick up and interest rates decline. There would also be less need for the Government to squeeze the economy.

So investors should think carefully before selling their industrials to jump on the gold share band wagon.

Taxman curbs the joy at Times Media

158

By Derek Tommey

Times Media must be feeling a little miffed after doing so well in the six months to September only to have the Receiver of Revenue take the cream off the cake.

However shareholders in this newspaper and magazine publishing group need not be too perturbed as the interim dividend is being increased by 20 percent from 12c to 15c a share.

Turnover, helped by higher advertising tariffs and acquisitions rose 31 percent in the six months ended September from R90,4 million to R118,0 million, and profit before tax 25 percent from R21,5 million to R27,0 million.

But the group has used up its tax losses and is now liable for full tax. This caused its tax rate to jump from last year's 35 percent to 49 percent. As a result, the amount going to the Receiver of Revenue almost doubled, rising from R7,3 million to R13,2 million.

This left Times Media a taxed profit of R13,7 million, which was some 3 percent less than the R14,2 million a year ago.

Owing to an increase in the issued capital, earnings a share dropped even steeper, by 8,5 percent from 71c to 65c a share.

Nonetheless, Times Media was able to declare a well covered interim dividend of 18c a share against 15c a year ago.

The group remains extremely liquid with R44 million in money assets, and only R15 million is needed for the interim dividend and payment for assets acquired.

The directors say the advertising markets continue to be highly competitive and a reduction in staff vacancies advertisements is a leading indicator of softer economic conditions.

"However, excellent results from coastal operations together with national advertising gains in the Transvaal put the company in a satisfactory position for the balance of the year.

7/11/89

Bankers call for relief from Reserve Bank — to no avail

7/11/89 (58) B Day

GRETA STEYN

BANKS have appealed to the Reserve Bank for relief from the high cost of keeping cash deposits at the Bank — but their pleas are falling on deaf ears.

They are compelled to keep cash reserves on account with the Bank and in their vaults amounting to 5% of short-term and 2% of their medium-term liabilities. Bankers have asked the authorities for interest payments on their deposits at the Reserve Bank.

Senbank MD Doug Anderson has strong views about the issue: "The lack of action to date on the cash reserve question is difficult to follow, particularly as the Reserve Bank stance is at variance with those applied by other central banks."

Compelling banks to deposit cash against their liabilities has a dual function — it is partially necessary to make sure enough cash is available when large numbers of depositors suddenly want their money. But it is also a vital ingredient of monetary policy.

Anderson concedes in his bank's annual report that "cash reserves constitute one of the weapons in the Reserve Bank's arsenal to enable it to control monetary policy".

However, he says the effect of the "tax" on banks is to chase business away from them to competitors operating outside the Central Bank's control — to firms that do not have to meet the same requirements.

Weakens

These firms operate as money brokers in the "disintermediated" market where lenders' and borrowers' needs are matched without the intermediation of a bank.

"This disintermediation consequently weakens the effectiveness of the Central Bank's monetary policy," Anderson says.

Other bankers and Registrar of Banks Chris de Swardt yesterday acknowledged the issue had been debated at length.

Nedbank MD Chris Liebenberg said the time was not right for banks to be given relief on this score, while the money supply was still growing too rapidly.

"In the longer term, some relief from the cost of holding cash reserves might be warranted."

Volkskas MD Koot van Vuuren said if market-related interest rates were paid on the cash reserves, they would cease to play a role in monetary policy.

"But perhaps there could be some relief in the form of a rate lower than the call rates prevailing in the market."

De Swardt said the bank was not considering granting any relief on this score and emphasised that the SA central bank's policy was in line with international practice.

Economists said having to keep cash reserves forced the banks to borrow, at Bank Rate and other rediscount rates, from the Reserve Bank to make good the money market shortage.

In that way, the bank influenced the general level of interest rates and that was why an increase in Bank Rate had a ratchet effect on all market interest rates.

High rates 'killing the economy'

Call for a price and wage freeze

Cape Times 7/11/89

By AUDREY D'ANGELO
Financial Editor

INSTEAD of "killing the economy" with high interest rates, the government should restrict imports and impose a price and wage freeze for at least a year, Jan Sadie, chairman of the management committee of the Stellenbosch Bureau for Economic Research (BER) said yesterday.

He was the last speaker at a conference on the future of the SA economy, organised by the BER at the Lord Charles Hotel, Somerset West.

Other economists had stressed the need for continuing high interest rates well into the 1990s to maintain a favourable balance of payments (BoP).

Sadie said that instead of involving themselves in social welfare programmes, businessmen should "stick to their last".

If they could increase the per capita income of the SA population, they would be making a sufficiently important contribution.

The biggest single constraint on the SA economy was the need to maintain a favourable BoP. But reducing demand when the growth rate was already so low was not cooling the economy, it was killing it.

"We are cutting off its head every time it goes out."

He thought it would be "better to be a little bit pragmatic and approach the matter direct. Instead of killing the goose which is laying the golden eggs we should just try to reduce imports directly."

There had been long decades when the SA economy had performed magnificently, when imports were controlled.

Pointing out that the present high interest rates were having a disastrous effect on individuals and businesses, Sadie continued: "This kind of impoverishing people is not acceptable.

"If it was a matter of repaying debt for two or three years, and asking people to pull in their belts (while that was happening) it might be acceptable. But that does not seem to be the case. It seems to be for several years."

Stressing the need to build up confidence among business people, so that they would invest to provide more jobs, Sadie said that if the economy grew at a rate of only 1% a year there would be no way to stave off a claim that the economic system was not worth preserving.

"The people with socialist or communist ideas will come forward and say 'let's try something else'."

Sadie said wage demands were related to the workers' needs, not to their productivity. And inflation could not be fought successfully with interest rates as the only weapon. High interest rates increased inflation.

"I cannot see any way of fighting inflation except by wage and price control for at least one year."

Do not stag Iscor shares — brokers

(505) (558) B Day 7/11/89

HAROLD FRIDJHON

WEDNESDAY is market day for Iscor and brokers' forecasts for tomorrow's opening day trading range are spread from a low of 215c a share to a high of 232c.

But don't stag the shares while they trade at these prices, say most brokers who were canvassed for their opinions.

Paul Ferguson, who sees the trading range at 227-232c, says don't sell below 250c. When all the little sellers are out of the way the share price should harden.

This opinion is confirmed by Jan Mouton — forecast 228-232c — who says that supporting the share price will be very difficult bearing in mind the avalanche of selling which is expected.

A broker who did not want to be quoted believes the initial range will be 225-230c but later, maybe not on the first day, the institutions will tire of taking stock, as they are committed to do, and the price will struggle to hold 210c which, he adds, is a pity because it is a good investment share which should be acquired once it shows weakness.

This broker is highly critical of the way in which the issue was handled. The sponsors concentrated on the institutions, leaving only 150-million for public subscription, and ignoring the mechanism of the Stock Exchange to bring in genuine investors and not merely the stags.

He says stockbrokers should have been given an allocation for them to place firm among their clients, rather than exposing big private investors to the weighted-to-the-small-man lottery.

George Joubert is somewhat conservative in his estimate of the trading range tomorrow, 220-225c. He bases his expectations on the belief that at least 50 000 first-time sharesholders will want to take their money and run. But, he adds, real buying support will emerge later when institutional and private investors will probably take the price to around 240c.

The personal view of Ed Hern is that the opening range will be 220-230c but in six months, when the "loose" selling has subsided, the price range could rise to 260-270c — provided that market conditions remain favourable and do not deteriorate.

Another modest broker who refused to be named forecasts a settled-down trading range of 220-225c, after a brief initial higher opening. But, somewhat bearishly, he adds· "Later this week or next the share might struggle to hold 210c as a sagging or inactive price will stimulate those who received free shares and first-time prospectus buyers take fright and run."

Interestingly, this broker said he had handed out application forms to numbers of interested black would-be shareholders.

The Star
Finance

Eskom faces tighter market for funding requirements

Star 8/11/89

68

By Sven Lünsche

The abolition of prescribed asset requirements will put a squeeze on Eskom's borrowing from the capital market, forcing it to seek alternative funding and to cut back on capital expenditure plans, says chairman Dr John Meree.

He said yesterday that of the total estimated cash flow of R31 billion in 1990, South Africa's financial institutions were likely to channel only R4,6 billion into the gilts market.

Eskom's own net financing requirements were about R3,1 billion, which would take up more than 70 percent of these funds, without considering the funding needs of various local authorities.

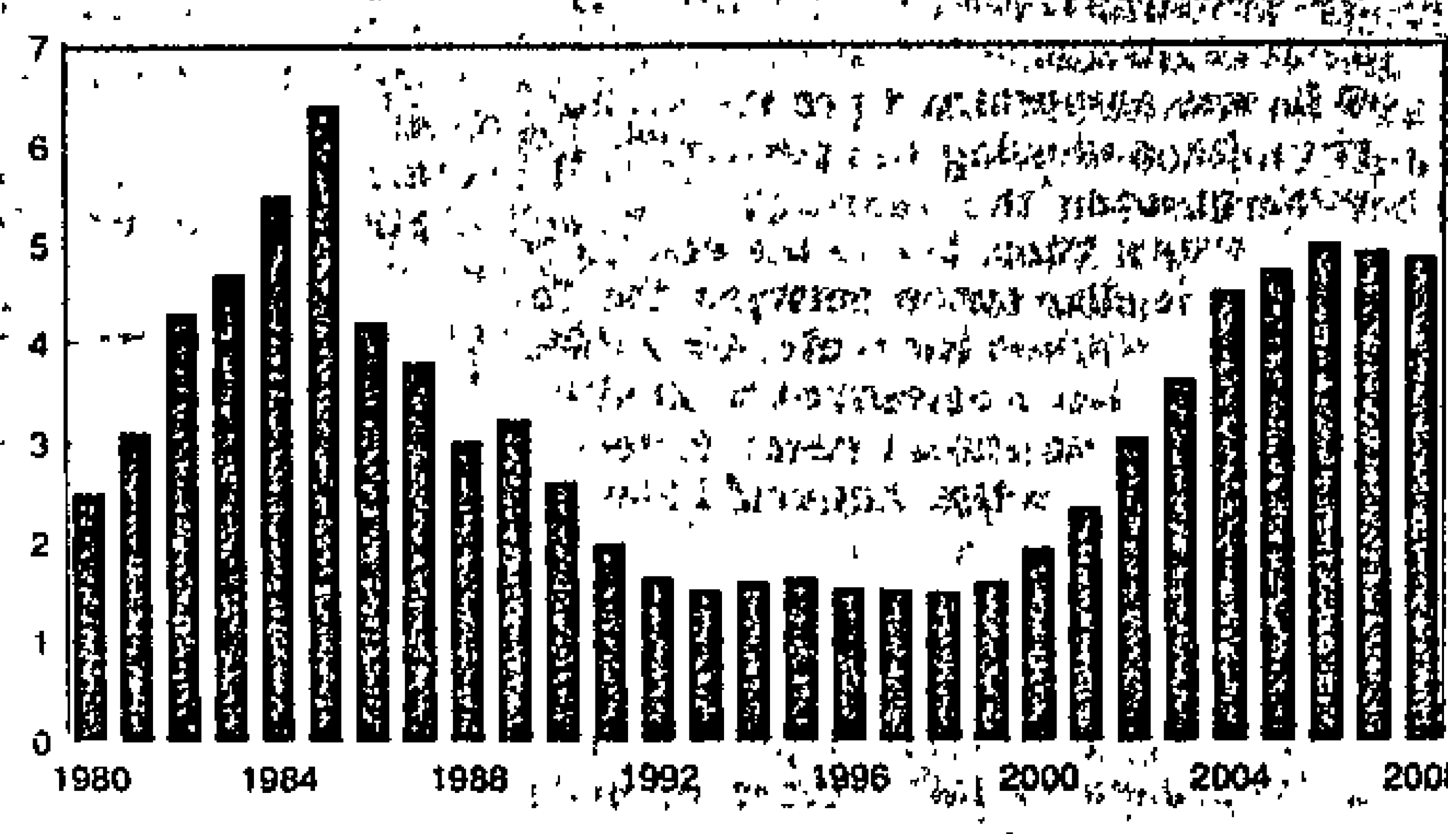
"The amount of money available to us in the capital market is going to fall dramatically as pension funds, insurance companies and other large investors will use their greater freedom of choice to invest elsewhere," Dr Maree said.

"They will also be looking more critically at the financial soundness of borrowers."

The complexity of this task was aggravated by the fact that it had become more difficult and expensive to borrow as a result of the return to positive, or real, interest rates.

As Eskom had no control over interest rates, it was important to reduce its sensitivity to rate changes: a one percentage point change in interest rates alone affected interest and finance charges by about R200 million.

In response to the squeeze on its funding ability in the capital market, Eskom was seeking alternative sources of funding, while at the same time strengthening its balance sheet, he said.



Eskom's planned capital expenditure over the next 20 years (R-billions).

The most important was yesterday's announcement of a 14 percent rise in the price of electricity for 1990, which could generate more than R1 billion in additional revenue.

Eskom recently received a windfall on forward cover exchange rate operations, which pushed the Reseve Bank's forward cover losses to more than R15 billion.

Eskom expected to receive more than R2,2 billion in the current financial year from the bank in so-called "cash swop flows", of which half would go to meeting budget requirements.

Chief executive Ian McRae said that capital expenditure programmes on power stations would be reduced in the 1990s to further strength the group's balance sheet (see graph).

"In August 1985, Eskom planned to spend R12 billion on capital expansion," Mr McRae said.

"Planned capex for 1989 is R6,89 billion — a difference of R5,11 billion — and that means an interest saving of R872 million next year," he said.

Coupled with this, Eskom expected further improvements in productivity over the next few years.

Mr McRae said that productivity in 1988 alone improved by 3,8 percent, largely as a result of improved thermal efficiency of coal-fired power stations, and that this trend should continue in 1990.

However, while SA would not require additional generating capacity before the next century, "we must make decisions on new power stations over the next two to three years, as there is a very long lead time associated with building these plants."

Diagonal Street

DEREK TOMMEY

Star 8/11/89

Volkskas off to excellent start

Banking group Volkskas is heading for a second year of strong growth.

Interim figures show that despite intense competition in the financial services sector and pressure on interest margins, declared earnings in the six months to September are 26,6 percent ahead of last year's at R50 million (R39,5 million).

It shows that Volkskas has been able to maintain the growth in earnings at a level fairly close to the 27,9 percent rise in the 1988-89 financial year.

But this time around the better profits are reflected in a sharp increase in earnings a share.

Last year, share earnings were diluted by the increase in the issued capital after the purchase of a 10 percent stake in UBS Holdings.

This resulted in earnings a share in the 12 months to March this year rising a modest 14,9 percent.

In the six months to September this year, earnings rose 26,6 percent from 93c to 117,7c a share.

This should lead to an improvement in Volkskas's share market rating.

However, despite the improvement, Volkskas continues to follow a cautious dividend policy and has increased its interim by 13,6 percent from 22c last year to 25c this year.

Chairman J A Stegman and managing director Dr DC Cronje attribute the improved results to a substantial increase in non-interest revenue and an improvement in the quality of advances.

Although advances at September 30 at R12,2 billion were 24 percent higher than a year ago, Volkskas has always concentrated on the quality of the borrower and this has paid off in a better bad debt experience.

They remain optimistic about prospects, even though they expect the forecast downturn in the economy to affect banking profits.

The monetary measures should reduce further the demand for credit, while credit risks should escalate, they say.

However, the Volkskas group foresees real growth in earnings a share in the financial year to March 1990.

For a bank of Volkskas's conservatism, this is an extremely positive forecast.

"We are very confident," says Mr Stegmann. "Lots of things have come together."

He says that Volkskas, having built up it systems, now intends to make further inroads into the highly profitable corporate market.

This was the reason for the decision to move the head office from Pretoria to Johannesburg.

Mr Stegmann is satisfied with Volkskas's 10 percent investment in UBS Holdings and its half share in the newly formed United Bank, which is making profits and rapidly expanding its banking activities.

At the end of September the bank had deposits and current accounts of R15,45 billion, a 20 percent increase over a year earlier.

Acceptances, guarantees and letters of credit amounted to R4,5 billion (R4,0 billion).

Total assets were R20,8 billion (R17,7 billion).

Fishing interests take toll on Fedfood profits

Star 8/11/89

(58)

By Ann Crotty

Fedfood's heavy exposure to the fishing industry took its toll on results for the six months to September.

The 16 percent increase in attributable earnings will not precipitate any change in the group's relatively low market rating.

Turnover increased five percent to R584,4 million (R558,4 million) and operating income rose nine percent to R48,6 million (R44,4 million).

The directors say that if the sale of the animal feeds operations (effected in March) is taken into account, turnover showed an advance of 13 percent.

"This growth should be judged in the light of an inflation rate estimated at 9 to 12 percent in those sectors where Fedfood is involved," they say.

Pre-tax income was up 11 percent to R38,5 million (R34,6 million). A lower tax rate lifted this to a 17 percent advance in taxed income to R22,3 million (R19,1 million).

The weighted average shares in issue was up four percent, which meant the improvement in EPS was held back to 11 percent — up to 73c from 66c. An interim dividend of 17c (16c) a share has been declared.

After a strong financial 1989, investors will be disappointed by the poor performance, which reflects difficulties on a number of fronts.

One major problem, which Fedfood management had little control over, was the early closure of the fishing seasons on the West coast and in Namibia.

In financial 1989, fishing accounted for 11,4 percent of group attributable profit.

Because of drought conditions in the Eastern Cape, there was no growth in the frozen foods division. This division accounted for seven percent of attributable profit in financial 1989.

The directors say: "The grain-processing division continues to experience difficult trading conditions, particularly in the areas of maize meal and edible oil pricing. The division is still showing growth and is more than holding its own in a difficult market."

This left it to the bakeries and snacks divisions to salvage group performance.

The snacks division — 10,8 percent of attributable earnings in 1989 — performed well off a very high base.

Bakeries showed growth in virtually all divisions.

Tiger Oats well placed to ride out the downturn

(58)

Star 8/11/89

By Ann Crotty

In recent years Tiger Oats has consistently produced results that were at the top end of market expectations. Figures for financial 1989 are no exception — earnings per share are up a sterling 25 percent to 158,1c (126,6c).

A final dividend of 35,1c a share has been declared bringing the total to 54,5c — 25 percent ahead of the previous year's 43,5c.

More significant is that, after a two-year period of acquiring and then consolidating, the group is now looking very well placed to ride out a slower level of economic activity.

For some time Tiger sat on a massive cash pile (cash flow boosted by the very well timed sale of J Bibby to parent Barlow Rand for R164 million), and was seemingly indifferent to market criticism of its excessive conservatism. In financial 1988 there were very definite signs that management had moved into buy mode.

Major acquisitions were effected in the food and pharmaceutical divisions and included Langeberg, Saphar-Med and Logos. Other smaller, although significant, acqusitions were Wainsteins (Tastic Rice), County Fair and MSD Pharmaceutical.

One consequence of the spending spree is the hike in gearing which at end-financial 1989 was 35,7 percent — up from a cash rich position in 1987 and from 30 percent gearing in 1988.

But despite the higher interest rate levels, the current gearing (net borrowings up to R360 million from R300 million in '88) can be handled comfortably.

Broader base

Much more important is the fact that the very well considered acquisition trail has given Tiger a much broader-based exposure to the food industry as well as increasing its interests in the pharmaceutical sector. The broadness of its base means that Tiger will not be overly affected by a downturn in any one area.

In addition much of the acquired activity enjoys a higher margin than Tiger's traditional business, so consolidation enhances group margins. Return on equity has increased steadily from 16,1 percent in '86 to 24 percent in '89.

Despite all of these plus points, it is difficult to see much scope for a sustained advance in the share price from its current R23. At this level it is on a price/earnings rating of 14,5 times and a dividend yield of 2,3 percent which is justifiably the strongest rating in the sector (after Cadswep). But is a little too far off the sector averages of 11,5 times and 3,6 percent respectively to see it move much more ahead of the other food counters.

An additional consideration is that since the announcement of the 10 for one share split back in May, the price has surged by 30 percent.

Back to financial 1989's performance.

Turnover for the 12 months to end-September was up 31 percent to R5,7 billion (R4,4 billion); operating profit increased 33 percent to R434 million (R327 million). Margins benefited from the increasing emphasis on value added production and were able to move up from 7,4 percent to 7,5 percent despite the competitive trading conditions.

Chairman Robbie Williams points out that if the effect of the acquisitions is stripped out, the turnover increase is 20,1 percent and that this represents a volume increase of 4,5 percent.

"There was also a meaningful rise in export-related turnover to almost R1 billion which was a valuable contribution to the overall results."

Interest payments surged to R45 million (R17 million) reflecting the higher level of borrowings on the enlarged balance sheet as well as the higher interest rates.

Tax was down to 34,9 percent from 38,9 percent, presumably helped by the export sales and the group's capex. This helped to counter the impact of the higher finance charges and left attributable earnings showing a gain of 25 percent to R219 million (R175 million).

Apart from the fishing interests, which had a very weak second half, improvements were recorded across the board. Management indicated that a number of food divisions which had been affected by over-production in the first half benefited from more stable conditions in the second half.

For the full year Tiger Foods (and other investments) accounted for 80 (79) percent of attributable earnings; Adcock-Ingram contributed 13 (10) percent and; Oceana Fishing chipped in with 7 (9) percent.

Acquisitions

Management has not ruled out more acquisitions in financial 1990 but it is likely that with a capex programme of around R266 million (the 1989 level) on the cards, it's unlikely to be in too much of a rush to acquire. Volume increase in turnover of around 3,5 percent seem attainable.

Freed markets lead to Eskom price rise

BARRY SERGEANT

GOVERNMENT'S freeing of financial markets means that consumers will now pay more cost-related prices for electricity than before.

This was the bottom line that emerged from a comprehensive presentation given yesterday by Eskom GM (finance) Mick Davis, who said that had it not been for dramatic improvements in Eskom's capital and labour productivity, the 14% electricity increase effective from January 2 would have been higher. He also illustrated how in 1990 Eskom would absorb 70% of the total cash that institutions are likely to invest in capital market paper (gilts).

The lifting of government's prescribed asset requirements on gilts, which had amounted to a subsidy, meant a long-term increase in Eskom charges higher than would otherwise have been the case.

Davis illustrated that Eskom had thrived on the lower rates payable on prescribed assets, for which Eskom gilts qualified. But now Eskom had to face competition from returns on cash and equities, particularly equities.

Though Eskom had by no means been privatised, the outcome of the process — consumers paying economic user charges for a good or service — was the result. Consumers would now pay more market-related prices for electricity.

Davis said that Eskom had only two sources of funding, sales of electricity and capital market borrowings. In 1990, cash from operations would produce an estimated R6,4bn. From this financing charges of R4,1bn were deductible — including R1,1bn costs of forward cover contracts taken out with the Reserve Bank.

After capital expenditure of R3,7bn and loan repayments of R2,6bn, this left R4bn that required financing. Maturing forward cover contracts, due to the characteristic decline in the rand's value, gave a credit of R830m in "swop cash flows," rendering R3,1bn gross borrowing requirements.

Davis said that extensive discussions with institutions showed that next year's institutional cash flow would be R31bn.

Of this, institutions had indicated that R4,6bn would be invested in gilts. This estimate, which had been confirmed in discussions with the Reserve Bank, meant that Eskom's expected bond issues next year of R3,1bn would absorb 70% of institutional cash flows earmarked for gilts.

This would make Eskom more vulner-

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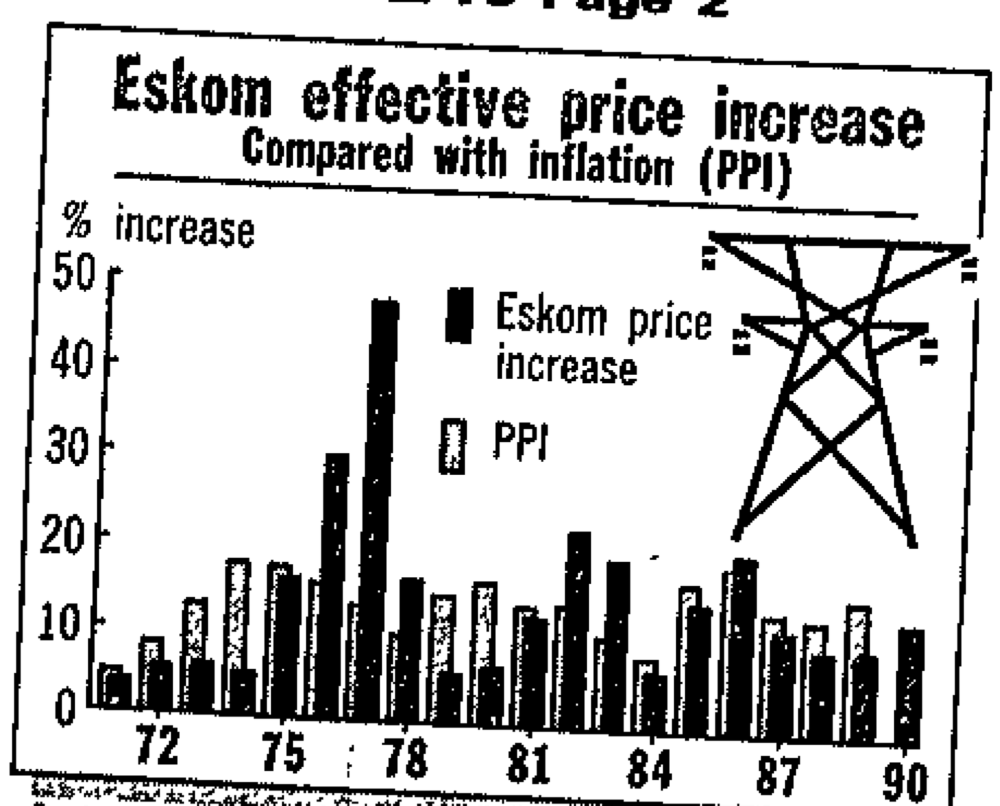


Graphic FIONA KRISCH Source. ESKOM

Electricity

☐ From Page 1

able than it preferred. It would act to strengthen its balance sheet, particularly its interest cover, per income statement.

Pension funds were previously required to invest 53% and life offices 33% of new cash flow in prescribed assets. With the backing of law, issuers of prescribed assets such as Eskom traditionally issued paper at sub-market rates The new rules, said Davis, meant that pension funds and life offices would each invest only 10% of new cash flow in the capital market.

Davis said evidence indicated that institutions now preferred to invest in equities. Funds would be scarcer and more expensive, and would be lent out for shorter periods.

But most significantly, Eskom had to come to terms with the reality that financial markets will be "more competitive and volatile".

● See Page 3

Volkskas group income up 26,6%

Cape Times 8/11/89

PRETORIA. — Volkskas group increased net income by 26,6%, from R39,5m to R50, for the six months to September 1989, compared with the corresponding period in 1988.

Earnings per share increased by the same percentage, from 93c to 117,7c.

The bank states that the period under review was marked by continued intense competition in the financial services sector which, together with a sustained high level of interest rates, kept interest margins under pressure.

It said the improved results are attributable to a substantial increase in non-interest revenue and an improvement in the quality of advances.

The increase in non-interest expenditure was kept to an acceptable level by strict control over operating costs.

The anticipated downturn in the economy in the second half of the financial year could place considerable pressure on the profitability of the banking sector.

The monetary measures taken will further reduce the demand for credit, while credit risks will tend to escalate.

The Volkskas group, however, foresees real growth in share earnings for the financial year ending March 31, 1990.

In view of the gratifying results it was decided to raise the interim dividend by 13,6% from 22c to 25c a share. — Sapa

Gold price rise lifts hopes of upward trend

69

A sharp rise in the gold price to four-month highs has sparked hopes that the two-year downward trend might be over.

In the morning session yesterday, the price was fixed at $385,50 — up $5,25 from Monday's close, and the highest level since a close of $386 on July 6. At the afternoon "fix", the metal eased back to $384,25.

In Hong Kong today gold rose by $4 to open at $384,15.

The strong gold price is good news for South Africa's economy. It has boosted the JSE all-gold index by more than 30 percent since its dramatic fall on Friday, October 13. Yesterday the index rose by 33 points to a two-year high of 1887.

The rise in the price since September has greatly helped the balance of payments. The $30-an-ounce rise in the price is worth about R125 million a month or about R1,5 billion a year in foreign exchange at current gold production levels.

Traders in Zurich said gold had been boosted by continued jitters on Wall Street, where the Dow Jones index shed 47,34 points on Monday to 2 582,17, but recovered 15 points yesterday.

There was a very heavy volume of buying orders, particularly from the Middle East, during the morning session, said Mr Tom Butler, bullion dealer at the Samuel Montagu financial services group.

Miss Rhona O'Connell, precious metals specialist in Shearson Lehman Hutton's research team, said the price might reach $400 by the end of the year.

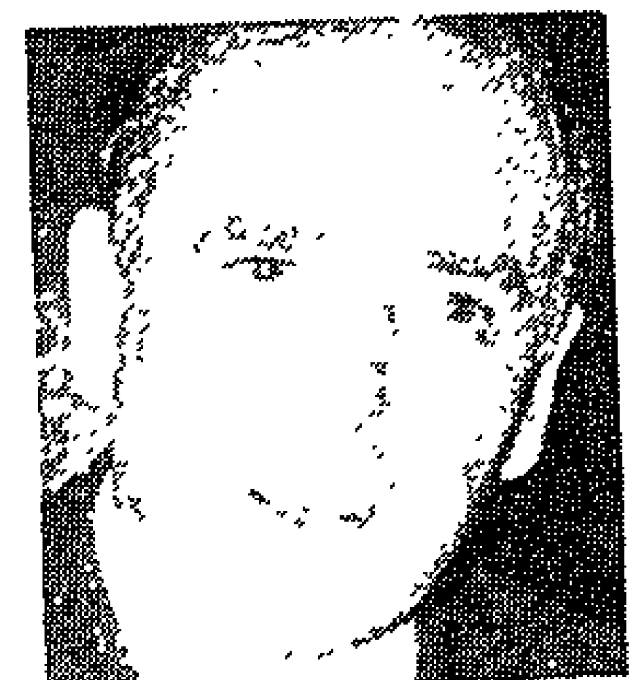
Mr Mark Wellesley-Wood, head of the mining team at the Kleinwort Benson securities group, said that "by next year the long-term fundamental picture should result in bullion establishing itself above $400".

Gold has been sliding since it reached a peak of $500 almost two years ago. The price [illegible] to bottom out six weeks ago after touching $356,40. — The Star's Foreign News Service and Finance Staff.

Star 8/11/89

(58) Star 8/11/89

Ackerman pushes back disinvestment tide



Raymond Ackerman

CAPE TOWN — A major US food manufacturer, which left South Africa about two years ago, is to re-invest next year, says Raymond Ackerman, chairman of Pick 'n Pay.

Speaking at a seminar in Cape Town yesterday, he told the Menswear Group this was the result of personal lobbying and changes that had occurred in South Africa.

He cited this as an example of the influence that businessmen could have on events.

He said it was amazing what one could achieve through personal contact with industrialists and lobbyists.

Businessmen should take care to listen to the "whispers of tomorrow", he said. There were changes taking place worldwide.

Businessmen could participate in four ways:

- By running business profitably and efficiently, taking care of labour relations and showing people that if they cared they could further the process of change.
- Fighting overseas against sanctions by personal lobbying could also achieve results.
- It was important to make contact with the leadership of community and youth groups.

This took time, but in the end there was little difference between the future they wanted for South Africa and the future that businessmen wanted.

- Businessmen should never under-estimate the influence they could have on government.

Every time businessmen had had meetings with government they had come away with victories.

Mr Ackerman gave an example of an approach to BJ Vorster when he was prime minister when businessmen sought to promote black people into management positions.

At the time, in terms of the Group Areas Act, this was technically illegal, but they were determined to go ahead and do it anyway. — Sapa.

JSE is being relegated to the third league, says Norton

58

Business Day Reporter

THE Johannesburg Stock Exchange was being relegated to the third league — it was becoming the frail aged of world bourses — and bold steps were needed to restore the economy it depended on, JSE executive president Tony Norton said last night.

He was speaking at an award banquet in Johannesburg at which the SABC's Diagonal Street TV programme named Sappi CE Eugene van As "Communicator of the Year".

Norton said of the JSE: "It is a competent and positive agency but can only be as good as the economy it serves, and the emphasis placed in that economy on capital — its formation, productivity, allocation and mobility."

The JSE could be an efficient agency only if SA had a society which demanded a modern economy in which the state provided the environment for social justice and a thriving private sector.

Norton said he had just returned form the annual general assembly of the International Federation of Stock Exchanges in Tokyo, and he had taken the opportunity to visit exchanges in the Pacific Rim which had experienced explosive growth in tune with the economies they served.

"Political factors may delay certain developments, but this is all the more reason to move on the more accessible areas. High in the priorities must be better capital markets in general, and equity markets in particular," he said.

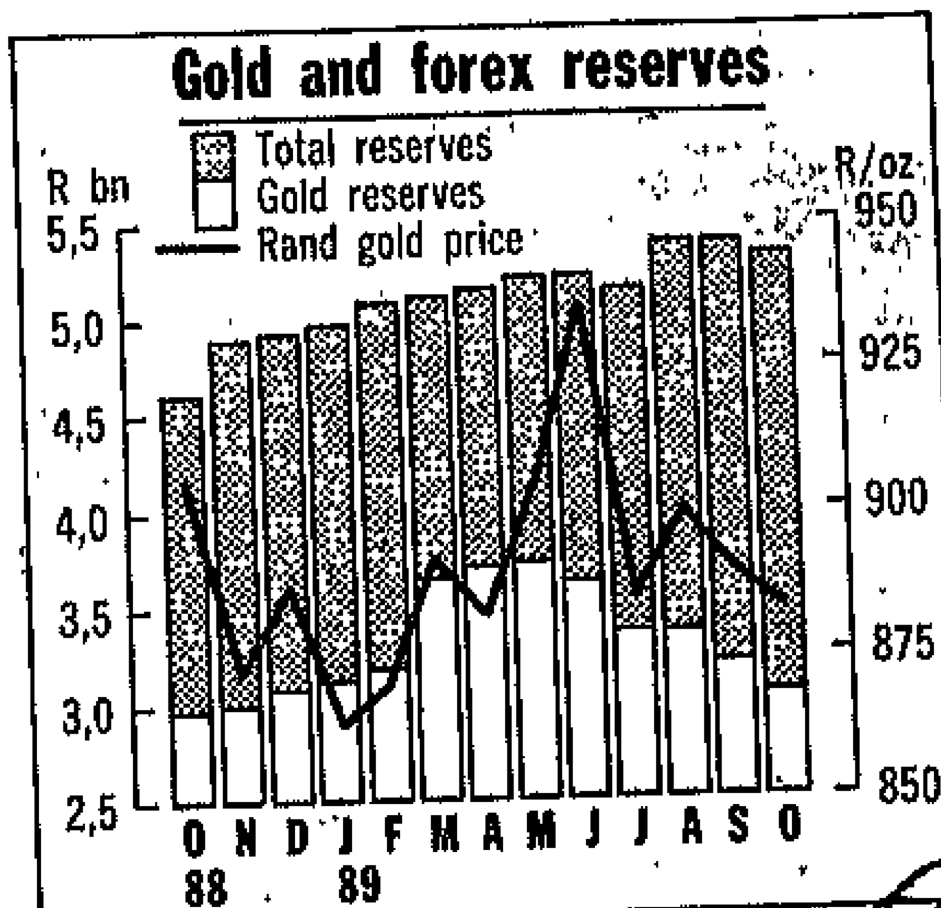
What needed to be done lay in the Margo Report, the Economic Advisory Council's long-term strategic plan, in the latest address of Reserve Bank Governor Chris Stals and increasingly in the analyses by professional economists.

"We must encourage the authorities to step out on this road with urgency and boldness, for only then will our skewed Diagonal Street be in line with the sanity of world markets and economies," he said.

Van As won the top communicator awarded for his impressive showing on the weekly business programme.

The three panelists of the year were Board of Executors' John Winship, Silvis Barnard & Co's Merwen Mellet and Davis Borkum Hare & Co's Gillian Findlay.

B Day 8/11/89



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Foreign reserves remain threadbare (58)

BDay 8/11/89

GRETA STEYN

SA'S foreign reserves continue to languish at a threadbare R5,3bn in spite of a strong current account surplus — indicating capital outflows are offsetting inflows on the current account of the balance payments.

Reserve Bank figures released yesterday show the Bank's holding of foreign assets and gold dropped marginally in rand terms to R5,32bn in October from R5,37bn in September. The Bank's foreign reserves, the amount that is left after all foreign payments and receipts for the month have been made, has been marking time at around this level for three months.

The decline in rand terms is the result mainly of the stronger exchange rate in October. But the relevant measure is dollars, and in that currency there was a slight increase, from a rough estimate of

☐ To Page 2

Reserves (58) BDay

☐ From Page 1

just below $2bn to slightly more than that.

The reserves consist of currency and gold holdings with currency accounting for R2,28bn (September R2,18bn) of the total and gold R3,03bn (R3,59bn). The Bank liquidated some of its gold holdings in October causing physical gold holdings to drop to 3,43-million ounces from 3,59-million

The figures provided by the Bank are for gross reserves; they are not adjusted to take account of short-term foreign loans taken specifically to stock up on currency. The need to reduce this debt has been one factor keeping the gross reserves stagnant.

Southern Life economist Mike Daly says the figure for the net reserves is the really important indicator of the country's foreign payments ability.

The Bank no longer provides specific details on its foreign loans, but movements in the "other liabilities" item on its balance sheet provide clues. Between June and October, this item dropped by R1,3bn — probably because the Reserve Bank reduced its foreign debt. The continued need to reduce these foreign liabilities is aggravating the effect of non-reserve related capital outflows. The result is to use up the current account surplus, preventing SA from building up a cushion of foreign reserves

ISCOR ISC 229 | 230

Records broken as Iscor, gold shares boom

58

Star 9/11/89

By Sven Lünsche

Huge volumes of shares were traded on the Johannesburg Stock Exchange yesterday as frenzied first-day dealing in Iscor shares coincided with hectic activity in reaction to a rising gold price.

JSE statistics released last night showed that a massive 32 million Iscor shares alone changed hands in about 710 deals — the biggest daily trading volume in a single share in the exchange's history.

Coupled with the renewed interest in gold shares, total volumes for the day were pushed to 62,2 million shares, valued at over R200 million.

Market sources said this was probably the greatest single-day trading on the JSE this year, and compares to a mere 8,9 million shares traded on Tuesday. Yesterday's 4 820 deals were still substantially lower than during the turbulent days of the market crash in October 1987 when trading reached daily levels of over 6 000.

Analysts again expect high volumes today. While interest in Iscor is expected to ebb slightly, a rise in the gold price to $388 in Hong Kong today signals a renewed rise in gold share prices on the JSE.

'Unqualified success'

The Iscor listing, the biggest in South Africa's financial history, has been described by market watchers as an unqualified success.

In frenzied trading the Iscor share price initially fluctuated between 220c and 240c, but after 15 minutes of hectic bidding the share price settled at 230c. It steadied around that level and closed the day at 227c.

Gold yesterday hit a seven-month high of $389 before falling back to $384,50 in London, but the rise of the metal since September has pushed up the crucial all-gold index by 37,5 percent over the last three weeks alone.

Local investors have been joined by overseas, particularly US, investors, who have returned to the JSE in the wake of the perceived improvement in South Africa's political fortunes.

An Iscor spokesman said manage-

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Local investors have been joined by overseas, particularly US, investors, who have returned to the JSE in the wake of the perceived improvement in South Africa's political fortunes.

An Iscor spokesman said management was extremely happy with the price, especially since recent stockmarket volatility had created a lot of uncertainty among investors.

Pleasant surprise

But the most pleasant surprise for many analysts was that most private investors heeded the advice of stockbrokers and retained their investment as a long-term holding.

The Iscor share issue attracted more than 300 000 investors, most of whom paid 200c for their shares. However, about 54 000 Iscor employees received 100 shares free and it is believed only a few of them sold their shares for a quick stagging profit.

After the first hectic 15 minutes, the buying price was set at 229c and the selling price at 230c. Bidding for the previous privatisation issue, Sasol, lasted for only a few minutes.

The JSE computer, which had undergone extensive testing to deal with the issue, coped well with the flood of transactions.

However, many dealers batched their various orders, so that the number of transactions was far fewer than the actual number of buying and selling order received.

● See Page 20.

Princess Diana, wrapped in a towel, after a swim in a pool at the British Navy base in Hong Kong yesterday.

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Man (20) freed after 2 years on De

Star 9/11/89

A 20-year-old Eastern Cape man who spent two years on Death Row for a "necklace" murder, walked out of his cell after his conviction and sentence were set aside last Friday.

Mr Menzi Tafeni who spent 770 days waiting to be hanged was released after a successful appeal made to Mr Chief Justice M Corbett in the Appellate Division of the Supreme Court in Bloemfontein.

The court also set aside the conviction and sentence of Mr Tafeni's co-accused, Nico Ludube Mnyamane, also due to be hanged.

Three other young men who were each jailed are to be released soon.

The young men, all of Burgersdorp, were convicted By Mr Justice Solomon for the murder of Mr Everton Cakaza.

Reasons for the appellate court's decision will be given at a later stage, according to Mr Tafeni's advocate, Mr Morris Bass-lian.

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Though gold stole steel's thunder . . .

Iscor's debut lives up to all expectations

(58) BDay 9/11/89

MERVYN HARRIS

ISCOR lived up to expectations when the shares opened on the JSE yesterday at 225c, to give stags a profit of 12,5% or 25c on the issue price of 200c.

But the expected flood of orders from private investors failed to materialise and trading tapered off after frenzied activity in the first hour that the shares came onto the market.

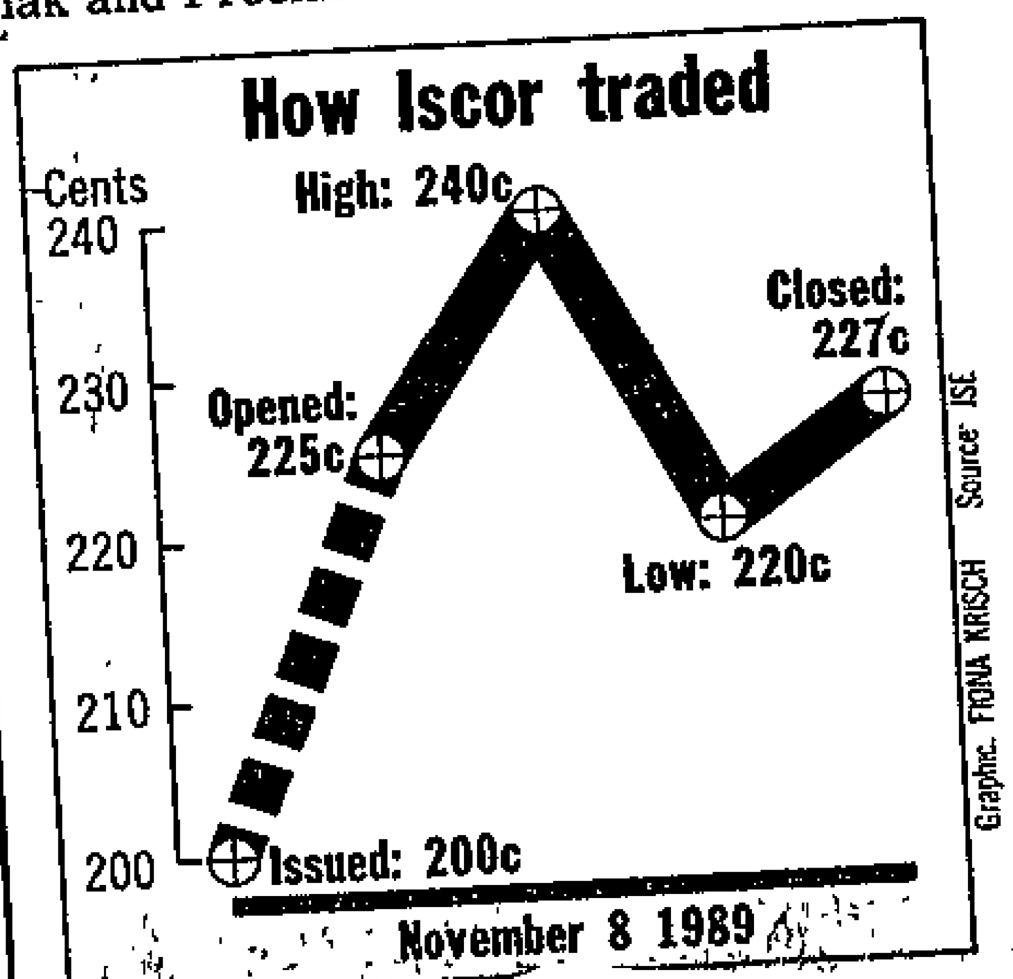
There were 710 deals in Iscor shares out of a total of 4 800 deals on the market. While this was significantly higher than the recent daily average number of deals, it was lower than during the height of the boom in 1987 when there were 6 000 deals a day.

David Shapiro of stockbrokers Max Pollak and Freemantle said: "We thought we would have a much greater inflow of orders from private investors but the market had gone fairly quiet after the first hour.

"This was because new shareholders will only take action after they have received their share certificates, which were only posted to them yesterday. Some probably did not know how many shares they received or did not realise they could trade in the shares without the certificates.

"On the other hand, we have had very good buying orders at the 220c-225c level from private investors which we did not expect. I think the price will hold at these levels for a few months before moving upwards."

● Pictures: Page 3
● Comment: Page 8



Shapiro added that the enormous volumes in Iscor shares suggested institutional participation.

However, a dealer said that few stockbrokers would take orders from investors without certificates if they were not already clients.

Charles Booth of stockbroker J D Anderson said: "There were no surprises but it is still too early to get a feeling where the shares will eventually trade."

A spokesman for a stockbroker that specialised in canvassing new shareholders said such investors probably thought they had to have certificates in their pos-

☐ To Page 2

☐ From Page 1

Iscor's debut

session before they could trade.

"They are now waiting for the shares to go up before selling. A lot of people will sit down and think things over at the weekend before making a decision," he added.

Another dealer suggested that the relatively small price fluctuations — Iscor briefly touched a high of 240c and a low of 220c — were to a large extent a result of prices being set by the four sponsoring brokers of the flotation who had most of the big orders.

The successful debut of Iscor was helped by the strong gold price, which was trading at around $389 when the market opened. Good overnight demand in New York for quality gold shares resulted in share prices opening sharply higher.

"Gold took some of the thunder out of Iscor," said Mannie Fisher of stockbroker V H Simmons & Co. "After the initial flurry of activity in Iscor shares, attention again switched back to the gold board."

As the excitement surrounding the Iscor debut faded and the price stabilised in disciplined professional trading, another dealer commented: "Gold is always better than steel."

Bruce Templeton, JSE senior manager: business services, said: "We were very happy with the way things went, particularly from the computer side. We had extensive dress rehearsals and looked at all eventualities and were thus able to cope without incident for the mammoth listing.

"Deals were lower than expected but this was because of our forethought and planning which enabled dealers to batch deals. This helped curtail the actual number of deals traded."

Stals rewrites the rules for tight monetary policy

58

BDay 9/11/89

GRETA STEYN

MORE than style changed when Chris Stals took over as Reserve Bank Governor. The very definition of "restrictive monetary policy" was overhauled — a fact the financial markets learned the hard way.

When Stals exchanged his office in Vermeulen Street for another a few blocks away, there was hardly a flutter in the markets. Even his declaration of war on inflation produced only a murmur, but he certainly caught the attention when he upped and raised Bank rate in October.

The current high level of interest rates is, however, not necessarily evidence of an extraordinarily tight monetary policy.

Simpson McKie economist Graham Boyd says: "According to Milton Friedman, high interest rates are often not so much evidence of tight monetary policy but of too easy a policy in the past. But Stals's proactive style — his speed in raising Bank rate before anyone expected it — can be regarded as evidence of a shift, as is the current level of real interest rates."

Raising Bank rate was not the only message to the markets. Stals, relying on "moral suasion", drove home his faith in positive real interest rates during meetings with bankers, and in speeches. He compelled participants in the markets to make fundamental adjustments to what they are beginning to see as a whole new set of rules.

Those rules have hit banks where it hurts, and the result should be a slow-down in credit growth.

Says Standard Merchant Bank treasurer Chris Kenny: "The Bank raised the cost of its accommodation to a punitively high level and has refused to provide extra liquidity. With margins under pressure, banks are forced to reconsider their lending policies. Asset and liability management has become a new game."

The Bank's cold shoulder to the banking sector's liquidity problems reinforces the moral suasion aspect

● DE KOCK

of monetary policy. Bankers say Stals's predecessor, Gerhard de Kock, often failed to back up moral suasion with action to prove he meant business. Similarly, lip-service to real interest rates was not followed by enough action to convince the markets.

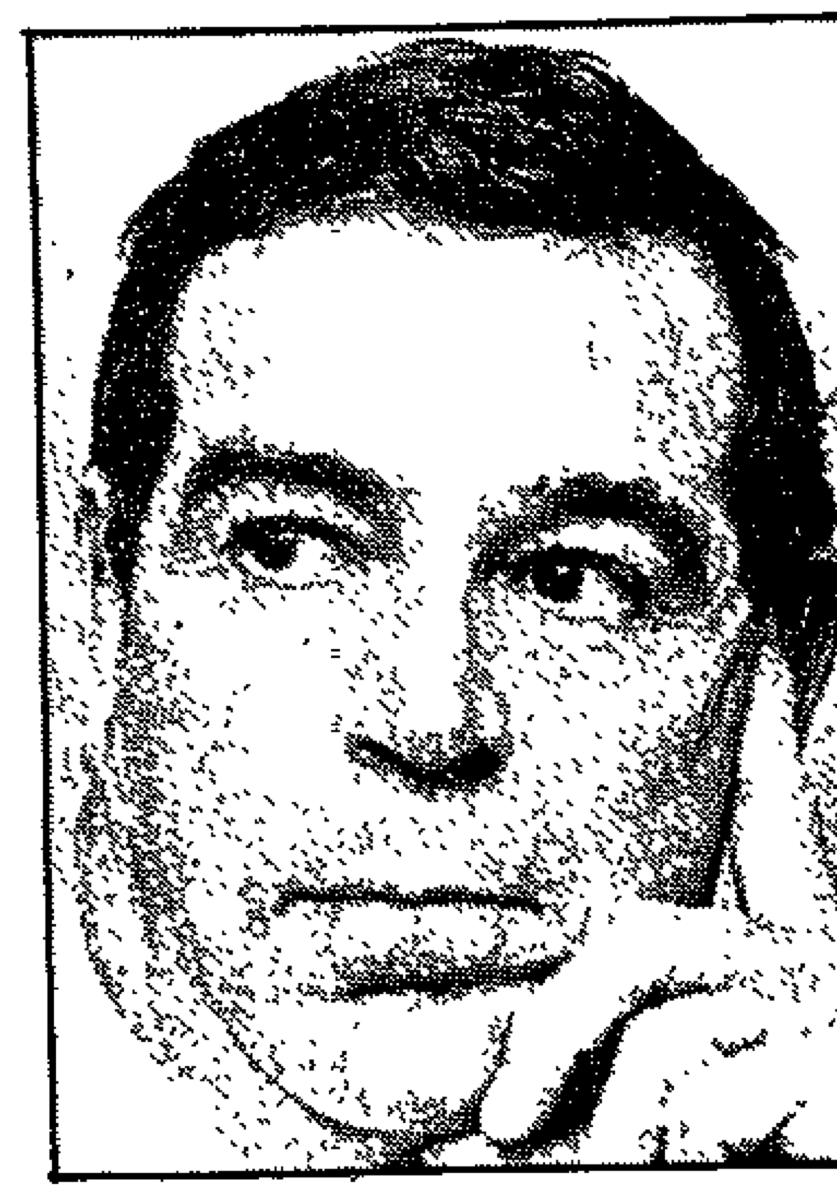
Stals has by no means introduced radically new interest rate policies. The only radical action that can be attributed to him is that he has apparently started to implement oft-stated policies.

The problem of too low or negative real interest rates was mentioned ten years ago in government's Economic Development Programme (EDP) for the eighties. Referring to high rates of money supply growth in the seventies, the EDP said: "The easier conditions in the money market that kept the real interest rate structure at a relatively low level had an adverse effect on not only domestic savings, but undoubtedly also on the capital account of the balance of payments."

If that sounds familiar, what about the part on fixed investment? "The considerable rise in liquidity in the seventies, coupled with relatively low rates of interest, caused firms to replace labour with capital . . ."

Ten years later, the distortion of capital-labour ratios through low real interest rates remains a problem. The State President's Economic Advisory Council raised the issue in 1987 and De Kock's acceptance of the need for high real rates of interest was well known.

Stals noted in a recent speech: "We cannot keep the price of capital —



● STALS

that is, the interest rates — down if the commodity is in short supply. This will only increase the maldistribution between the use of, alternatively, capital and labour in production processes . . ."

He appears to be the first central banker with the courage, and the political backing, to show any sign of actually doing something about the problem. He has convinced the markets his talk is not cheap. Kenny says: "We have accepted there will be a positive yield curve and portfolios have been adjusted accordingly."

Kenny points to the narrowing in the margin between the prime overdraft rate and interest rates on 12-month and six-month Negotiable Certificates of Deposit as evidence of this adjustment.

However, the issue of real interest rates is complicated by Stals's emphasis on international real rates. Discount House of SA economist Chris Greyling interprets the new Governor's actions as proof of far greater emphasis on external factors — the gold price and international interest rates — than during De Kock's tenure.

"That shift in focus has turned projections of domestic interest rates into an even more hazardous affair," Greyling says.

In his view, the fundamental difference between Stals and De Kock lies in their approaches to the trade-off between exchange rate and interest rate policies.

De Kock preferred to keep nominal interest rates as stable as possible while using depreciation of the rand to achieve balance of payments (BoP) adjustment. Greyling believes Stals prefers the opposite: a stable rand while using flexible interest rates for BoP adjustment.

There is a growing perception it is not "business as usual" with Stals. The test he now faces is that of consistency; of proving there is indeed a new set of rules.

Boyd is reminded of the time when Alan Greenspan took over from Paul Volcker as chairman of the US Federal Reserve.

"Like Greenspan, Stals has had to prove his anti-inflation mettle by taking some pretty bold steps. Now that Stals has made his point, the question is whether he will remain consistent."

If Stals sticks to his guns as Greenspan did he will achieve a slowdown in money supply growth, and tame demand-pull inflation.

JSE gold shares rapidly approach pre-crash highs

17

Star 9/11/89

Finance Staff

Gold share on the Johannesburg Stock Exchange are rapidly approaching the record highs reached before the 1987 stockmarket crash.

As the gold price hit a seven-month high of $389 in London yesterday, the crucial JSE gold index rose 38 points to 1925, its highest in over two years.

Yesterday's jump brings its gains since Wall Street's slump on October 13 to over 37,5 percent, with many dealers forecasting further increases in the weeks ahead.

The rise was inspired to a large extent by the strong performance of the gold price.

In early trading, gold moved up to $389, but slipped before the afternoon fix on nervous selling. The market had gone too far, too fast, one dealer said.

It closed at $384,25 on Tuesday, nearly $5 up on the day.

In New York last night gold recovered the losses closing at $387,75 and this trend continued in Hong Kong today where the metal opened at $387,95.

Other precious metals tracked gold's upward trend.

TRADERS

The sharp rise sparked hopes among traders that the downward trend, which has lasted about two years, might now be over.

According to the Star's London Bureau, traders in Zurich said gold had been boosted by continued jitters on Wall Street and other stock markets.

There was a very heavy volume of sizeable buying orders placed, particularly from the Middle East, in the morning session, according to Tom Butler, bullion dealer at the Samuel Montagu financial services group.

Rhona O'Connell, precious metals specialist in Shearson Lehman Hutton's research team, suggested gold might reach $400 by the end of this year.

Mark Wellesley-Wood, head of the mining team at the Kleinwort Benson securities group, said gold "has gathered its own momentum and is supported by fundamentals. The rise is not just a flash in the pan".

He said that by next year the long-term fundamental picture should result in bullion establishing itself above $400.

However, Robert Weinberg, head of international mining sales at the James Capel securities house, suggested the bear market had not yet ended.

REASON

"To be convinced the upturn has started I would want to see good demand from Western investors. And there would have to be a good reason for investors to be scared into buying gold, most likely by an unexpected event."

He stood by his previous forecast that the gold price would soon resume its downward path and fall to between $285 and $320.

Gold has been slithering since it reached a peak of $500 almost two years ago.

The price seemed to bottom out from its current doldrums six weeks ago after touching $356,40, and analysts said the market had now started showing clearer signs of a bull trend.

The strong gold price is good news for South Africa as it boosts the balance of payments.

The $30 an ounce increase in the gold price is worth about R125 million a month — about R1,5 billion a year in additional foreign exchange at current production levels.

SAB serves up a heady brew again

58

Star 9/11/89

By John Spira

In spite of a marked slowdown in private consumption expenditure, the giant SA Breweries group achieved a commendable 23 percent turnover advance — to R5,8 billion — in the six months to September 1989.

The sales gain, ascribed to greater penetration and coverage of the group's focused mass consumer markets, was beaten at trading profit level, with a 38 percent improvement to R500 million as a result of improved resource utilisation and general operating efficiencies.

However, a sharp increase in financing costs lowered the growth in attributable earnings to 29 percent for a per share earnings figure of 66,1c.

An interim dividend of 25c (20c) has been declared.

The beer division recorded volume growth of 13 percent and increased its contribution to group earnings by 29 percent. SAB's remaining interests, including the recently-acquired subsidiary Da Gama Textiles, contributed 30 percent more.

Cash returns

Cash generated from operating activities grew by 23 percent to R529 million for the six months, providing, the directors advise, adequate resource for the payment of financing costs, an abnormal acceleration in tax remittances and the final dividend for the 1989 financial year.

Investment activity of nearly R350 million increased the overall gearing ratio to 51 percent from 46 percent at the end of March 1989 and 38 percent at the end of March 1988.

Cash on deposit was nevertheless left virtually intact and the directors comment that the significant ongoing capital expenditure programme "will be funded comfortably by existing financing facilities and well within the group's target gearing ratios".

Group managing director Meyer Kahn says SAB's historic long term gearing ratio is in the region of 60 percent. The current figure is therefore relatively low.


Meyer Kahn

He points out that the strike action at SAB's plants had no impact on the interim figures and adds that October production levels held firm, while sales during the month were in line with budget.

"We hope reason will prevail, that the workers come to realise SAB is an exceptionally good payer and that the final offer is a reasonable one."

Viewed against the softer economic background, the group's halfway performance is little short of spectacular, bearing especially in mind that in the year to March 1989 — a period of heightened economic buoyancy — sales rose by 22 percent and per share earnings by 28 percent.

Hence, from a larger base, SAB's performance for the six months to September was actually superior to the growth achieved in the 12 months to March 1989.

Predictably, Mr Meyer Kahn says that while a satisfactory rate of real growth in earnings should be achieved for the full financial year to March 1990, it will "certainly not" reach the rate achieved for the half year.

He believes the constraints on the country's balance of payments, with the resultant restrictive fiscal and monetary measures, will continue to inhibit consumer demand severely "for some time to come".

The economic downturn therefore seems bound (albeit belatedly) to impact negatively on SAB's results in the current six months.

Barlow's UK-listed Bibby posts disappointing results

Finance Staff

The results of Barlow Rand's UK-based international investment arm, J Bibby & Sons, have not lived up to expectations, with earnings per share falling from 18,4p to 16,6p.

However, the dividend for the year to September of 8,5p has been maintained.

The directors say poor results from the paper and converted products division, which suffered from the escalating cost of pulp, more than offset the good results of other divisions.

They say the position of the division has been reappraised.

A major paper mill has been sold and considerable capital invested to re-orient activities to lessen dependence on wood pulp.

The strong performance of the materials handling and science products divisions and a reasonable showing by the agricultural division were not enough to offset the losses of the paper division.

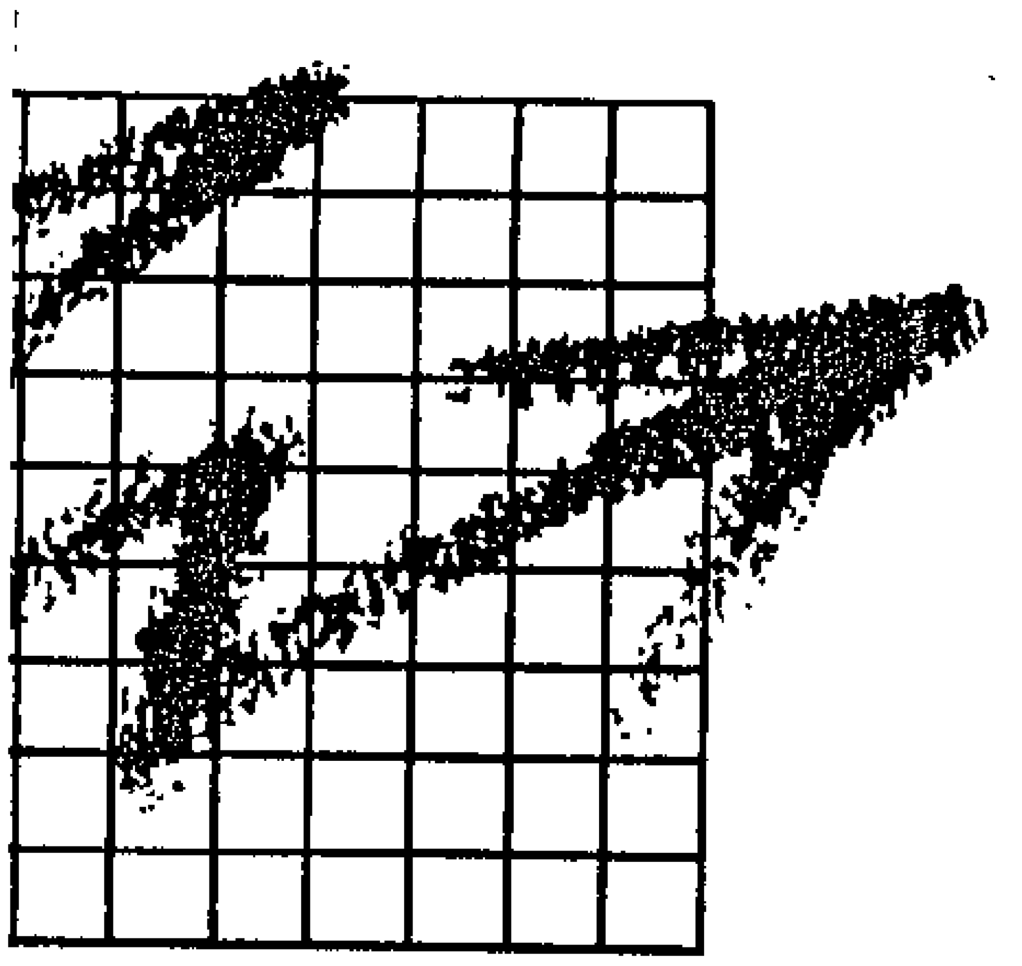
Turnover fell from £549 million to £515,36 million, while pre-tax profit declined 5,4 percent to £28,6 million (£30,2 million).

Net asset value rose to £143 million from £127 million after writing off goodwill of £3 million arising from acquisitions and after including a surplus on revaluation of properties of £10 million.

The directors believe that several small and medium-sized acquisitions will supplement existing activities and help contribute to improved results in the current financial year.

"The measures Bibby has taken over the past two years to improve existing operations and divest itself of under-performing assets should lead to real benefits in the future," the directors say.

However, they admit that the likely slowdown in the UK and US economies may result in less buoyant markets in the near term.



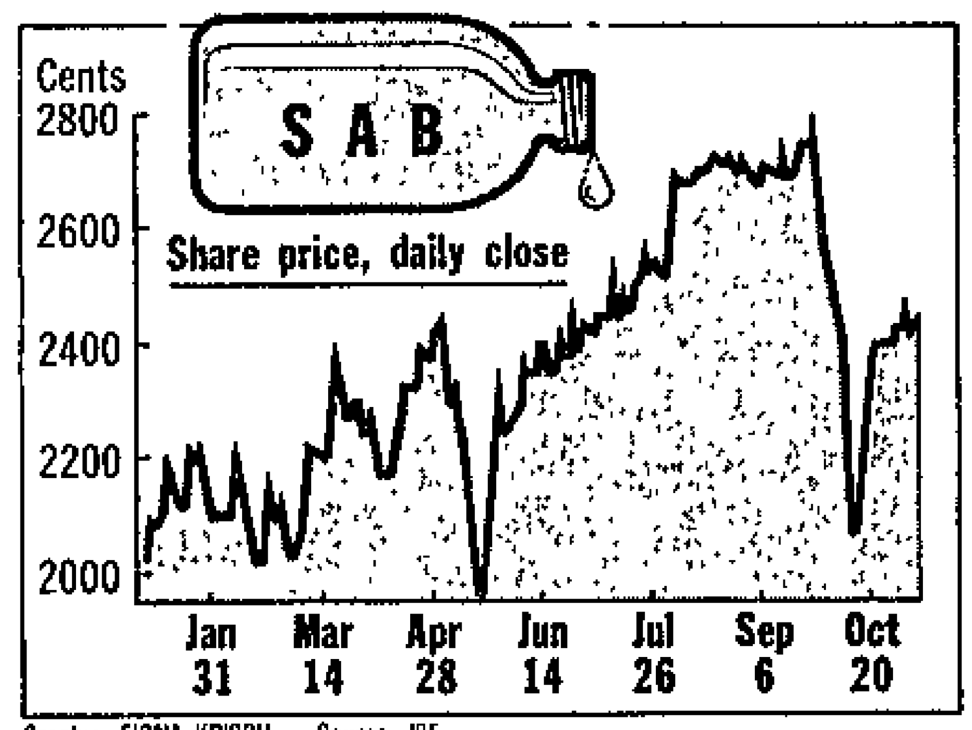
RATE NEWS

Nominal rate pa | Effective rate pa

38% rise in profits brings cheer to SAB

(BB) B.Day 9/11/89

BRENT MELVILLE



Graphic FIONA KRISCH Source JSE

SA BREWERIES (SAB) has proven itself a master financial brewer with turnover just shy of R6bn for the six months to end August.

With turnover at R5,8bn — a 23% improvement over the comparable period last year — trading profit hopped 38% to R500m (R363m), reflecting the general operating efficiency of the beverage, retail and hotel group.

Earnings improved 29% to 66,1c (51,1c) a share, covering the 25c interim dividend 2,6 times.

MD Meyer Khan expects the group to shrug off labour problems which have hit the group's beer division. The strike would neither have an adverse effect on the availability of beer or the group's year-end results, he said.

Referring to the wage strike by over 6 000 SAB employees — now entering its fifth week — Khan said that he hoped common sense would prevail and employees would accept the "very fair and reasonable" wage offer offered to them.

He admitted however that he expected the present rate of growth to slow by year end, not constricted by labour action but by the constraints of the country's BoP and the resultant inhibition of consumer demand.

Khan pointed out that private consumption expenditure had grown by approximately 17% in monetary value during the six months under review, translating into about 2% in real terms compared with the 4% recorded during the previous 12 months.

Performance was moderated somewhat by an increased finance charge of R122m (R73m), stemming from higher rates and the increase in long and medium term debt to R1,3bn (R1,1bn) and short term to R323m (R77m) used to fund investment activity of R346m.

In order to fund further investment, short dated preference shares worth R160m were also issued — helping push total outside preference shares to over R1bn (R670m).

☐ To Page 2

SAB results

☐ From Page 1

While cash remained at a healthy R183m, the level of gearing climbed to 51% (45%), edging nearer to management's self-defined ceiling of 60% Khan however was confident that the ongoing capex could be funded comfortably by the existing financing facilities without increasing gearing.

Incurred and contracted capex for the period was R598m — with another R1bn authorised but not contracted.

Of the total, Khan says the group will utilise just under R1bn by year end, and the rest would be carried over into the following financial year. He estimated that about two thirds would be spent on the beer division, which held its improvement to bottom line contribution of 29% to R112m.

Asset growth not alway met with profits

SA banks' relatively low capitalisation has put a dampener on the fight for market share as rapid asset growth has, in some cases, not been accompanied by surging profits.

It is against this background that one should analyse the banks' BA9 returns to the Reserve Bank.

Market share alone is no indication of success: the banks that have maintained or gained market share as well as posted satisfactory earnings growth should be seen as the achievers in the sector.

Gained

The Standard Bank Investment Corporation (SBIC) and Bankorp group both gained market share in the year to June 1989, at the expense mainly of the First National Bank group, according to the banks' BA9 returns to the Reserve Bank.

BARRY SWART

But First National is happy with the situation, as it has clearly shifted its focus from piling on assets to improving the profitability of the organisation.

MD Barry Swart, unveiling excellent results last month, said: "We said at the interim stage we would concentrate on profit-maximisation, even if it meant some loss of market share — and that is exactly what we did."

According to First National's analysis of assets on the BA9 returns, the First National group lost 1,2 percentage points market share in the year to June.

Added

SBIC gained 1,5 percentage points but the lion's share went to Bankorp, which added 2,7 percentage points to its position. However, First National retains the largest share of the market (20,3%), with Standard second at 19%.

Some analysts maintain Bankorp's drive to gain market share was too successful. The group has just announced a rights issue to bolster capital.

In terms of banking legislation, banks have to keep

Upping the earnings

CORBANK, troubled by problems with its capital market operations and the subject of takeover rumours, has unveiled a new strategy which it believes will help put it on the track towards substantial growth in earnings.

The banking group is one of the independent operations — small, with assets of about R1bn on its books — and it is obviously no easy task to compete with giants such as First National and Standard (assets of about R30bn each).

Corbank was recently in the news when talk of a merger between it and Investec surfaced and when it announced a 75% decline in profits at the interim stage.

Strategy

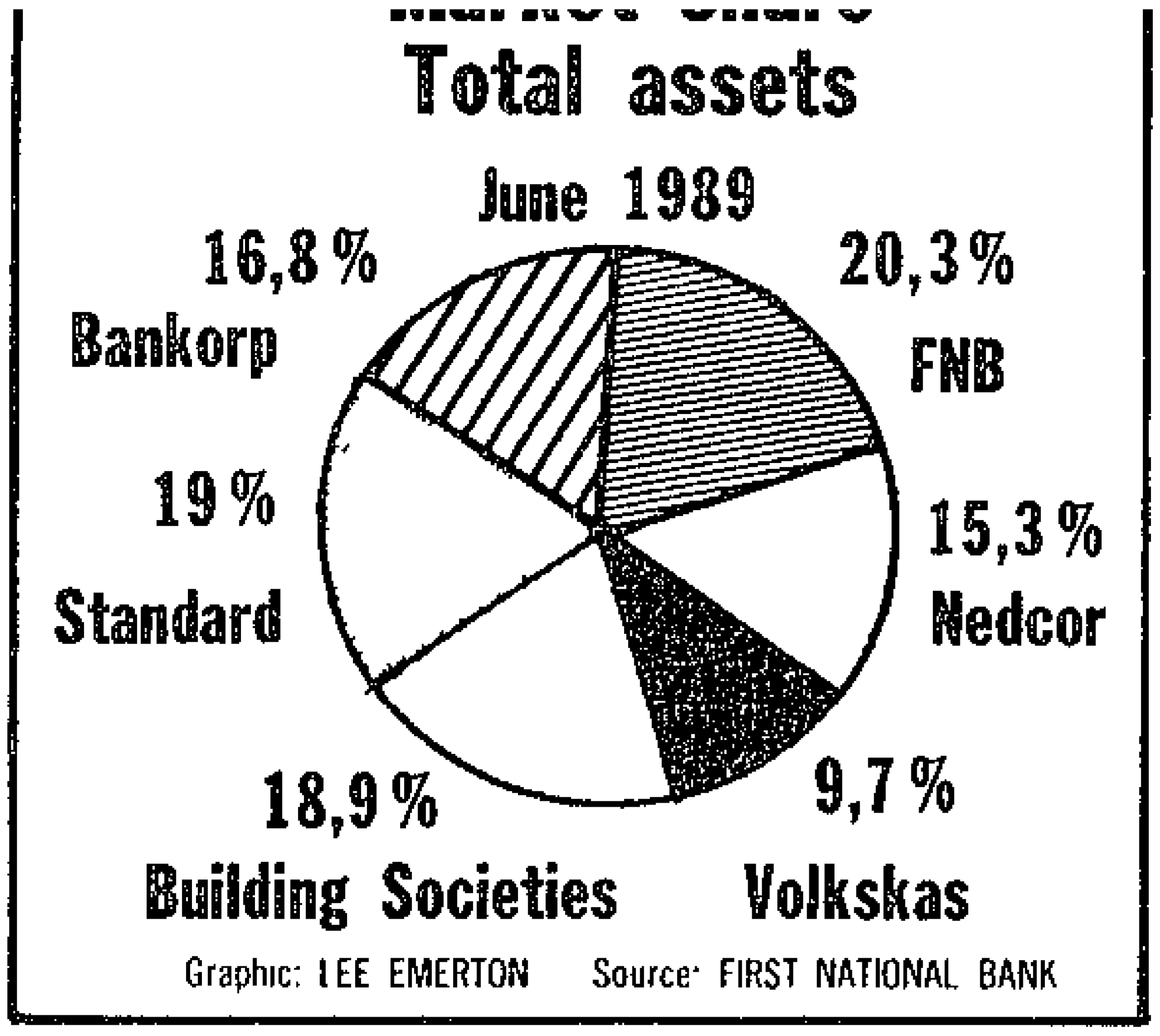
But Corbank MD Laurie Korsten has already put in place a strategy which incorporates substantial rationalisation.

Korsten says the "value added" to banking products is of major importance.

"I do not agree that one necessarily needs to keep developing new products. The key is, rather, in the value added, which can be enhanced in two ways: through the skills of a bank's staff, and its technology."

Corbank's strategy, therefore, is to focus on the quality of the people working for the bank as the major banks have the edge on technology.

This might sound like an



Graphic: LEE EMERTON Source: FIRST NATIONAL BANK

capital against their risk assets and Bankorp's capital position was not sufficient for the surge in assets.

The Standard group, by contrast, has been over-capitalised and could afford to pile on assets.

The new Nedcor group emerged from the merger with the Perm with a much larger slice of the market — the group moved from 9,1% in June 1988 to 15,3% a year later.

As a result, the total stake of building societies in the market's assets dropped by 8,7 percentage points in the year to June.

Although the main reason for this decline is obviously the Nedbank-Perm merger, the figures also indicate the societies continue to lose business to the banks.

Before the merger (which took place in April 1989) the societies had already lost a significant chunk of their market share, moving down from 27,6% in June 1988 to 25,3% in March 1989 — a decline of 2,3 percentage points.

Similar

A similar trend emerges on the liabilities side of the balance sheet, although not all societies are equally affected. The Allied lost market share in savings (from 8% in June 1988 to 7,4% in June 1989), the UBS gained (15,9% to 16,1%) but "other building societies" — including the NBS and Saambou — dropped from 6,3% to 5%.

Trust Bank is happy with market share

THE TRUST Bank is to focus more on profitability and less on market share in the corporate banking market.

Says senior GM corporate banking services Gerbie Strydom: 'For the past two years, banks have been competing fiercely for market share"

He notes a large chunk of corporate banking business is rate-driven, especially in Johannesburg.

"This is changing — with bank margins under pressure because of a number of factors, banks now concentrate on profitablity. Trust Bank is happy with its share of the corporate banking market and for us the focus is definitely more on profitability."

The bank's success in capturing corporate market share since 1984 has been dramatic. Since that year, utilised assets have shown a compounded annual growth of 35%, and Trust Bank today does business with, among others, more than 70% of the Financial Mail's top 100 companies.

Strydom says the current profitability focus will be as successful as the drive to gain market share.

It is supported by a concentrated management focus on effective cost management, improved productivity, fee-based business and maximising the impact of economies of scale.

In spite of the price-sensitive nature of corporate banking, the Trust Bank sets great store by its "relationship banking" approach to this market.

Specialist

The "relationship manager" gives the corporate client access to the various specialist skills in the bank, such as corporate finance, project finance and international banking.

The bank recently hit the news when its proposed delisting from the Johannesburg Stock Exchange was announced by major shareholder Bankorp.

The bank will become a wholly-owned subsidiary of Bankorp.

LAURIE KORSTEN

all-too-easy response to a complicated market, but his philosophy goes much further than the superficial comment that people are the bank's greatest asset. This philosphy is put into practice by giving key people a stake in the business.

The bank recently formed Corbank Leveraged Investments (Corvest) which specialises in advising on and structuring management and leveraged buy-out opportunities.

The company will be headed by three former FirstCorp executives — Neil Page, Dick Mercks and David Rissik — who will have a minority stake in Corvest.

Electronic systems play essential role

THE drive to develop new electronic banking products and improve existing ones continues without a pause as electronic banking gains in importance on the consumer and corporate side.

On the consumer side, the main emphasis is on automatic teller machines providing instant cash. At the same time, electronic banking plays an essential role in the evolution of a cashless society.

The major banks, notably the Standard Bank and First National have been involved in developing EFTPOS — Electronic Funds Transfer at Point of Sale — systems.

Cashless

In a step towards creating a cashless society, EFTPOS has been installed at service stations and supermarkets.

There are now seven EFTPOS outlets, according to the Standard Bank.

A Standard Bank spokesman says: "Ultimately the system could benefit both service stations and financial institutions by eliminating paper transfers and double accounting and by reducing opportunities for fraud.

"Motorists benefit in that payment is accurate and authorisations above the floor limit are handled within seconds."

Electronic banking has to be user-friendly and that is why First National has put so much effort into upgrading its systems.

Much of the banking group's energies in the past year have been focused on converting to Hogan.

"We have not been as innovative as we might have wanted to be in terms of new products," says FNB electronic banking head Ken Boyd, "but now that Hogan is in place we are poised to become more aggressive in this market".

He said converting from seven regional computers to one, as well as changing from ICL technology to IBM, was "a massive task".

Instead of developing new products, the group's electronics effort was geared towards getting the right systems in place.

About 600 Bob machines have been replaced by the more advanced NCR range of automatic teller machines, incorporating the very latest technology in teller machines.

With regard to new products, FNB is working on developing a telephonic voice response system with the computer recognising the customer's voice.

Essential

Boyd believes electronic banking is an essential strategic element in any major bank's corporate banking focus.

"It is important, to stay ahead of the electronic banking game, for a bank to retain the competitive edge.

Volkskas recently invested about R40m in IBM computer equipment, bringing the group's entire investment in IBM technology to R110m in just over two years

Comparative banking

Demand for home loans stays strong

BDay 9/11/89 (58)

DEMAND for home loans is still strong, bankers say, in spite of a wave of interest rate increases pushing the interest paid on banks' home loans from 12,5% to 21% in some cases.

Says Standard Bank home loans manager Terry Power: "September was our most active month in 15 months. We put R200m on our books with most of the demand coming from the upper-end of the market."

The Standard started the "bond war" in December 1986 by aggressively cutting home loan rates and gained a 10% share of the home loans market.

Beaten

Analysts say the bank now has the fourth largest mortgage book, beaten only by the United, the Perm and the Allied.

Its book is expected to be about R5bn by the end of this year.

PAT LAMONT

First National also entered the fray in 1986 but has of late toned down its aggressiveness in the home loans market.

It charges 21% for new loans compared with Standard's 20,75%. But First National's Pat Lamont confirms demand for home loan finance remains buoyant.

"This is probably because a large percentage of home owners are shielded by subsidies. My feeling is that probably 50% of the market has the support of some subsidy.

Dampening

"To a large extent, this offsets the dampening effect of higher interest rates."

Both banks acknowledge, however, that many bond holders are battling to meet their bond commitments.

Power, who prefers not to give specific figures, says arrears have increased over the past six months.

"The bad old days where people were thrown out of their homes when they could not pay are over for good. We are urging people to come in an talk if they have problems.

"If the maximum interest payment a bond holder can afford is 16%, we will fix his or her rate there and capitalise the interest. The important issue is for the home owner to retain his home while continuing to make payments, even if they have to be reduced."

Banks have come under fire for granting 100% mortgages as some critics feel home owners should be compelled to put down a deposit.

Criteria

But Power and Lamont defend this move, saying strict credit criteria are applied in all cases and the granting of 100% mortgage bonds cannot be cited as a reason why home owners are now experiencing difficulties in meeting payments.

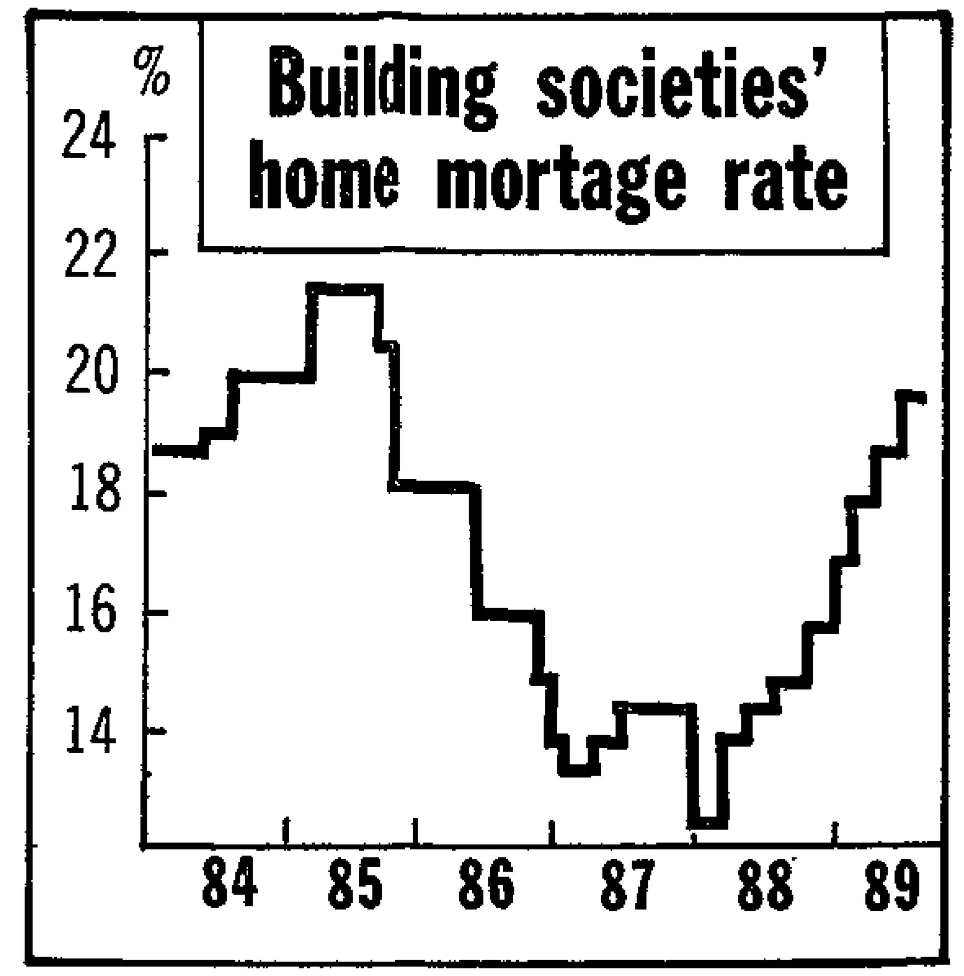
"We apply strict tests to measure whether the recipient of a 100% mortgage can afford to pay. These people are skilled professionals whose careers usually provide ample evidence of their ability to pay."

Another criticism levelled against the banks by some building societies during the "bond war" was that banks would eventually charge higher rates than societies as the cost of short-term funds rose.

This warning has materialised in some cases — First National, Trust and Volkskas raised their home loan rates to 21% after the Reserve Bank rose Bank rate to 18% in October. The Allied and the United have kept their rates to 20,75%.

Lamont says one cannot look at bond rates in isolation and one would have to look at the cost of borrowing over the entire life of a bond before claiming that building societies work out cheaper.

Not all the banks are higher than the societies — Standard and Nedbank have remained competitive at 20,75%.



The relentless rise in Bank rate ended the bond war.

New services and schemes to get the clients in

THE battle between banks for consumer business is being waged on the product front with new services and variations on old themes announced with great fanfare at a dizzying rate.

It ranges from credit cards that "open doors for rugby" (Volkskas), to cheque books for left-handed people (Nedbank, Volkskas and First National Bank).

Far cry

In marketing, the focus these days is on savings — a far cry from 1987 when banks were begging customers to borrow. Most banks offer a deposit linked to the prime overdraft rate, with the interest earned increasing when the prime overdraft rate does.

In a climate of rising interest rates, the product makes sense: investors are reluctant to commit their savings on a fixed basis if they believe rates might rise again.

Battle

Other areas of competition include the upper-end of the market — leading to new products in cheque accounts and home loans.

In the battle for the upper end of the consumer market, the United became aggressive with the launch of its Unique and Performer plans to compete with, among others, the Standard Bank's Achiever and Prestige Plans and First National's Status and Premier account holders.

The "Unique" plan offers a housing loan at 0,5 percentage points below the prevailing mortgage rate — matching the Standard's offer.

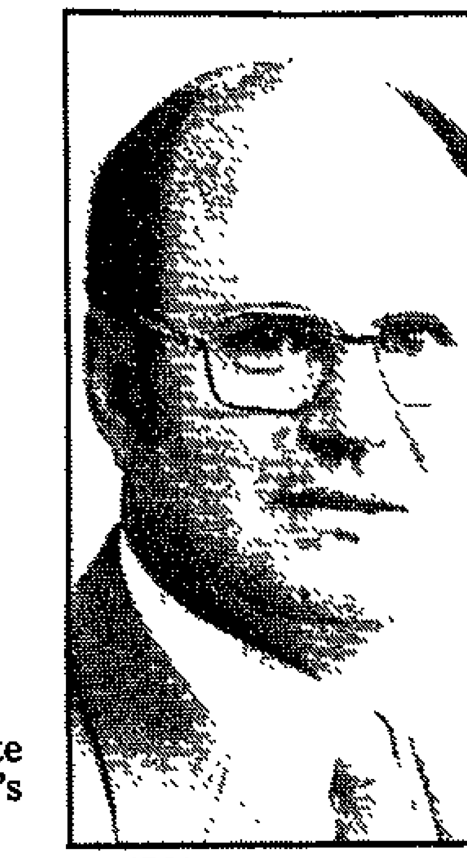
In the cheque account wars, Volkskas recently followed Nedbank and First National Bank in offering special cheque books for left-handed clients.

This cheque book at first glance looks like an ordinary cheque book — but is in fact a mirror image of that. It is bound on the right hand side with the counterfoil perforated on the right of the cheque.

Launched

First National's cheque book for left-handers was launched in the early eighties and differs in that the spine is at the top.

Volkskas found that 15% of the market was left-handed and that 80% of the public thought it important that a bank should offer such a service.



JERRY VAN VUUREN

Another blast in the cheque account wars has been First National's Tandem account. It allows married couples to receive considerable discounts on cheque account service fee rates — seen as a move to counter United's aggressive marketing of its low fees.

One-stop financial services is a feature of the banking market which has seen building societies open banks and banks offer insurance.

The provision of insurance is part of the concept of "one-stop financial services" — a customer should have a current account, a home loan, savings and insurance all with the same institution.

Benefits

The TrustBank is marketing its short-term insurance policy, MultiTrust, on price.

Senior general manager: banking services Jerry van Vuuren says MultiTrust offers better benefits than ordinary short-term policies.

He backs up this claim with an example showing a standard company charging up to 37% more on monthly premiums than does MultiTrust, a policy which is underwritten by Santam Insurance.

Chinese connection seems on the cards

BANKORP remains tightlipped about negotiations to form the first Chinese bank in SA, but the Registrar of Banks has approved such a venture in principle.

Bankorp, SA's third largest banking group in terms of total assets, has confirmed discussions with European and Far Eastern business about the possibility of forming a commercial bank in SA aimed mainly at Eastern clients.

Outgoing Santam bank MD Roeland Pe[r] old, who is expected t[o] become the MD of su[ch] bank, is leading the discussions.

According to a report in the Southern Africa Special Dispatch, banking circles have been "buzzing" with news of the Chinese connection for months, although few details of the project have emerged.

The magazine says Chinese investors and industrialists from Taiwan are a substantial source of foreign investment in SA and account for 15% of the industrial activity in KwaZulu alone.

Nedbank breaks with tradition

NEDBANK has stolen a march on its competitors in the home loans market by being the first to unveil a product representing a radical break with old traditions.

Probably the most significant developments on the product front have been unit trust-linked and endowment-linked mortgages.

Sophisticated

Competition in the home loans market has shifted towards sophisticated products away from the interest rate war fought in the easy money days of 1987.

NedGrowth is one such product — it is a unit trust-linked loan with the borrower servicing only the interest without reducing the capital portion.

The money which would have been used to reduce the capital is used to buy unit trusts, in this case UAL units. At the end of the home loan's term, the proceeds from this investment will be used to redeem the capital — with money to spare.

Assuming unit trusts continue to perform the way they have for the past 20 years, a bond holder with a R100 000 bond can at the end of the repayment period find he owns his home and has an extra R500 000.

PETER ANSCHUTZ

Investors can also use the facility to pay off their homes over a shorter period.

But is the idea not risky business as it leaves the home-owner exposed to the movements of the JSE?

Was the recent "mini-crash" not enough to scare borrowers away from this innovation, which has not yet been tried and tested in SA?

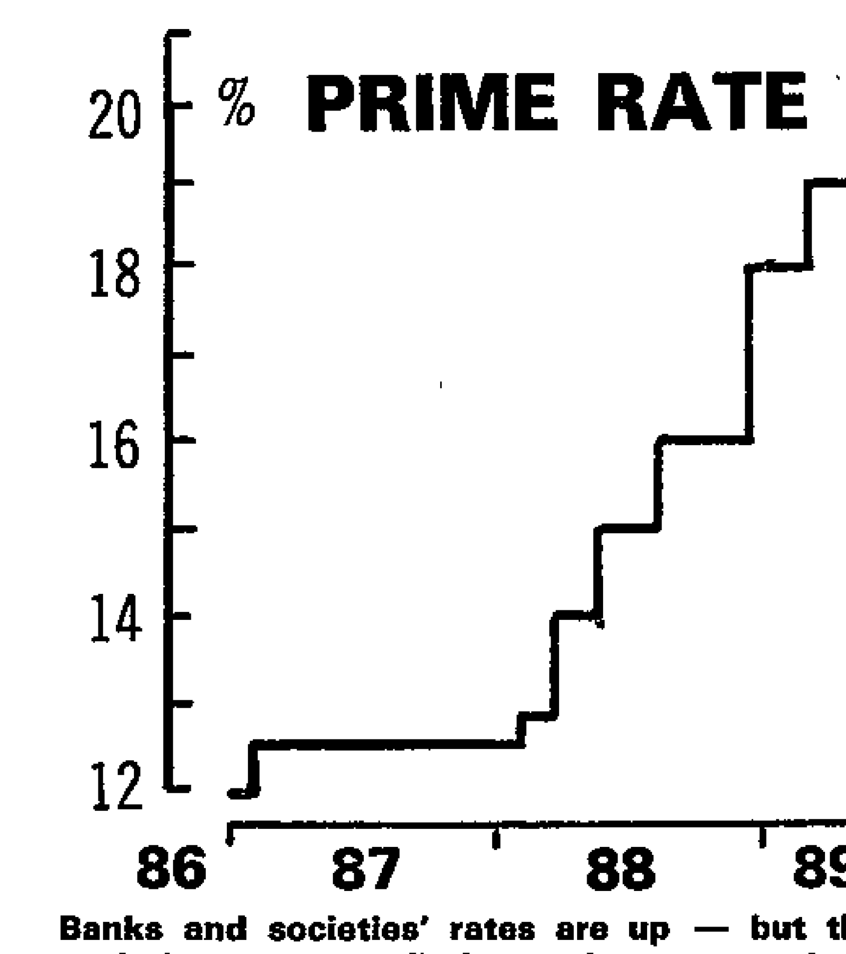
Not so, says UAL senior GM Peter Anschutz, who notes unit trusts have outperformed all fixed interest and property investments, even taking into account the October 1987 crash. The UAL unit trust has performed at 28% over the last 12 years, giving a net 26% after tax at 45%.

Although the aggressive bond war has faded, some institutions are still undercutting competitors in an effort to pick up more business — but with less fanfare and by smaller margins.

Maintaining

Nedbank is maintaining its home loan rate at 20,75% after the last increase in Bank rate — lower than the other major banks' 21%. Nedbank GM Johan Westraat says the bank strives to keep its home loan rate below the prime rate.

"We want to remain competitive in this market."



Banks and societies' rates are up — but those of societies are generally lower than some major banks.

New development in mortgage war

IN A development in the mortgage product war between banks and societies, the Standard has launched an interest-only option as part of its AccessBond — soon after Nedbank launched NedGrowth.

In terms of the StanPlan AccessBond option, customers can repay only the interest on their bonds while using the capital repayment portion to fund an endowment policy with Liberty Life.

Emphasis

The Standard Bank is vigorously marketing its AccessBond a "bond-based money mangement" with special emphasis on tax-efficiency. Borrowers can, with this facility, deposit surplus funds into their bond accounts — reducing the interest charge and effectively providing a return equal to the prevailing bond rate.

It has further refined the product with the introduction of StanPlan.

Monthly payments are interest on the bond plus contributions to the endowment policy, which escalate at 15% a year to protect the real value of the capital.

Says home loans GM Terry Power: "For the first eight years there will be very little difference in monthly instalments on this option and a conventional bond with mortgage protection cover. In fact, in most cases the StanPlan bond instalments will be marginally lower in the first two years.

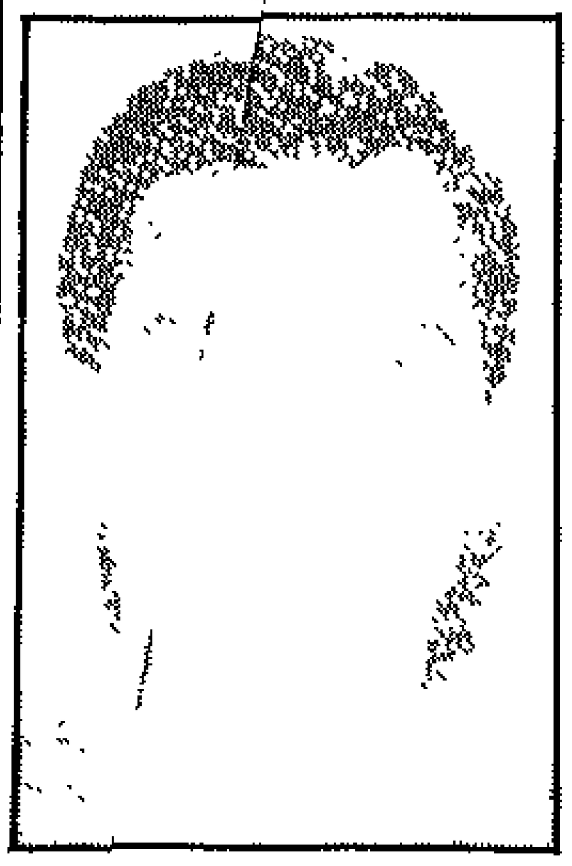
Record

"Taking into account Liberty Life's investment track record, there is every likelihood that there will be sufficient investment growth in the Lifestyle policy to enable early repayment of the bond.

"If the client elects to continue the policy for the full term of the bond, he or she could also receive a large, tax-free lump sum over and above the guaranteed amount required to cover the capital liability under the bond."

TERRY POWER

He notes that in the UK, about two-thirds of all home mortgages are granted as interest-only loans, with the capital portion being paid into an endowment policy.



MIKE BOLTON

Seminar on path in the '90s

A SEMINAR on banking in the 1990s will be held in Johannesburg on November 23 by the Duro-Link group in association with Axis conferences.

Duro-Link MD Mike Bolton says: "The banking industry in SA is in a state of significant change and there are a number of topics likely to prove controversial and of keen interest to the financial community."

The organisers hope to make the conference a regular event.

Rand Merchant Bank economist Rudolf Gouws will give the opening address.

Some other speakers and their topics are:

□ Frame Textiles CE Mervyn King — Monetary and Fiscal Policies in SA (or the lack thereof);

□ Central Merchant Bank (corporate finance) assistant GM Mark Thompson — Corporate Finance after the Stock Market Crash;

□ FirstCorp vice-president Louw Burder — Foreign Financing.

Fascinating statistics on money handling

STANDARD Bank Investment Corporation MD Conrad Strauss provided some fascinating statistics on banking in a recent speech.

He said cheques remained at the heart of the payments system and in 1988 the clearing banks processed about 388-million cheques, magnetic tape entries and international payments on the "Swift" system to a total value of R3,2-trillion.

Every working day, cheques are cleared to a value in excess of R8bn. SA transactions through Swift amount to about 1% of the system's international clearances, equal in value to transactions from the whole of the South American continent.

SA's ATM system is among the world's most sophisticated.

Transactions

By the end of 1988 there were about 3 555 machines in operation with a replacement cost of R355m and last year about 300-million transactions were carried out worth R21,5bn.

The total investment by the three largest banking groups (Standard, First National and Nedbank) in computer and associated equipment to maintain the system, is of the order of R900m and in the last five years has grown at a compound rate of 27,5% a year.

To carry out this work banks employ about 100 000 people, or about 1,8% of the economically active population. Credit cards held by about 1,6-million South Africans were used to the value of R5,4bn last year.

CONRAD STRAUSS

On the use of credit cards, Strauss pointed out that credit extended through credit cards accounted for only about 1,5% of all the credit extended by the Standard group.

Strauss used the speech to set the record straight on myths about banking. He said: "Banks are not a privileged group. They are responsive to the needs of the customer, highly innovative and flexible in serving the community at large."

It was a myth that South African banks were too large, he said.

"They are in fact small in relation to the major industrial and mining groups they serve."

SBIC has the largest capital base of any SA banking group, yet even SBIC's shareholders' funds amount to only about a fifth of the equity of Anglo American Corporation and about 80% of SA Breweries.

It would seem that even some further rationalisation would not be against the national interest.

One should bear in mind that large scale computerisation has drastically changed the relationship between cost and output in banking.

When banks were people, paper and premises-intensive their costs rose more or less proportionately to their volume of business. Economies of scale were difficult to achieve.

Volumes

Now, however, banking was increasingly capital intensive and a far greater proportion of costs was fixed. Unit costs dropped rapidly as capacity utilisation improved and a bank that processed large volumes could achieve considerable economies of scale.

Business volumes had therefore become an important determinant of costs and profitability. This fundamental change in the economics of banking was contributing significantly to a concentration in the financial sector in SA and abroad.

One might therefore expect the emergence of an industry centred on a few relatively large nationally-based institutions with a second level of smaller specialised operations holding their competitive advantage in niche markets.

The consumer was, of course, the main beneficiary in the end.

(58)

INVESTMENT

Syfrets' assets climb to R648m

By DICK USHER
Business Staff

SYFRETS has announced after-tax profits of R18 million for the year ended September 30, a 20 percent increase over last year.

Commenting on the results, Syfrets' chairman and chief executive, Brian Robinson, said: "Syfrets has once more proved itself to be a consistent profit performer, with all divisions posting satisfactory results, and most exceeding set targets.

"Outstanding profit growth comes from our lending services and treasury operation, while portfolio management services experienced good results, particularly in the unit trust area."

Syfrets Bank made a significant contribution to the profit improvement and responded rapidly to changing market conditions with flexible and innovative mortgage loan packages, said Mr Robinson.

Assets had now climbed to R648 million, an increase of R134 million over the 1988 financial year.

He added that an important factor in profit growth had been the focus on clearly defined market segments and tight control of costs through internal restructuring and increased use of teachnology.

Commenting on the competitive environment in the financial services sector, Mr Robinson said: "The differences between products offered by the various financial institutions have become increasingly blurred, with the emphasis — corrrectly so — now being concentrated on quality of service to mark the difference between eventual winners and losers.

"For this reason, our commitment to personal service is continually backed up by technology research and systems development. Apart from improving productivity and efficiency, we are developing more 'client-friendly' delivery systems."

Sherleys Holdings

SHERLEYS Holdings, Cape-based manufacturers of babywear and toddlers' clothes, reported a 27,5 percent improvement in turnover to R6,7 million for the half-year to August.

Operating income was up 27,6 percent to R824 000, but interest paid rose 82,8 percent to R329 000 leaving pre-tax profit atR495 000.

After-tax profits showed a slight drop to R460 000.

Chairman Renier van Rooyen said that expansion of capacity was proceeding as planned. Order books were full until the year-end and turnover in the second half should exceed that of the first six months.

Hunt and Leuchars and Hepburn bottom line profits rose 28 percent to R40,7 million in the six months to end September.

The results were achieved in a year characterised by difficult trading conditions in certain sections of the consumer market and the mining industry, said chief executive Neil Morris.

He said that the 19 percent growth in operating income to R21,5 million was largely due to an excellent performance by the group's sugar interest which partly compensated for a lower than expected growth in food and household product activities.

Market shortage leaps to R4bn

Bankers seek relief from cash dearth

58

B.Day 10/11/89

GRETA STEYN

SENIOR bankers are appealing to the Reserve Bank for relief from the cash shortage at a time when intense pressure on bank margins has sparked talk of another increase in the prime overdraft rate.

The problem has been caused by the Iscor privatisation, which drained liquidity from the banking system into government's account at the Reserve Bank.

The scramble for cash pushed call rates up to a high of 19,25% from 18,25% as the money market shortage jumped to R4,23bn on Wednesday from R2,9bn on Tuesday.

There is speculation that the relentless pressure on bank margins is a precursor to another increase in the prime overdraft rates of banks. However, it is possible the Bank will allow the squeeze to continue without a hike in prime in the hope the tough time will force a reduction in bank lending.

Finance Minister Barend du Plessis yesterday indicated economic policy would be a major factor in determining the return of the Iscor proceeds to the money market.

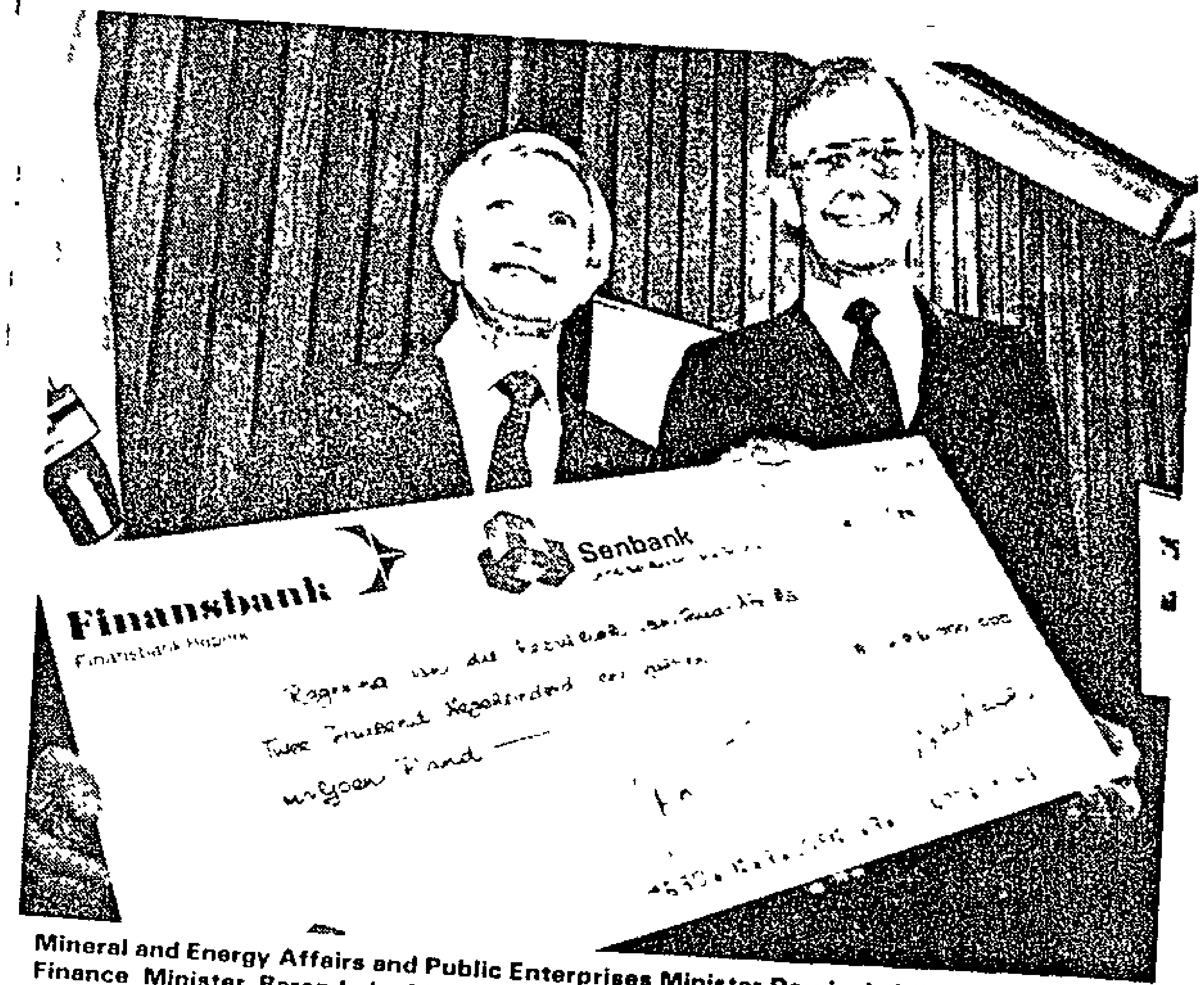
"The combination of the various alternative means of reducing public debt will depend to a large extent on economic and especially monetary circumstances," he said.

The present policy of reducing liquidity and excessive credit creation by the private sector meant it was advisable that a portion of the proceeds from privatisation not be returned to the market immediately.

"The portion of the privatisation proceeds that is not returned to the market at this stage can then later, when more opportune from a monetary point of view, be used to reduce public debt, for example by not rolling over maturing government stock."

Reserve Bank senior deputy governor Japie Jacobs, who runs the Bank's money and capital market operations, said yester-

☐ To Page 2



Mineral and Energy Affairs and Public Enterprises Minister Dawie de Villiers (left) hands Finance Minister Barend du Plessis a cheque yesterday for almost R3bn from the privatisation of Iscor.

Picture ROBERT BOTHA

Cash dearth

☐ From Page 1

day the banks had already been helped to the tune of R2bn — an amount that appeared adequate at this stage.

"We will help the market to the extent that current monetary policy allows it," Jacobs said, adding that he had not liked the reduction in the money market shortage to below R3bn

In managing the proceeds of the Iscor privatisation, liquidity inflows to the banks such as notes, coins and foreign exchange would be taken into account.

The Bank had already put enough of the proceeds back into the banking system through open market operations — the buying of securities in the money market.

Bankers said yesterday the central bank had purchased Land Bank call bonds to offset the liquidity outflow

Du Plessis said government wanted to limit as far as possible the distortion in the financial markets caused by the sale of government's stake in Iscor. Government would use the Corporation for Public Deposits (CPD), which invests short-term funds on behalf of the public sector, as the mechanism to put part of the funds back into the system.

As a first step, central government's debt to the CPD on Treasury Bills would be redeemed and the CPD, in turn, would invest these funds in other money market instruments in the private sector.

This would keep the money market shortage from rising too high while at the same time reducing both government's short-term debt and its interest payments.

Interest rates may go up if banks have their way

Star 10/11/89 (58)

By Sven Lünsche

Another interest rate increase is on the cards if bankers have their way and succeed in convincing the Reserve Bank to raise its own Bank rate.

Senior executives at the country's major banks have been calling on Reserve Bank governor Dr Chris Stals to alleviate pressure on their margins by lifting the Bank rate by a further percentage point.

The pressure arises from the Iscor listing, which drained liquidity from the banking system into Government accounts at the Reserve Bank.

The Iscor listing attracted about R3 billion from the public and this amount was handed over to Finance Minister Barend du Plessis yesterday.

As a result the shortage of funds on the money market rose to over R4 billion yesterday making the money for the banks more expensive.

Behind the fears of a renewed rise in interest rates is Dr Stals's resolve to combat inflation at almost any cost.

Analysts suspect that he could move interest rates up unless inflation eases.

On the other hand some economists say monetary officials have been trying to force stricter lending policies on financial institutions by actually holding interest rates down.

● See Page 13

(CGC58279)

58/ Cape Times 10/11/89

New fraud at Trust Bank?

JOHANNESBURG. — Trust Bank is concerned about another suspected fraud — possibly involving key personnel here — hard on the heels of the R47-million case which broke earlier this year.

The Reserve Bank confirmed on Wednesday that it was probing alleged exchange-control irregularities and that investigators had been at Trust Bank offices here for several days.

Reserve Bank officials are studying Trust Bank documents.

Reserve Bank exchange-control department manager Mr Pieter Troske said the extent of the alleged fraud was not known as investigations were at an early stage.

However, he did say certain highly placed Trust Bank peronnel were involved.

Trust Bank managing director Mr Kobus Roets confirmed on Wednesday that the investigation was taking place.

"Our initial suspicions were that it was a small matter but our investigations indicate that the matter looks as if it is escalating," Mr Troske said.

● The alleged mastermind of the R47-million fraud, Mr Nico Shefer, is still in a Swiss jail fighting an order extraditing him to South Africa. — Sapa

Mobilising savings for development

(58)

B/Day 16/11/89

GRETA STEYN

THE Development Bank's (DBSA) entry into the capital market next year is an effort to mobilise part of the country's savings for development.

Compelled by the rapid growth in the need for development finance, the bank will compete for savings just like any other borrower.

Borrowers are at the mercy of the market because the abolition of prescribed asset requirements means there is no longer a captive market for public sector stock. Eskom noted recently institutional investors will emphasise equities in their portfolios at the expense of fixed-interest stock.

But heightened competition for savings has not dampened the bank's enthusiasm for the market place.

Development Bank GM Andre la Grange, well aware the interest rates will be determined by demand and supply, says it will follow the market's signals. The bank plans to raise R200m-R300m next year and will eventually borrow an average of about R500m a year.

"Before we take any decisions on maturity dates, or the size of the stock, we will get feedback from the market. We will offer investors a return that will compete with the major borrowers. An added bonus is that it will be an investment in the region's future."

● LA GRANGE

But while the DBSA will pay a market-related interest rate for its borrowings, it grants soft loans at rates well below the market rate to its customers — public and non-governmental development agencies and institutions involved in development activities.

La Grange says the bank is able to grant low-interest loans because its cost of funds is kept down by government's contributions and the application of inflows from loan servicing.

The SA government will contribute R375m to the DBSA's Development Fund in the year ending March 1990, bringing the total contribution to just over R1,9bn over the first six years. The net increase in loans advanced by the bank in the current financial year is expected to be about R600m.

The bank explains its approach in its annual report, saying the differences in wealth distribution in the southern African region call for "interventions (in the market) which can help bring about a more equitable distribution of access to opportunities and resources for all.

"It is the mission of DBSA to promote such interventions in ways that can mobilise private resources rather than simply extend the role of the already overburdened public sector."

The timing of DBSA's entry into the capital market may appear strange — after the abolition of prescribed assets requirements pushed interest rates upwards as investors could demand a greater return. The bank's total current exposure is tiny at R80m.

But it is evident that the funding structure and the average return on the loan portfolio places the bank on a sound financial footing from which to start mobilising funds from the local and international financial markets.

Surpluses

La Grange says the bank did not want to go to the market before it had built up a solid track record.

The bank's development loan portfolio has grown to R1,66bn from R309,8m in 1984/85. Its general reserve is R168m and it is the bank's policy to strengthen the balance sheet by transferring operating surpluses to general reserves.

La Grange notes an amount of about R1,8bn can be called up as share capital if the bank needs it to meet its obligations on its capital market loans. This represents a limit against which the bank can undertake its fund mobilisation activities in the financial markets.

The bank would like a secondary market to develop in its stock but has no intention to emulate Eskom and Sats by becoming a market-maker in its own paper.

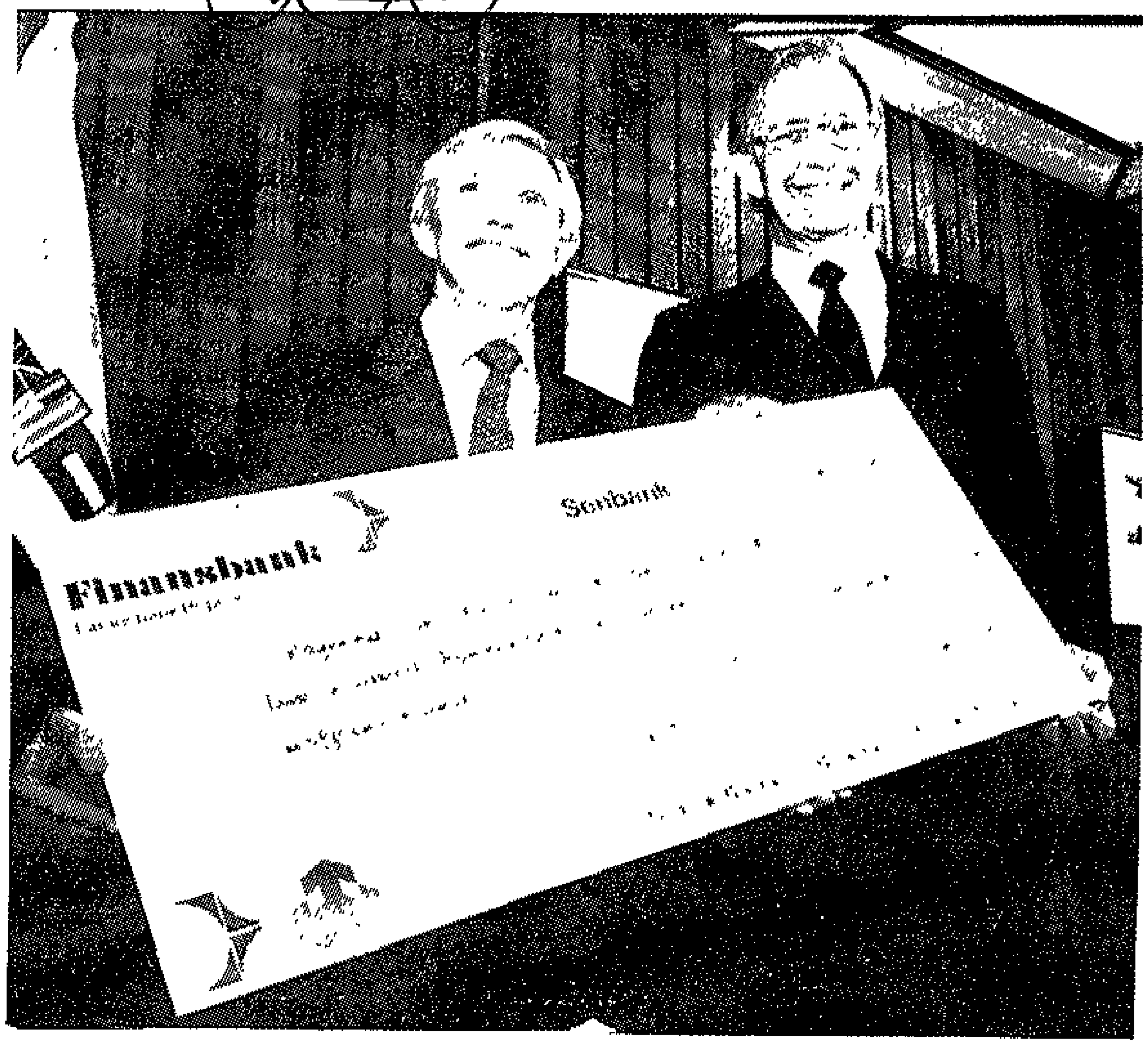
"We'll leave the development of a secondary market to the merchant banks," says La Grange.

Senbank has been appointed to help the bank prepare for its entry into the market next year, but La Grange says there is still scope for other banks to get involved in the different stages of the bank's participation in the market.

Cape Times 10/11/89

(58)

Govt undecided on Iscor proceeds



Minister for Privatisation Dawie de Villiers (left) and Finance Minister Barend du Plessis with a cheque for nearly R3bn from the sale of Iscor shares. Du Plessis said yesterday that the money would be used to reduce government debt — and hinted that the man in the street would benefit in next year's Budget.

PRETORIA. — The Minister of Finance, Barend du Plessis, yesterday outlined ways of reducing public debt with government's share in the proceeds from the privatisation of Iscor and the Mint.

He said in Pretoria the most visible method to reduce public debt would be to redeem a portion of the government's existing outstanding loans, especially government stock.

Another method, he said, which in essence was the same, was to simply redeem stock at maturity without replacing it with new stock, as was usually done — a practice normally known as debt being rolled over.

A further alternative would be to utilise a portion of the privatisation proceeds to reduce the government's obligation to the Reserve Bank regarding the losses on the forward exchange contracts (Gold and Foreign Exchange Contingency Reserve Account) that the Reserve Bank carries on behalf of government.

"These losses, as well as the liquidity they have created, can thus be reduced without raising the tax burden or increasing government borrowing and the government's interest burden."

Each of these methods of reducing public debt would therefore effect a saving in the cost of servicing that debt, Du Plessis said.

"This saving may be direct, as in the case where existing loans are redeemed, or indirect, by way of a reduction in new government loans."

The combination of the various alternative means of reducing public debt would depend to a large extent on economic and especially monetary circumstances.

At this stage, where government stock was being issued at high cost to the Exchequer for monetary policy purposes — to reduce liquidity and excessive credit creation by the private sector — it would probably be advisable that a portion of the proceeds from privatisation not be returned to the market immediately, thus narrowing the capital market without placing upward pressure on interest rates.

Given present circumstances, this may mean that it would probably not be necessary at this stage to issue further government stock so as to narrow the financial markets, thus also limiting the government's debt servicing cost, Du Plessis said.

The portion of the privatisation proceeds that was not returned to the market at this stage could then later, when more opportune from a monetary point of view, be used to reduce public debt, for example by not rolling over maturing government stock.

"In order to limit as far as possible the distortion in the financial markets, it has been decided that as far as the immediate treatment of the privatisation proceeds is concerned, arrangements will be made with the Corporation for Public Deposits (CPD) that a part of these receipts be used to redeem Treasury Bills held by the CPD, and that the CPD then invest these funds in other money market instruments in the private sector, thus avoiding a significant net withdrawal of funds from the money market."

This meant that both the government's short-term debt and its interest payments would be reduced.

The CPD may in time re-invest its funds in Treasury Bills, at which stage the government may use these funds to reduce its long-term debt, as described, Du Plessis said. — Sapa

Despite provision for bad . . .

58

Nedcor net income soars

Cape Times 10/11/89

By AUDREY D'ANGELO
Financial Editor

NEDCOR lifted net income for the 12 months to September 30, by an impressive 84% to R387,5m compared with R209,7m last year.

But the directors are clearly preparing for tough times ahead. Ominously, the group has almost doubled its provision for bad and doubtful debts in the coming year, from R53,8m to R99.4m.

And the results show very conservative transfers to reserves — R130,1m to a tax equalisation reserve and R50m to a technology reserve.

Earnings at share level rose to 208,4c (134,4c) before the transfer to the tax equalisation reserve, but after taking account of the 19,2% increase in the number of shares in issue as a result of the merger with the Perm.

Transfer

After the increased transfer to the tax equalisation reserve, earnings are 138,5c a share.

The final dividend has risen to 31c (27c), which makes a total of 46c for the year compared with 40c in 1988.

The cover has been raised to Nedcor's target of three times earnings from 2,8 times last year.

Operating income at R506,7m is 66,7% higher than the R304m on September 30, 1988. These results include those of the Perm for the first time.

Retiring group chairman Owen Horwood points out: "The improved results have been achieved after a substantial increase in the amounts set aside as provisions for bad and doubtful debts.

"The specific and general debtor provisions now amount to R169,2m (R110,6m) and R160m (R102,1m) respectively."

He says that R36m was transferred to the tax equalisation fund in 1988 and R8m in 1987 to lessen the impact of taxation on future distributable profits when Nedperm Bank, in particular, reverts to a tax paying position.

"With the increase in Nedbank's profits and following the merger with the Perm, Nedperm Bank is expected to reach a tax paying position earlier than originally expected.

"Accordingly the transfer to tax equalisation reserve for the year amounts to R130,1m."

Nedcor's tax bill was materially reduced from R40,5m to R19,8m this year because of the reversal of deferred tax no longer required.

Horwood says that Nedcor has recognised the need for sustained investment in information technology. It has established a technology reserve, with an initial amount of R50m.

Progress

He says "Nedcor today comprises a powerful and versatile group of financial services operations which is well poised to achieve another year of solid progress."

The commercial bank Nedbank continues to be the largest contributor to Nedcor's profits. It contributed R204,9m (R147,9m) or 52,9% of Nedcor's net income.

The Perm contributed R100,4m, or 25,9%. This compares with the Perm's last published results of R46,3m for the 12 months to March 31, 1988.

Finansbank's net income, including the contribution from Cape of Good Hope Bank, rose to R18,5m (R11,2m).

Nedfin's income soared to R16,6m (R9,5m). Syfret's income rose to R18m (R15m) and UAL Merchant Bank's contribution to R27,4m (R24,2m).

R3-bn to cut taxes

CAPE TIMES 10/11/89 58

Own Correspondent

JOHANNESBURG. — Finance Minister Mr Barend du Plessis has given the clearest indication yet that tax cuts are on the cards for the March 1990 budget.

At yesterday's handover of the R2,915-billion cheque from the privatisation of Iscor, Mr Du Plessis said the proceeds would mean benefits for both government and individuals.

The government had also just received R90,2 million from the privatisation of the SA Mint.

"Given current economic circumstances," said Mr Du Plessis, "we have decided to utilise these funds to reduce the public debt, as has been indicated in the past as the government's first choice.

"This will have several important direct and indirect benefits for taxpayers, as will be evident from the next Budget."

GOVT DECIDES ON ISCOR PROCEEDS
— Page 12

He said a direct benefit from the Iscor proceeds would be the reduction of public debt, which would mean "a substantial saving in the interest cost of public debt.

"In addition, this saving will be recurring annually in future. Based on current market rates of interest, this annual saving should amount to more than R500 million a year.

"On the one hand, it could effect a reduction in government expenditure, in taxation — especially personal income tax — and in the deficit before borrowing, and consequently also dis-saving by the central government. This means, among other things, tax relief and that the government will need to place less upward pressure on interest rates.

"On the other hand, it would also facilitate consideration or possible increases in a few urgent high priority expenditures, for example, the provision of low-cost housing or infrastructure. Furthermore, a profitable Iscor will, through its corporate tax payments, contribute to spreading the tax burden over a wider base. The effect of this significant interest saving will be reflected in the 1990-1991 Budget."

Richemont assumes control of Rothmans

(58) 10/1/89

By Sven Lünsche and Neil Behrmann

Richemont, Rembrandt Group's international investment arm, has taken a further step towards expanding its already formidable luxury goods empire.

The Swiss-based group yesterday announced it had bought out US tobacco company Philip Morris' 29,35 percent stake in Rothmans International (RI) in a deal worth £610 million.

This gives it a holding of 63 percent of RI's 'B' ordinary share capital and 68 percent of its voting shares, and brings RI back under the wings of Anton Rupert business empire.

Richemont's interests in RI are held through its wholly-owned subsidiary, Rothmans Tobacco Holding (TCH), which controlled 34 percent of RI and had 44 percent of the voting rights before the deal.

An offer to minorities, equivalent to 588p per share in the form of loan notes has been extended, but Richemont does not expect to win over many minority shareholders.

Minorities

The offer price is well below Rothmans current share price on the London Stock Exchange. The shares tumbled by 31p to 636p yesterday.

Richemont stated that it believes its "objectives can be achieved effectively in partnership with a significant public minority".

The deal is unlikely to turn out as controversial as the one Minorco launched for Consolidated Gold Fields last year, but Richemont adds the proviso in the offer document, that the offer to minorities will lapse if it is referred to the UK Monopolies and Mergers Commissions.

In addition the offer will not be extended to US holders of RI shares.

By increasing its voting shares to 68 percent, Richemont can now embark on a restructuring plan for RI, without raising potentially damaging opposition from Philip Morris.

Through RI, Richemont gains direct access to a diversified and well established luxury goods group, which includes such gems as Dunhill, Cartier and Piaget.

The respected London *Financial Times* said today it was easy to see what the principal parties achieved through the deal.

"Richemont has greater access to the tobacco company's cash flow, without paying cash itself or being forced to make a realistic bid. Philip Morris has escaped from a situation in which it could bid nor sell to an outside party without Richemont's agreement.

"It may not have achieved a very good price compared with the market, but it looks good against the price paid in 1981."

The deal had been anticipated by analysts for some time and Richemont confirmed that the two major shareholders (RTH and Philip Morris) were governed by agreements granting each party rights of first refusal over the other's shareholding.

Local analysts said that the increased stake will allow Richemont to expand its luxury goods empire, although the tobacco arm of RI contri buted about 68 percent of operating profit in the year to March. RI's cigarette brands include Rothmans, Dunhill and Peter Stuyvesant.

However, as Senekal, Mouton and Kitshoff analyst Jannie Grobbelaar stressed in a recent survey on Richemont: "Whereas the luxury goods division of RI is expected to grow by about 30 percent in the 1990 financial year, the tobacco division should hardly show any growth at all.

"With the tobacco division contributing 32 percent to net profits, its pedestrian performance could retard the overall profit growth to 17 percent in pound sterling."

Mr Grobbelaar believes that the tobacco interests could be used as a "cash cow" and the funds reinvested for new acquisitions in the branded consumer goods market.

Rothmans already has a 55 percent holding in Dunhill and 47 percent stake in the world's leading jewellery manufacturer Cartier, both of which contributed the balance of operating profits.

Luxco interest

This adds to Richemont's interests in Luxco, which controls a further 52 percent of Cartier and has controlling stakes in Baume & Mercier and Piaget, the leading manufacturer of gold watches. It also recently acquired a 6,1 percent holding in Yves Saint Laurent.

The income from Rothmans tobacco interests, in addition to cash and liquid investments of about £575 million, will provide Richemont with the essential financial backing to expand into the North American, Far East and European markets.

Philip Morris will receive £543 mil lion for its stake in RI in the form of guaranteed unsecured five year 10,25 percent loan notes.

The deal implied that over the eight years since it first acquired the large stake in Rothmans from the Rembrandt Group, Philip Morris has made a profit of around $500 million at the expense of Rothman's South African shareholders.

Philip Morris initially bought the stake in Rothmans from the Rembrandt Group for $350 million in 1981 and is selling it back for around $850 million million.

Mr Johan Rupert, managing director of Richemont was unavailable for comment.

VOLKSKAS (58) Fmail 10/11/89

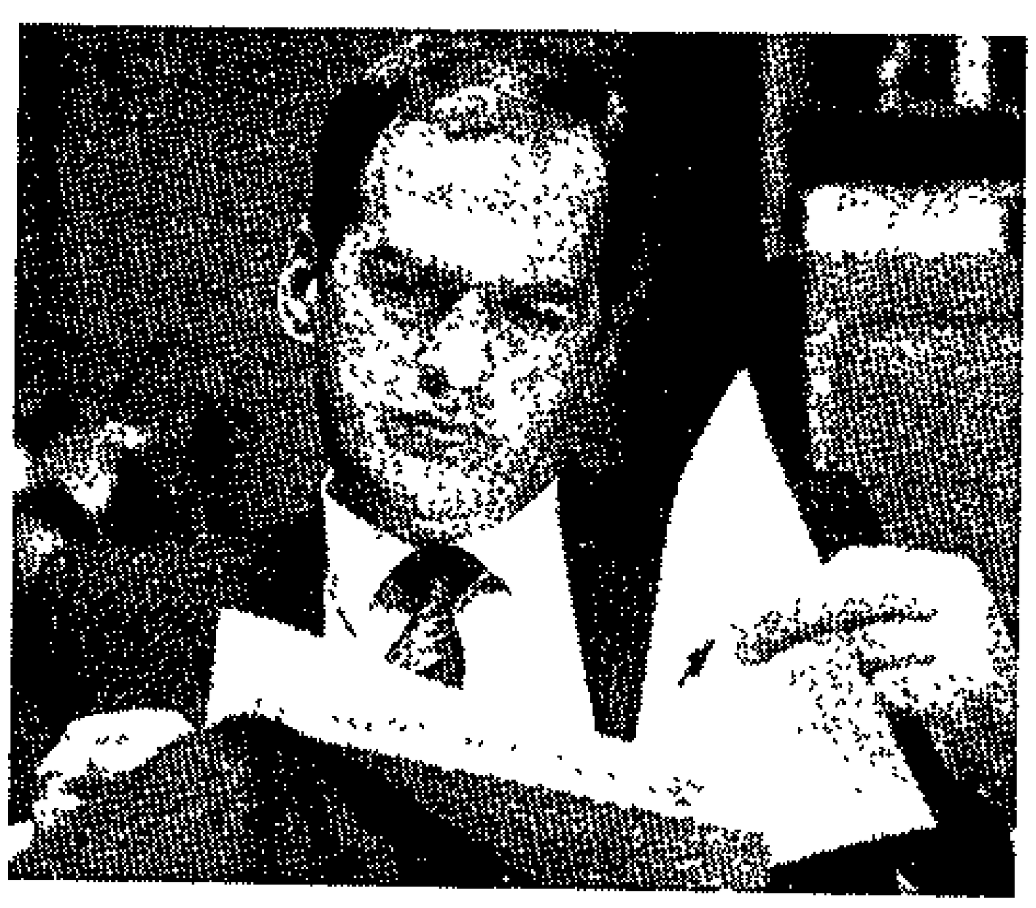
Unconvinced market

Given current circumstances in the marketplace, Volkskas Group's Jo Stegmann (Chairman) and Danie Cronjé (MD) are clearly pleased with the results achieved in the six months to September. Disclosed earnings rose 27%, much the same as the gain for the full 1989 financial year and the fact that this came from an increase in total assets of only 18% implies that there has been some improvement in profitability.

The question, however, is whether the results are sufficiently good to convince investors that performance is sustainable over the long term and that the hitherto "sleeping giant" is, indeed, now awake. The question is relevant because the market was obviously not convinced by the 1989 results. The share has, relatively speaking, continued to languish and, at 1 200c and a 6,8% historic dividend yield (after taking into account the 3c increase to 25c in the interim dividend), it remains very much at the lower end of the league of the Big Five banking groups in terms of market rating. In fact, the only one with a worse rating is Bankorp (6,9%).

Part of the reason for the poor rating, as the *FM* has pointed out before, is the group's limited reporting disclosure and the effect this has on perceptions of quality of earnings. The market has been bitten before — Nedbank was a prime example — and it is simply not realistic to expect doubts to evaporate, especially at a time when banking profits are under increasing pressure on a number of fronts.

What Volkskas does have going for it,



Volkskas's Cronjé . . . repositioning the group

(58) Fmail 10/11/89

however, is a management determined to reposition the group and to improve its competitive position. This, as Stegmann and Cronjé point out, is a rather laborious process and involves the setting of long-term strategic targets which do not necessarily yield short-term benefits.

A case in point was the share exchange between Volkskas and United which, up to the current year, had the effect of diluting EPS. Another is the decision to relocate certain head-office functions to Johannesburg — the costs and disruptions of this exercise are hardly taking place at an opportune time, but, in view of the long-term target of increasing exposure in the corporate sector, the group is obviously taking the line that the ultimate benefits will more than offset the short-term costs which are going to be incurred at a time when banking profits in any event are under pressure

This will not do year-end results much good. The group is, nevertheless, confident that the full year's results will show a real growth which, after the 27% earnings improvement recorded in the first half, implies a gain of at least 8%-9% for the second six months.

On this basis, it looks as if full year's earnings of around 250c (1989:214c) can be expected. Dividends are unlikely to grow apace as the present cover (2,7 times last year) is below the target of three which management believes appropriate for the banking sector. So the final will probably be limited to around 63c (56c) to give a total of 88c — 10c, or 13%, up to 1989's 78c. Cover would, accordingly, rise to 2,8 and the prospective dividend yield to 7,3%.

Brian Thompson

Reserve Bank to fund new trading floors

59 B.Day 10/11/89

GRETA STEYN

FEARS that the establishment of a trading floor for the futures and bond markets would be punitively expensive were allayed yesterday with the announcement that the Reserve Bank would invest R2m in the venture.

Bank Deputy Governor Japie Jacobs announced the central bank would invest in a company to be established for financing and operating the floor. Jacobs said the total cost of the floor was estimated at about R3,5m. The danger had arisen that participation in the two markets might become restricted due to the capital cost.

"The big financial companies can easily afford this capital outlay, but this does not apply to smaller firms and brokers. It is the wish of the authorities that membership of these exchanges should be as broadly based as possible, and furthermore that the trading costs should be kept to a minimum in order to attract the largest possible volume of transactions."

Jacobs's announcement follows a protracted dispute between the JSE and the rest of the financial community on the desirability of floor trading versus screen trading.

A fully integrated centralised clearing system was still the ultimate goal, Jacobs said, but it was unnecessary and cost-ineffective at this juncture to install new systems to attain these objectives if the market could cope with available structures.

On the issue of regulating the markets, Jacobs said: "Concern for competition and efficiency should be tempered with concern for the safety and soundness of financial markets, investor protection, fairness and ease of access to markets, prevention of conflict of interest and concentration of financial resources."

TSI raises earnings 16% after problematic year

58

10/11/89 BDay

TECHNOLOGY Systems International (TSI) achieved a 16% improvement in earnings in the year to September with good performances from its core

● COOPER ... silent on TSD loss

businesses, and in spite of losses made by TSD and weaknesses in some of its markets.

Chairman Derek Cooper says major subsidiaries ISM and Persetel performed well in a year characterised by weakness in some sectors in the SA information technology industry.

ZILLA EFRAT

However, microcomputer division TSD experienced certain technical problems in its range of PCs. While Cooper will not disclose how big a loss TSD made for the year, he says TSD does not account for a large proportion of the group's turnover.

TSD's problems have been resolved and the division is expected to make a positive contribution in the current year. Some encouraging orders have been received.

TSI produced earnings of 58,4c (50,3c) a share. A dividend of 24c (20c) a share has been declared, up 20% and covered 2,4 (2,5) times.

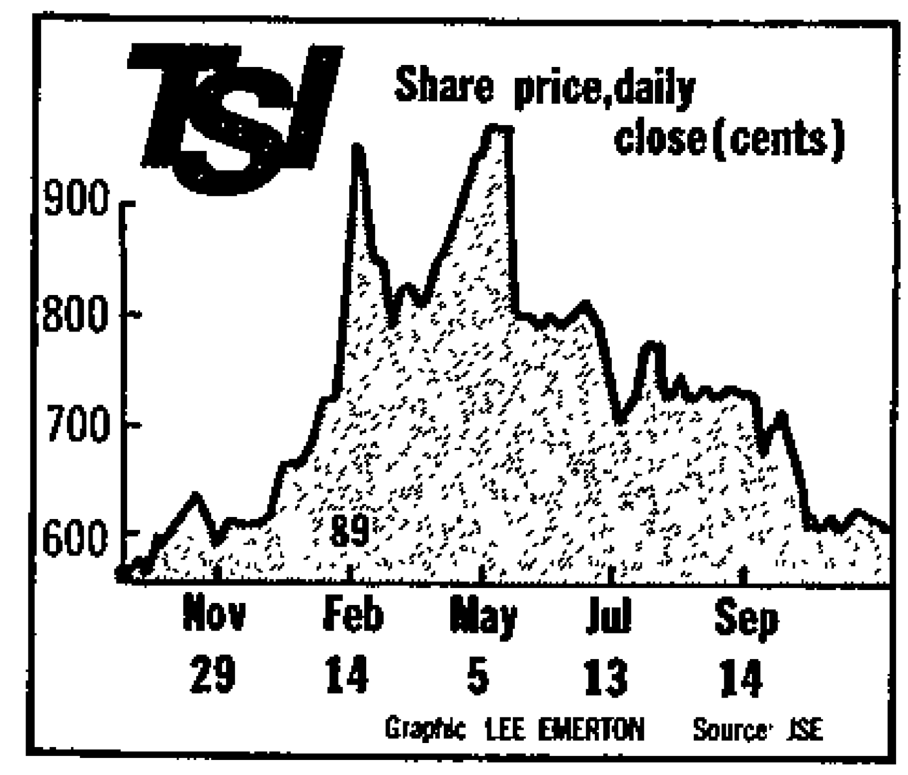
Turnover rose 24% to R1,4bn (R1bn) with the core businesses showing growth in market share. Margins were affected by TSD's problems, further development costs of local manufacture and the amortisation of acquired technology.

Pre-taxed profits only rose 9% to R149m (R137m). The tax rate fell to 42% (45%) because of investments made and sound financial planning. This resulted in taxed profits being 16% up to R86,7m (R74,7m).

An extraordinary item of R23,4m was not charged against earnings and results from goodwill from acquisitions and trademarks written off.

Cooper says the balance sheet remains strong with a net cash balance of R76m and investments will be made as suitable opportunities arise.

He says TSI is well placed to increase its market share in all major sectors of the



information technology industry and expects further earnings growth in the year ahead, aided by the recovery in TSD.

The group has a good relationship with its principles and will continue to pursue the development of software and the education market. It will also increase its ability to provide its customers with a total service, says Cooper.

Crest beats forecast with earnings of 18,5c

(58)

Crest Holdings, listed in December 1988, achieved earnings of 18,5c a share for the year to September, exceeding its pre-listing forecast of 17,5c.

In line with the company's stated policy of distributing 33 to 40 percent of earnings, a final dividend of 5c has been declared.

Together with the interim distribution of 2c a share paid in June, the total payout for they year is 7c.

Operating income increased by 17 percent to R2,582 million, while finance costs were barely higher at R104 000 and the tax rate was down.

These factors boosted profit growth at the attributable level to 22 percent, with earnings similarly up.

The balance sheet reflects the significant strength injected into it by the pre-listing investment of Citizens Holdings. Gearing is at a negligible level.

Crest's shares are currently priced at 70c, at which level the earnings and dividend for the year respectively yield 26,4 percent and 10 percent.

Citizen Holdings has doubled its interim dividend to 1c on unchanged earnings of 2,3c a share. The profits were derived from interest earned on R4 million of liquid funds of the 79 percent-owned Citizen Investments and the 20 percent investment in Crest Holdings.

Citizen says W & A, the controlling shareholder, and Noristan are discussing its future and an announcement was expected soon.

10/11/89

Star

BUILDING SOCIETIES

Getting in on the Act

After nearly a decade of fighting for level playing fields, building societies may find themselves with a whole new ball game as well. Legislation being drafted (possibly to be called the Financial Intermediaries Act) will govern banks and building societies and should remove anomalies left by societies' partial deregulation in 1986.

Among these are:

- Restrictions on the proportion of fixed-term deposits for periods of under 12 months which building societies may take in. The limit now is 30%;
- A requirement that at least 70% of a building society's operating capital must be in mortgage loans while at least 60% of a holding company's assets must be in a building society; and
- Limitations on the amount of a mortgage in relation to the purchase price of the property which secures the loan. While banks may grant 100% bonds, societies have to keep to 90%, unless collateral is provided.

By making societies less flexible on both funding and loans, these restrictions handicap them in their fight against banks to retain traditional market share and gain new markets. They also hinder the evolutionary process which should eventually see banks and building societies operating on equal terms as deposit-taking institutions.

If they are eliminated or relaxed, societies will benefit. But the potential changes include one which may not be welcomed by societies, relating to the stake permitted to any one shareholder.

There is no limit to the shareholding a bank or bank controlling company may have in another bank. A financial company (in terms of the Banks Act) approved by the Registrar may have up to 30%; other shareholders may hold no more than 10%, without permission of the minister of finance.

But the maximum shareholding allowed in a building society is 10% across the board. Though this makes a hostile takeover of a building society virtually impossible — which was indeed the intention — it also restricts bank and building society groups that wish to work together.

To get around these limits, building societies and banks can sell assets (and liabilities) to appropriate partners.

An example of a friendly cross-holding is that entered into by UBS, holding company of United Building Society, and Volkskas. An example of asset transfer is the sale of the second largest building society and only remaining mutual, the Perm, acquired by Nedbank and now tucked into NedPerm.

Both these alliances were willingly entered into by the parties concerned. However, if the 10% limit on societies is scrapped, a bank (or other financial organisation) could build a far more powerful base, and even gain effective control of a society, without the institution's consent.

There have been delays in drafting the Bill, which Banks & Building Societies Registrar Chris de Swardt has been working on since the start of the year, in consultation with the institutions. Legislation is intended to go to parliament early next year but some in the sector believe it may not emerge till 1991.

Final decisions on the proposed legislation will be made by Finance Minister Barend du Plessis in consultation with the Cabinet.

At stake is the principle of preventing concentration of control, particularly in the hands of the already powerful life offices. However, it could be argued that backing from a giant parent provides stability, not only to the institution concerned but to a sector very dependent on public perceptions and investor confidence. The large capital injection received by Nedbank from Old Mutual in 1986 restored it to health after a period of intensive care. Any building society in a similar crisis would benefit from the support of such a parent.

Aside from the principle, delays may be caused by disputes between powerful lobbies. This is brought into focus by the reported purchase, through nominee companies, of 8,9% of UBS, a development on which UBS CE Piet Badenhorst is not prepared to comment.

The nominee companies are those of stockbrokers Fergusson Bros, Ivor Jones and George Huysamer. Under the Building Societies Act of 1986, stockbrokers may act as nominees for beneficial shareholders for up to six months — one of the few exceptions to the clause which forbids registration of shares in any name other than that of the beneficial shareholder.

This restriction applies only to the society and not to investors. According to a building society legal adviser, a society may not allow any one investor or its associates to hold more than 10% of its shares. But it would not be illegal for an investor to hold more than 10% of a society's shares, without the society's knowledge. The excess would carry no voting rights and attract no dividends.

"However," the attorney points out, "a building society would have to be asleep not to realise this was happening and use its powers under the Building Societies Act to demand the identity of the investor."

Though this manoeuvre does not give voting rights to the shareholder, it does take those rights out of the voting pool, increasing the proportionate influence of the remaining shareholders. Moreover, if the legislation is changed, temporary loss of dividend and voting rights may be considered an acceptable short-term price of a long-term strategy. ■

GOLD BOOST

Heady news

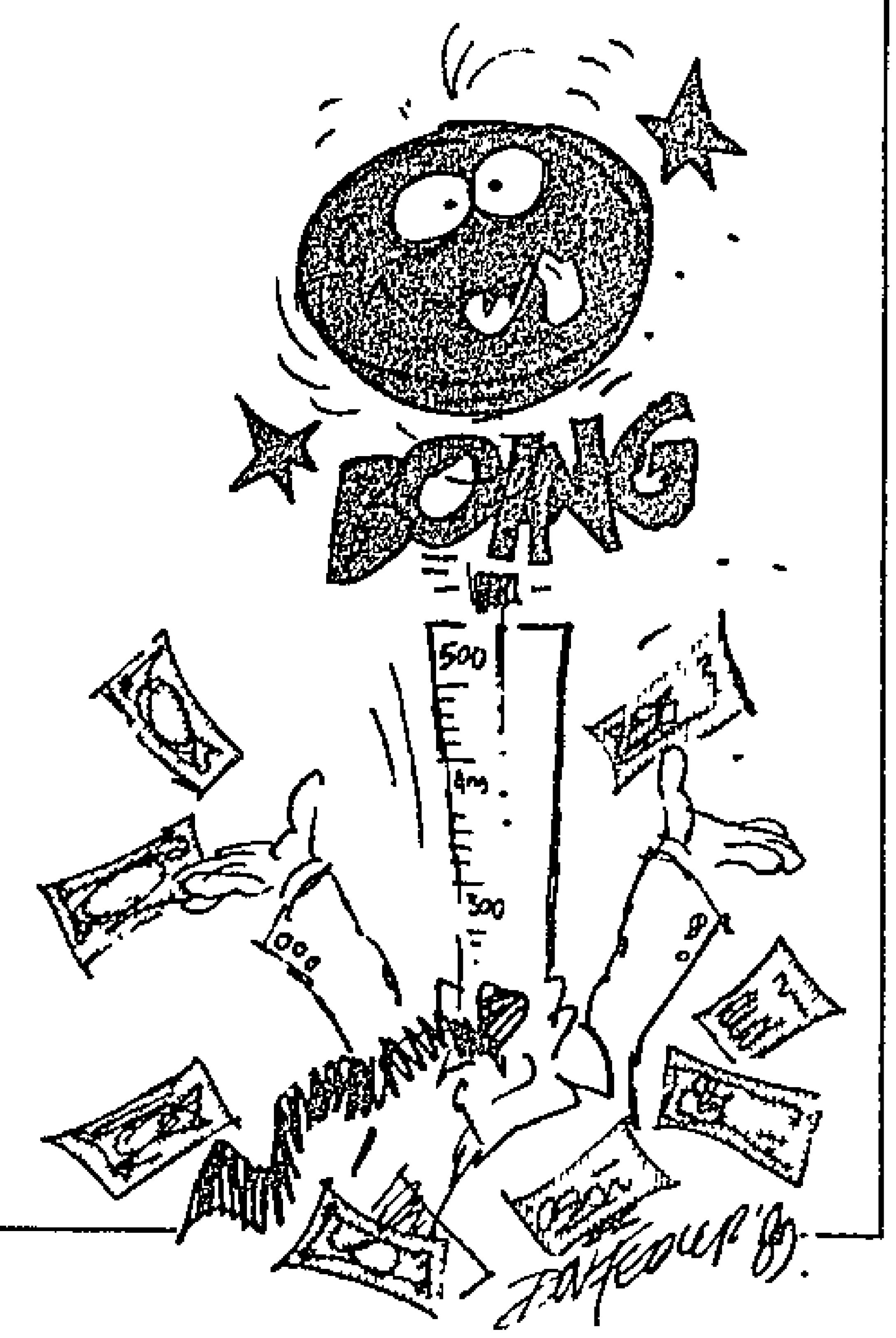
As gold edged over the magic US$380/oz to reach $385 on Tuesday, a tremor of optimism ran through the markets. Gold moves are unpredictable, so the response is still tentative.

For the first time in many months, anything other than a worst-case scenario is being contemplated. But the prevailing view is that, if our fortunes are meaningfully improved by further increases, we must keep our heads — and stay as cool as possible.

Traditional faith in gold as the remedy for all our ills has been badly dented by the past 21 months, which saw the metal slide from over $500 in December 1987 to a low of $355,75 in September.

So the higher price is being treated with caution. If it continues to rise, there will be substantial benefits, among them the opportunity to build reserves to meet foreign debt commitments.

But it is crucial the authorities don't let a higher gold price filter through into money supply increases, says Frankel, Kruger Vinderine economist Mike Brown. Though further improvement will boost confidence and



■ PRESS WATCH

What the Afrikaans papers are saying

Soweto in trouble

58 C. Dres 12/11/89

THE financial plight of Soweto remains a source of serious concern, says *Beeld* in an editorial.

Residents refuse to pay rent and service fees and the city council does not want to take unpopular decisions to force them to wipe out debts of R278 million.

It is obvious this situation cannot last indefinitely. The Transvaal Provincial Administration has already told the Soweto city council to "get its house in order".

The latest effort to improve the situation is the report by Dr Simon Brand, chief executive of the Development Bank of Southern Africa. He envisages a development programme for Soweto with the long-term aim of a much better city than the current one.

But the best plan can only work if those who are to benefit co-operate with it. If the fathers of Soweto and those who are politically obstinate realise this, and if they can be convinced to change their attitude in the interest of all Sowetans, there is hope that Soweto could develop into a city its residents can be proud of, says *Beeld*.

State President FW de Klerk's Boere-glasnost apparently does not stretch as far as the press, says *Vrye Weekblad* in an editorial. The ANC Seven have been released and they say what they want to say. Nearly every weekend there is a protest march.

But at the same time the State has started to clamp down on the press. Not only are editors taken to court left, right and centre (especially left), but New Nation was threatened with closure last week.

It is the same old crude reaction of the government over decades: when you don't like the message, shoot the messenger.

SA Brew rolls out the barrels

58 S-Times 12/11/89

By Julie Walker

SA BREWERIES interims for the six months to September were enough to quench the thirst of any shareholder.

Turnover was 23% higher at R5,8-million and the volume of beer sold climbed by 13%. Trading profits were 38% higher at R500-million, and although interest and tax rose, taxed profit was up by 32% at R268-million.

Earnings a share put on 29% to 66,1c and the dividend of 25c was a quarter higher. SAB shares added 50c to R25 after the results.

SAB reports that R350-million of investment in the six months was funded by increased borrowings and short-term preference shares. This brought gearing up to 51%, but R183-million cash is still on deposit.

Management expects a satisfactory rate of real growth in earnings for the full year.

Tiger Oats continued its outstanding performance with another 25% rise in the bottom line for the year to September. Turnover added a third to R5,7-billion, helped by acquisitions made in the previous year.

Food rival Fedfood pushed its turnover 13% higher to R584-million and attributable income climbed by 16% to R22-million in the six months to September.

The directors refer to a poor fishing year, although this is now usual, and to the Eastern Cape drought's effect on the supply of frozen vegetables.

Bakeries proved themselves in virtually all areas. Management is satisfied that Fedfood is "fit, lean and agressive enough to face the tough conditions expected".

Sterling

Tax hit Times Media Limited's otherwise sterling performance for the six months to September. Turnover climbed by 31% to R118-million, and operating profit before tax was a quarter up at R27-million. The full rate of corporate tax applied because previous losses have been used.

Taxed profit slipped 3% to R13,7-million, or 65c a share. The share price eased 10c to 650c — 5,5 times historic earnings. Management says the company is in a satisfactory position for the rest of the year.

Amrel sewed a stitch in time by restraining turnover growth to strengthen its balance sheet ahead of the expected downturn. In the six months to September sales grew by less than 10% to R390-million, and earnings declined from 88c to 81c a share.

Amrel's net asset value climbed by 12% to nearly R14 — almost twice its trading price of 770c. The ratio of interest-bearing debt to shareholders' funds improved from 1,11:1 to 0,46:1.

Management says it will be hard to match last year's earnings in the light of high interest rates and pressure on consumers.

Saficon's results exceeded directors' expectations for the six months to September. Turnover grew by 29% to R795-million, and earnings a share by 27% to 89c.

Management says the key issue affecting the second-half performance will be the supply of new vehicles. "We are disturbed by the very strong possibility that this year we will not be able to build up stocks to see us through December and January when manufacturers close their plants. This will inhibit our new-vehicle sales during these months."

SA Druggists' growth in sales and earnings was steady. Earnings a share put on 17% to 14,3c in the six months to September. Management notes high pressure on margins and increased working capital requirements. Nevertheless it expects profit growth to be maintained for the year.

Problems

Titaco — the diversified engineering design team — boosted income after tax by 44% to R1,2-million on a doubling of business above R39-million for the six months to August. The directors say improved cash flow and maintained margins should allow further growth in earnings.

Barlows computer giant TSI raised earnings by 16% to 58,4c a share on turnover 24% higher at R1,35-billion in the year to September. The microcomputer division TSD had problems with its personal computer ranges and lost money.

Amortisation and development costs also dented earnings.

Brokers get insurance aid

(58)

By Robyn Chalmers

THE negative effect of direct marketing on brokers could be eased by a service offered by Compuquote.

The Cape Town-based comparative computer quotation system produces policy schedules in a broker's office within minutes. Initially it will be available for motor and domestic policies.

Compuquote managing director David Hersch says brokers will be able to compete with the two insurance companies offering policies over the telephone — Santam and Auto & General.

"Now the broker has the facility to offer his clients the traditional choice of all the insurance companies in the market."

Brokers feared their role was in jeopardy after the introduction of Teleplex by Santam in August this year. The policy which is sold by phone without the customer's going through an intermediary.

Mr Hersch says the marketing of the phone-in companies gives the impression that they are cheaper than traditional insurers, which is not the case.

Santam, he says, finds itself in the unenviable position where its dominant Multiplex policy is being undermined by itself and has to compete directly with its Teleplex policy.

"Would it not have been wiser for Santam to reduce its Multiplex rates and continue to pay commissions to brokers? This way, it would not have alienated brokers and thereby threatened the commercial portfolio as well."

S Times 12/11/89

(58) S Times 12/11/89.

THE WEEK ON THE JSE

AMERICAN buying of second-line gold shares helped the all-gold index to a year's high of 1 957 on Thursday.

But the index came off the top on Friday, closing at 1 902. Significantly, both December and March futures contracts for the overall, all-golds and industrial indices are trading well below current levels.

Gold neared a 12-month high in dollars at $387. The rand was steady around 264c, but the finrand firmed to 388c on the back of foreign buying. This was tempered by the redemption of foreign over-subscriptions for Iscor shares.

Second best for the US

By Julie Walker

The rand gold price edged up by 2% to R1 020 an ounce, yet gold shares soared. Vaal Reefs put on R6 to R386 after hitting a year's high of R416. Kinross jumped from R45 two weeks ago to R73, and Randfontein ran up by 8% to R2 450c after the share split.

Share of the week was Iscor, which smashed all sorts of records. More than 55-million shares changed hands and the price closed at 233c — a 16,5% gain for stags. Curiously, some fairly big lines were booked over. Only institutions have big lines. Strange that they should cash in so small a gain.

Most platinums continued stronger after the metal price topped $500. Barplats shed 225c to R1 275c and subsidiary Barmines lost 70c to 490c. The nil-paid letters traded accordingly, closing at 40c each.

EXPENSIVE

Granites were ignored again as other metals stole the scene. Iscor made its debut with a flourish and vast volume. It settled at 233c — a 15% premium on the issue price.

Bearish sentiment resurfaced in the industrial market because another rise in prime overdraft rate is expected before Christmas. This would make the share market an expensive place to be when risk-free interest of 18% or more could be earned on call.

Richemont closed only 15c up at 1 590c in spite of making a major acquisition. Remgro eased 20c to 1 040c.

Barlows shed 100c to 4 050c ahead of results, but SA Breweries added 50c to 2 525c on its fine performance.

Chemserv was offered 25c up at R20. Talk is that it has acquired a Durban-based company.

In spite of large trading volumes, much of it is professional jobbing among stockbrokers and other market players.

Market sources say that established broking firm Max Pollak & Freemantle senior partner John McIvor retired this week after differences with other directors.

The Perm cares — and prospers

(58) S Times 12/11/89

By David Carte

NICE guys can win. That's the inference from the R101-million pre-tax profit of the Perm in its first year in the Nedbank group.

In its previous full year to April 1988, the Perm made R46,3-million before tax. The latest results are for the year to September.

Nedbank paid R180-million for the Perm. Many critics said that was too much for what they called a "rescue" necessitated by the Perm's "do-good" policy of accepting thousands of small savings deposits and making mortgage loans to tens of thousands of blacks.

It now turns out that even if the Perm's profit were fully taxed, Nedbank's return on its investment in its first year would be a highly satisfactory 22,4%.

Because of previous-year losses, Nedbank is paying no tax, so its return on its investment in reality was a handsome 45%.

Former holders of the Perm's subscription, paid-up and partly paid-up shares — its owners when it was a mutual building society — may, with hindsight, regret the Nedbank takeover today. But they are probably consoled at having received Nedbank shares at R6 apiece compared to the present R10,15.

Vindicated

With outstanding results published on Friday (see Page 3) Nedbank announced that the Perm would become its retail banking arm under the name Nedperm.

Although the Perm has done well relative to itself, it has some way to go before catching up with other financial institutions in return on average total assets. It achieved 1,2% against UBS's 1,76%, SBDC's 1,38%, First National's 1,3% and Allied's 1%.

Managing director Bob Tucker regards the latest result as a vindication of the Perm's policy of social concern.

He says: "We are the one financial institution that has addressed the new SA on both the asset and liability sides of the balance sheet.

"We have made 44 500 home loans totalling R1,4-billion to blacks in a total book of R6,5-billion. In the past year, we made R400-million loans of less than R35 000. On the savings side, we avoided imposing minimum balances."

New loans granted last year were R2,7-billion — R10-million every working day. While loans granted grew by 31%, the Perm held management expenses to a 16% rise. The payroll has hardly budged from 5 100.

"The new low-cost housing initiative, which will make available at least R3-billion for home loans under R35 000, was driven largely by the Perm working with the Urban Foundation."

Mr Tucker says rival building societies and banks are also in a market they previously spurned now that bigger-ticket home loans are out of reach of many blacks.

Mr Tucker says the Perm decided four years ago to serve the black market.

"We felt if we could not serve 80% of the population we shouldn't be in business. It is true that it costs as much to service a R30 000 bond in Soweto as it does a R300 000 bond in Houghton. Our cost structure is higher."

Mr Tucker says the past four years were difficult. While the Perm was implementing its policy of social concern, it had to change its culture from administration-driven to client-driven.

Simultaneously it suffered computer problems.

Mr Tucker believes that the hard times have been good for the Perm — "I think we have got through a watershed".

Mr Tucker says the Perm is comfortable in the Nedbank group. Nedbank leaves the Perm to get on with things, though chief executive Piet Liebenberg does visit a couple of times a week.

Mr Tucker says there is

● To Page 3

S Times 12/11/89

The Perm

● From Page 1

still great potential in relationships with Nedbank and with Old Mutual. The first challenge facing Nedperm will be to to rationalise branches with Nedbank, thus saving on technology, staff and rentals.

"We shall compete in retail banking — we launch cheque accounts soon — and home loans, but will avoid having branches next to each other. There is no need for staff to worry. We need all our good people."

Nedperm will effect considerable savings by using Nedbank's computer systems and its treasury skills in banking.

I asked Mr Tucker if he had become politically more subdued since the Nedbank takeover.

He replied: "People labelled me a liberal with a high political profile. But this organisation simply had a social conscience. We retain that and we've shown that it can be done profitably."

Foreclosures

Mr Tucker says foreclosures are running at record levels, but are still low. Only 634 of more than 209 000 properties are in possession.

"We are being conservative with bad and doubtful debts and now make a general provision of 0,75%. Together with the specific provision, we set aside R80-million, which was 1% of advances."

Mr Tucker has just stepped down as president of the Association of Building Societies. He set himself four objectives: to resolve the question of equity vs mutual building societies, to work on levelling the playing fields between banks and building societies, to re-establish the association as the voice on home loan finance and to staunch the flow of investment funds to the life companies.

"Now all the major societies are proprietary companies, so that one is resolved. New banking and building society legislation will level the playing field once and for all.

"The Association of Mortgage Lenders is now the home-loan voice. We still have to address the question of life offices. I am encouraged that Chris Stals is getting tough on inflation with real rates of interest. That will go a long way to restoring our competitiveness as savings institutions."

58 S Times 12/11/89

Barclays nails John Hahn

By Richard Rolfe

LONDON — Financier John Hahn faces a bankruptcy hearing in the UK High Court on Wednesday.

It will be the latest instalment in his long-running battle with former partner Oliver Hill, arising out of the collapse of Swaziland Chemical Industries.

Mr Hahn has consistently claimed that he did not sign a suretyship held by Barclays Bank of Swaziland for R26-million.

Since neither the bank nor Mr Hahn was resident in SA, Barclays issued summons against him in the UK.

Mr Hahn resisted service of the summons, but after a series of hearings in lesser courts, the House of Lords held that it had been validly served on him.

Although Mr Hahn contended that he was a non-resident, the Reserve Bank allowed him to apply SA funds to the legal costs of more than R1-million.

Mr Hahn chose to defend the case in the UK although it now appears that he could equally well have done so in SA.

A curious feature of the case is that, according to correspondence between Johannesburg attorneys Cliffe Dekker & Todd and Mr Hahn's son Max, Mr Hahn was advised as long ago as June 1986 that the suretyship held by Barclays was valid.

Chris Ewing of Cliffe Dekker also advised Max Hahn: "A defence to an application for the sequestration of your father, based on there being no benefit to creditors because he has no assets, would be unlikely to succeed as creditors could allege that an inquiry into various trusts could lead to a discovery of assets which would realise a benefit for them."

If the Barclays claim were sold, "then the claim against your father will automatically follow", said Mr Ewing.

The Barclays claim was subsequently sold to interests associated with Mr Hill.

Mr Ewing wrote: "I am extremely concerned about what will happen if a deal between Barclays and the opposition is done and I believe we should consider reaching a settlement with Barclays at this stage in order to avoid such a possibility".

Swaziland law provides for a prescription period of 30 years, leading Mr Ewing to observe: "Because of the prescriptive position, your father faces a lifetime in which there is the ever-present danger of a vindictive creditor attempting to exact a pound of flesh, and it may be worthwhile for the sake of one's peace of mind to dispose of the matter immediately, even if the cost is substantially greater than has been contemplated in the past."

In the event, Mr Hahn did not follow the advice, arguing instead that the suretyship was a forgery — a contention rejected by the UK courts.

In recent years, Mr Hahn has led an increasingly elusive life to avoid service of summons on behalf of the bank.

However, this year the House of Lords found that his behaviour was consistent with knowledge of the summons and judged that it had been properly served.

Iscor shares are up to expectations

CP Correspondent

58 C-Press 12/11/89

THE listing of Iscor at the Johannesburg Stock Exchange this week was a roaring success. More than 32-million shares were traded in 710 deals.

Iscor lived up to expectations when its shares opened at 225c a share, to give stags (those who buy and sell quickly then run away) a profit of 12,5 percent, or 25c, on the issue price of 200c.

But the expected craze for orders from private investors failed to materialise as trading lessened after some brisk activity in the first hour that the shares came on to the market.

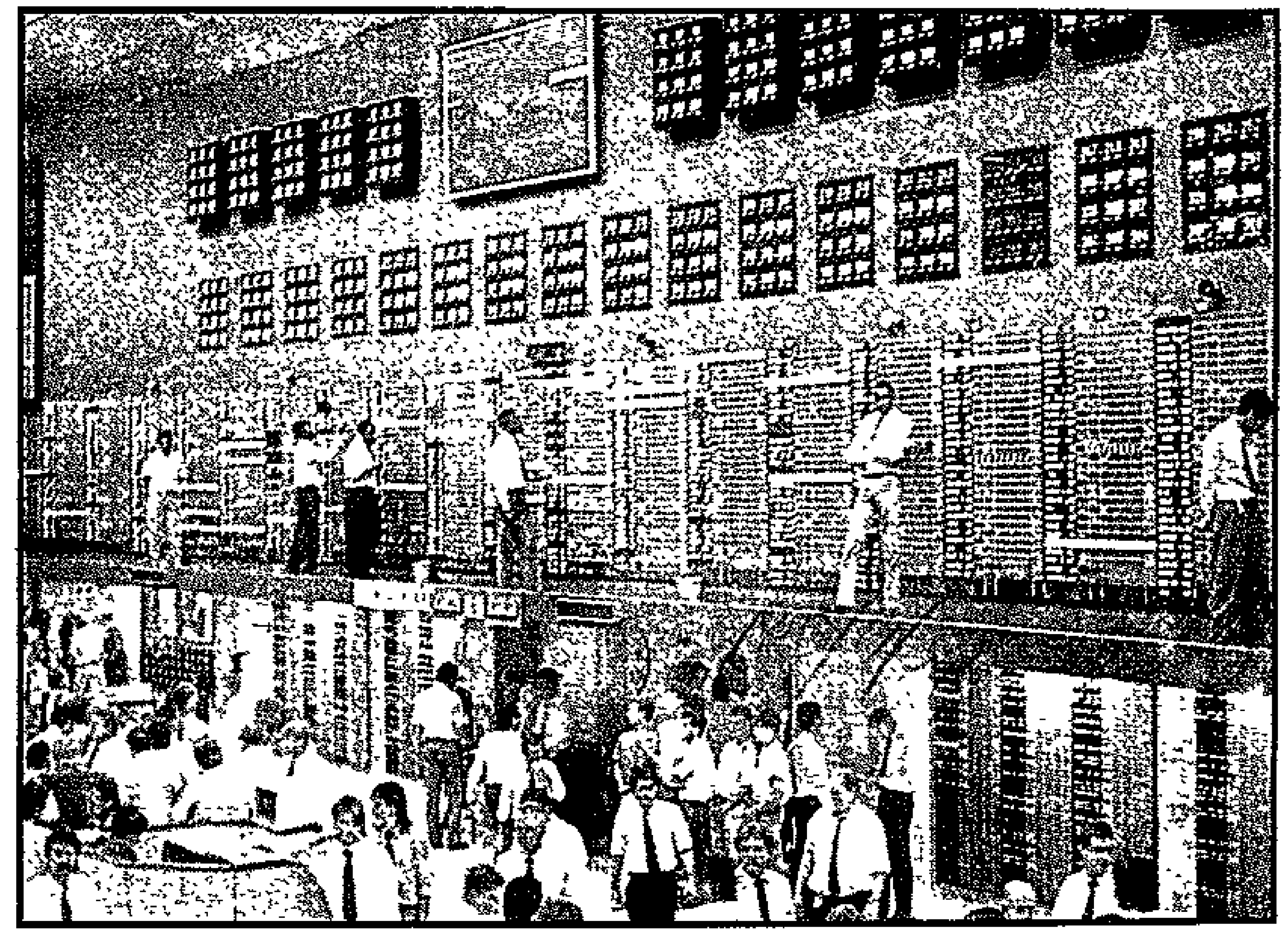
Afterwards Mineral and Energy Affairs and Public Enterprise Minister Dawie de Villiers said he was delighted at the scope and style of the opening.

Iscor managing director Willem van Wyk also expressed his appreciation that things went according to plan.

"The price is more or less where we wanted to see it and from here on we are looking forward to a future where we will be able to show the investors that they made a good investment," he said.

The nearly 7,3-million preferential Iscor shares acquired by Numsa (National Union of Metal Workers of South Africa) members employed by the corporation will soon be sold to the Metal Industries Pension Fund, thus keeping long-term investment benefits within the industry, *City Press* learnt from Numsa sources this week.

The share purchase, financed by Rand Merchant Bank, was arranged by Numsa to transfer the anticipated R1,5 million in stagging profits into a trust fund for workers' "collective interests". However, both the bank and Numsa have an option to withdraw from the deal, according to sources in the metal industry.



The Stock Exchange in action during Iscor's first day of trading.

The Star
Finance

Gold bulls banking on further decline in dollar

58

Star 13/11/89

By Neil Behrmann

LONDON — Gold's next significant boost will have to come from a further decline in the dollar and a fall in worldwide interest rates.

So far, however, there are no signs of marked dollar weakness and recent declines in US interest rates have not be accompanied by falls elsewhere.

Until the end of September a strong dollar and high interest rates were the major factors depressing the gold price, although higher sales from Western producers and the Soviet Union pushed prices lower from time to time.

Yet gold bottomed around $360 when it became evident that the US Federal Reserve Board was loosening credit and the major central banks wanted the dollar to be lower.

Although the Fed decided to reverse its restrictive monetary policy as far back as May and rates have been steadily falling since then, it is only in recent weeks that the bullion markets have become encouraged by the change in monetary policy.

In its latest move to ease credit, the US central bank signalled that it intended cutting interest rates.

It supplied extra cash into the banking system and the actions pushed down the key federal funds rate — the interest that banks charge each other on overnight loans — to 8,5 percent from 8,75 percent.

High point

This is the fifth decline since May. The latest decline in interest initially weakened the dollar and boosted gold to a high point of $389 in the Far East on Wednesday. But gold slipped to around $384 when the dollar stabilised.

Gold bulls are blandly assuming that the decline in US interest rates will bring about a collapse in the dollar and reignite inflation. Yet US economic performance and the foreign exchange markets are not telling the same story.

For a start, the Fed is taking action because it is concerned about the possibility of recession next year. Third quarter US corporate profits fell sharply and the motor and construction industries are reporting declining orders. Retail sales have begun to sag.

Fed officials were responding to recent economic statistics that have convinced many economists that economic growth will drop to between one and two percent next year.

Secondly, real interest rates in the US and other industrialised countries are still high. Nominal interest rates of the US exceed eight percent, West Germany eight percent, Switzerland 7,8 percent, UK 15 percent and Japan 6,6 percent.

These rates are well above inflation in the respective countries.

Thirdly a long-term chart of the dollar shows that its trade weighted index bottomed at 64 towards the end of 1988, marginally higher than its low point in 1980.

The present trade weighted index of 70, is only 10 percent higher than the dollar's nadir and 36 percent below the US currency's peak in 1985.

Thus after a substantial devaluation from the beginning of 1985 to the end of 1988, the dollar has recovered only slightly. The currency cannot be described as overvalued.

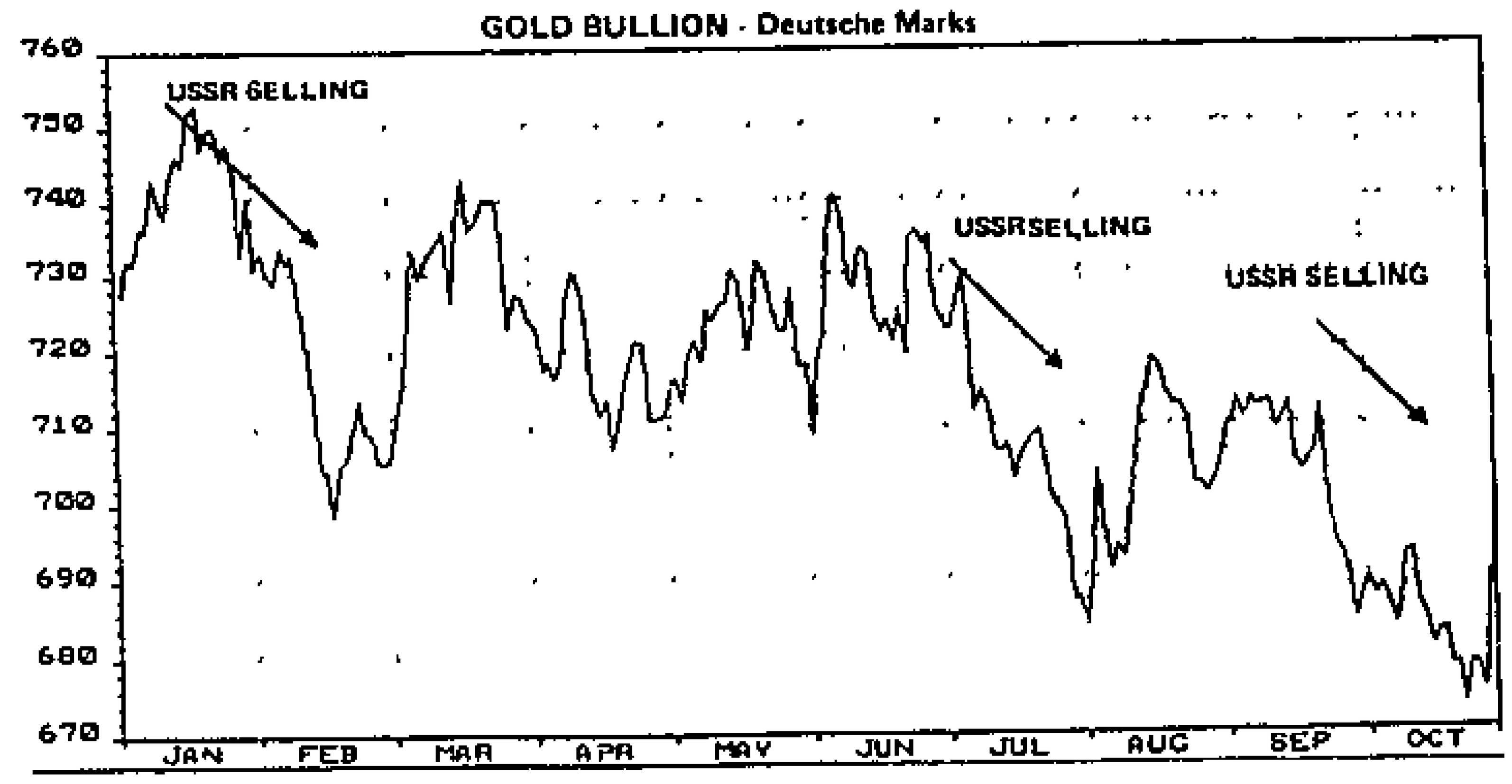
Virtuous circle

To be sure the Group of Seven nations are keeping the currency depressed through intervention. But the longer they keep it low, the greater the improvement in the trade figures and the greater the inflow of foreign capital. This implies that the dollar is in a virtuous circle.

In fact a study by the Union Bank of Switzerland places the dollar firmly within a trading band agreed by central banks. But that band is rising. Against the Deutschemark it was 1,60 to 1,80 between 1988 and early 1989 and now the range appears to be 1,80 to 2,00.

The dollar is even stronger against the yen. Bullion traders say that Middle Eastern demand drove gold prices towards their recent heights, but this was mainly speculatively based.

For the bulls to be correct, they have to be right about the dollar. Since gold shares are discounting dollar bullion prices of well over $400, the rand gold price has remained around R1 000 an ounce for many months and dividend yields are historically low, it might be a good time to take profits.



Soviet sales a major factor

By John Spira

USSR gold sales have been a major factor in gold's poor performance of the past couple of years.

Russian gold receipts are denominated primarily in Deutschemark, with the result that periods of heavy sales by the USSR have coincided with sharp declines in the Dm gold price, as the accompanying graph, prepared by London stock broking firm, Williams de Broe, reveals.

Gold's sharp rally (in Dm terms) of the past three weeks suggests that Russian gold offerings have tailed off — a theory which derives from the belief that the USSR is targeting full convertibility of the rouble.

If so, many Western bankers may demand that the currency be backed by gold, implying a period of higher yet less volatile bullion prices.

However, Williams de Broe warns that the Soviet Union's current selling programme should not be underestimated.

"Russia has a pressing need for foreign currency and gold generates approximately four percent of its requirements."

Nampak helps C G Smith to raise turnover to R12bn

SYLVIA DU PLESSIS

BARLOW Rand's CG Smith group has lifted both earnings and dividends by 22% in the year to September following particularly good performances from principal subsidiaries CG Smith Foods and Nampak.

While the rate of growth has slowed down from the corresponding period, earnings have risen to 746,1c (612,7c) a share, with a final dividend of 158c lifting total distribution for the year to 260c (212,5c) a share.

This was realised on turnover which rose 24% to R12,4bn from the previous R10bn, and operating profit which climbed 27% to R1,1bn (R867m), translating into improved attributable profits of R349,8m.

Directors said the contribution from Smith Foods — also announcing results for the same period — accounted for an almost unchanged 51,7% share of the group's attributable profits and Nampak for a slightly higher 39,3% stake.

Smith Foods, buoyed by a solid first half, reported a 34% increase in operating profits to R629m on a 25% turnover growth at R8,6bn. Attributable profits of R222m (R181,7m) was recorded, from which earnings, 22% up, of 235,1c a share have been delcared.

A final dividend of 47c has upped total dividends to 78c (64c) a share.

The improvement in margins, achieved in competitive conditions, came mainly as a result of acquisitions, high capital expenditure in recent years and an improved balance in the group's trading pattern, directors said.

Smith Foods has major holdings in CG Smith Sugar, Imperial Cold Storage, Tiger Foods and Adcock-Ingram, all of which showed strong growth over the year.

The only exception was Oceana Fishing, which recorded a small profit increase after lower pelagic fish catches.

Genmin looks at R500m Free State production lift

REINIE BOOYSEN

GENMIN's Beatrix Gold Mine in the Free State could lift production by about a third if a feasibility study on a proposed R500m shaft north of the existing operations results in a decision to go ahead.

The recommendations of the feasibility study, being conducted by Genmin's projects department, will be presented for consideration in December this year.

Beatrix is the southern-most gold mine in the Free State, and SA. Its mining lease is contiguous and west of JCI's H J Joel gold mine. Both operations start on the southern "shoreline" of the SA gold belt.

The shaft, Beatrix's third, would exploit the deeper "down-dip" portion of the unique "Beatrix Reef" currently being exploited via the No 1 and No 2 shafts.

Mining operations would take place at about 14 000-metres below surface, where the grades are similar to the existing operations, which run at about 6,1g/t, with a pay limit of just over 3,5g/t.

The portion of the lease-area under consideration contains about 20-million tons of mineable ore. With a hoisting capacity of about 60 000t -a month being considered, the ore reserves will sustain a mine-life of nearly 30 years.

At a hoisting rate of 60 000t/month, the shaft would be responsible for additional gold production of about 366kg a month, worth almonst R12m.

Investigating

According to Genmin Free State mines consulting engineer Kobus Olivier, the project would be profitable at the current gold price of about R32 700/kg, "but it would be a bit marginal, so if the gold price improves we will be much more optimistic about it".

The projects department is investigating ways of financing the development of the mine without detrimentally affecting Beatrix's dividend payments. A rights issue is one possibility being considered.

It is also considering whether to use the mechanical shaft sinker recently used to sink a shaft at Oryx, another Genmin mine in the Free State.

The so-called "RUC borer" is much quicker than conventional methods (about 12-metres a day as opposed to about four metres a day). This would enhance the project returns by bringing the shaft into production earlier. A sub-vertical shaft is also being considered.

The mine's milling and gold treatment capacity will have to be expanded to accommodate the expanded tonnage.

A Genmin Press statement says it is unlikely the No 3 Shaft will be used as replacement tonnage when the No 1 and No 2 shaft areas are mined out — expected to occur concurrently.

"No 3 Shaft, working on its own, would not enjoy the benefits of economy of scale offered by mining at the same time as No 1 and 2 Shafts."

Bread Basket chain bought by Hyperette

BRENT MELVILLE

LUNCH-TIME patrons of and shareholders in the popular Bread Basket will be interested to know that the delicatessen chain is the latest acquisition of food-processing group Hyperette.

Hyperette (previously Milly's) announced yesterday that it was to purchase the three-store chain in a deal worth R3,8m, settled by R2,4m in cash and the issue of 14,6-million new Hyperette shares worth 10c each.

Hein Ehlers, who bought Hyperette from Pepkor in August, says the Bread Basket acquisition, effective from October 1, will give the 28-store Milly's/Hyperette chain a foothold in the lucrative gourmet and specialised bread markets.

Trimmed

He says the purchase will effectively double the Unidev controlled group's earnings forecast at 0,6c a share, incorporating the increased number of shares in issue.

Ehlers says the restructured Hyperette group has put the troubled Milly's operation "back in the black".

"The steps we have taken to mend Milly's, including the acquisition of Kwikshop, Metro bakeries and the merger with Hyperette have already had a positive impact," says Ehlers.

"The merging of the Hyperette and Milly's chains gives us a good spread of convenience stores in the Cape and many cost effective synergies. By bringing the Bread Basket into the fold, we have a real winner," he says.

Ehlers says the group plans to expand the Bread Basket into 10 stores in the next three years. "It is the only chain of its sort in SA, supplying Broadway-style gourmet foods such as Mallossol caviar, pates, cheeses and special smoked meats and salamis."

Ehlers says the Milly's name as a trading operation and a listed group will disappear. "We plan to convert all the Milly's operations into either Hyperette-type supermarkets or Bread Basket operations."

He says a priority is to make Milly's in Sea Point a Bread Basket outlet to take advantage of the holiday season.

Shield's partnership talks are dropped

SYLVIA DU PLESSIS

SHIELD Trading Corporation's partnership negotiations with two major groups have been called off, chairman and MD Theo Muller said on at the weekend, following the release of the wholesaler's latest interim results.

Muller said the parties — strongly rumoured to include Pepkor and Sentra — failed to agree on a price because they would have had to pay a premium for Shield. "The other party would have suffered a dilution."

Diversification

In addition, the timing was incorrect, he said.

"We were not looking for people to buy a major slice of Shield. We were looking for [illegible]versification without letting control go," [illegible] said.

[illegible], which posted a 28,3% drop in [illegible] in financial year 1989 due to substantial provisions for bad debts in its Success stores, recently issued two announcements advising shareholders to exercise caution in dealing with their shares.

The group, a listed wholesale distributor of food and allied products to independent wholesalers and supermarkets, has bolstered earnings by 44% to 4,9c (3,4c) a share on turnover 23% up at R248,6m (R202,1m).

Operating income grew by 33,5% to R2,3m (R1,7m), and after net interest received which more than quadrupled to R473 000 (R106 000), this tranlsated into taxed income of R1,6m — 43,8% up on the corresponding R1,1m.

Group policy is to declare dividends at year-end.

Commenting on the results, Muller said he was looking forward to the final year-end figures.

"Our second-half results are traditionally better than the first half and we believe this trend will continue."

Core company Shield Multi Trade had performed extremely well. "This is particularly evident when comparing the corresponding period of last year, when turnover included sales from 10 Success Cash & Carry outlets, which have subsequently been franchised or sold.

Projection

"The turnover for Shield Multi Trade accordingly increased by 41,44% for the same period."

Muller said Shield was "going great guns" and he was comfortable with his earlier projection of a 30% rise in turnover to over R500m and an earnings increase in excess of 25% in the current year.

Premier's restructuring pays off handsomely

58

Star 13/11/89

By Sven Lünsche

Premier's restructuring, announced in June this year, was aimed at highlighting the performance of the group's core business.

And judging from the group's interim results, it has achieved just that, with attributable earnings rising by 22 percent in the six months to September.

During the interim period Premier completed its extensive restructuring programme, which involved hiving off the group's 33,8 percent interest in South African Breweries to Beverage & Consumer Industry Holdings (Bevcon).

Rights issue

The restructuring also included the rights issue, which raised R281,4 million, and splitting Premier into four focused operations:

- Food (through Premier Food Holdings).
- Pharmaceuticals (through Twins and Gresham).
- Entertainment, information and leisure (through CNA Gallo).
- Consumers (through Gresham and Score).

Group turnover for the half year increased by 17 percent to R2,1 billion (R1,916 billion) on its ongoing operations, causing trading profit to increase by 22 percent to R142,7 million (R116,9 million).

After accounting for increased tax, minorities and lower retained earnings of associates, attributable earnings rose by 22 percent to R46,7 million (R38,3 million), translating into earnings per share of 72c — an increase of 20 percent.

Peter Wrighton

The reason for this disparity, according to group chairman Peter Wrighton, is the dilution brought about by the additional shares allotted in terms of the rights offer, which took place in September.

An interim dividend of 25c was declared earlier than normal in July in order to avoid confusion that might have arisen from the rights offer.

Commenting on the results, Mr Wrighton says they are "gratifying, considering the state of the economy".

He adds that the food business was less badly affected by the economic slowdown than the non-food areas.

"Premier Foods contributed around 66 percent of earnings, virtually unchanged from last year," he says.

Referring to the recent spate of industrial actions which caused major disruptions at some of the group's food companies, Mr Wrighton says that all factories within Premier Foods are once again operating normally.

However, the contribution by Gresham continues to lag behind those of other subsidiaries and Mr Wrighton confirms that the rationalisation at its wholesale pharmaceutical division is proceeding more slowly than expected.

Mr Wrighton is optimistic that further growth in earnings can be achieved during the remainder of the current financial year.

Traditionally the group earns more in the second half than in the first half and the benefits of the rights offer will become evident in the next six months.

Trading conditions

"The R281 million raised through the offer will allow us to reduce borrowings as the recent hike in interest rates will have substantially raised our interest bill over the next few months.

"However, trading conditions remain difficult and no short-term relief from prevailing high interest rates is expected," Mr Wrighton adds.

He points out that the funds of the rights offer will also allow subsidiaries to finance expansion opportunities, when they arise, but adds that no major acquisitions are planned at present.

Govt reviews import surcharges

Economic curbs may be swept away

58

B.Day 13/11/89

GOVERNMENT may sweep aside the complex web of economic measures introduced as part of the restrictive package in August last year, ahead of next year's Budget.

Trade, Industry and Tourism Minister Kent Durr said on Friday all major policy instruments of government were under urgent review at a ministerial level.

Because there was a new government with a new mandate, Durr said, the need had arisen "to review the impact and successes or otherwise" of the import surcharge and hire-purchase restrictions.

He said studies run by the Department of Trade, Industry and Tourism and the Department of Finance needed to look at various policy instruments, their opportunities and obstructions to modernisation they presented, before a decision was taken at ministerial level.

Durr gave the assurance that any decision would not involve tinkering with the application of the imposts, but would address the fundamentals.

"Hindsight is an exact science and we will weigh the advantages of these (measures) as a matter of urgency."

He emphasised there would not be "yet another change" to the application as he was thoroughly opposed to "ad-hocery".

The import surcharge had been amended more than 60 times since its introduction last August.

"We wish to settle the matter thoughtfully and rationally so a decision can be made that will stand for some time to create a stable environment."

Durr expressed his opposition to the import surcharge earlier this month at the Federated Chamber of Industries' annual general meeting.

KAY TURVEY

On Friday he reiterated that the surcharge was not meant to be a permanent part of the economic landscape or a fiscal measure.

The surcharge, which raised 82% of the R1,3bn budgeted revenue in the first five months of this fiscal year, was criticised widely by economists.

They claimed it did not address the fundamental problem of high imports, which should be curtailed through monetary and fiscal measures.

Deputy Finance Minister Org Marais confirmed the import surcharge and hire-purchase arrangements were receiving attention.

He said an outcome was expected in the near future, provided the objective of a suitable surplus on the current account was achieved.

He conceded "micro-techniques" such as the surcharge and hire-purchase arrangements were difficult to manage.

They entailed a decision by government in targeting specific industries.

However, he stressed that industrial policy should fit in with monetary and fiscal policy.

● DURR

● MARAIS

Heavy demand from foreign buyers

(58)

JSE shares soar as gold touches $395

B.Day 14/11/89

MERVYN HARRIS

THE gold price looked set to test $400 this week after touching a high of $395 in New York last night amid an earlier scramble by US investors for lightweight SA gold shares.

In a continuation of last week's rally, gold's latest uptrend was sparked by heavy demand from market players in Europe, the Middle East and Hong Kong. Dealers said gold was mainly riding on chart-related influences with little attention being paid to US stocks on Wall Street or the dollar.

Gold surged $5,25 to break above a seven-month high and closed in London at $391,25. Renewed buoyancy in silver, up from $5,25 to $5,32, helped boost gold while platinum also joined the precious-metals boom to close $8,50 higher at $509,50.

The rand eased from Friday's R2,6442 to R2,6548 to the dollar, while the dollar traded in a narrow range, before closing lower at DM1,8618 from DM1,8675. The German mark rose after Friday's tumble on uncertainty over the potential influx of East German refugees into West Germany.

While dealers were optimistic that gold would continue to rise in the short term, they cautioned about the possibility of a sell-off amid all the euphoria.

The excitement was evident on the JSE yesterday as US investors continued to pile into lightweight gold shares to give a further twist to their meteoric rise last week.

"The gold market is being driven up purely by sentiment with fundamentals taking a back seat. Shares of mines which are not making money are being bought", a dealer said.

Fuelled by offshore demand, selective local buying and jobbing, Durban Deep, which doubled in price to R24 last week, surged a further 17,7% to R28,25; Grootvlei, up 52,2% last week, jumped 28,6% to 900c; while Loraine, up 20,2% last week, rose 8,8% to R13,60.

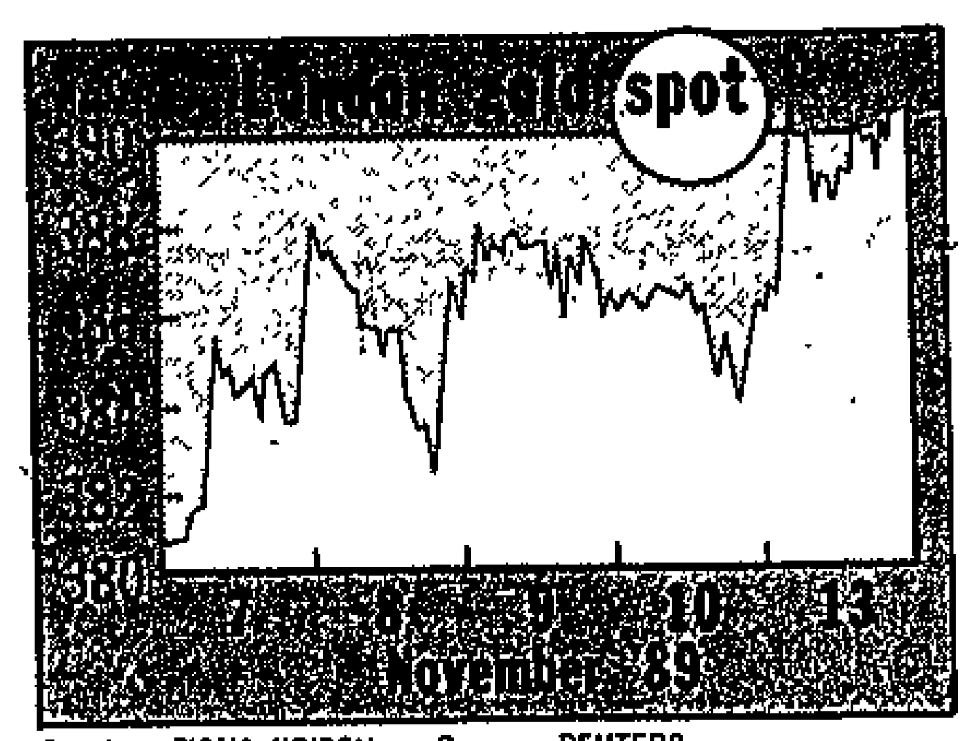
The rand gold price jumped R18,50 to R1 037,48, its highest level for several months. But analysts said the price had not escalated fast enough to warrant such soaring share prices.

"It's frightening. It does not make sense," a dealer added.

However, Mannie Fisher of stockbrokers V H Simmons & Co pointed out that SA lightweight golds were penny stocks for US investors in dollar terms. At the current price of R13,60, Loraine cost only $3,40 through the finrand while Grootvlei could be bought for $2,25.

Gains by heavyweight, low-cost producers were less startling but yesterday they recouped all of Friday's losses on profit taking. The JSE all gold index closed 2,8% higher at 1 969.

Comment: Page 6



Graphic: FIONA KRISCH Source: REUTERS

(58) Business day 14/11/89

Increased Eskom finance could force govt restraint

GRETA STEYN

THE sharp increase in the finance Eskom is to raise on the capital market next year will force central government to reduce its borrowings — unless it is prepared to pay excessively high interest rates, economists say.

According to Eskom's calculations, its net financing requirement of R3,1bn will absorb about 70% of institutional cash flows available for investment on the capital market. In this scenario, only R1,5bn would be left for other borrowers on the market — a figure that must be compared with government's budgeted borrowing of R4,4bn in new issues for the current fiscal year.

However, Senbank gilts analyst Heinrich van Wyk expects Eskom to raise a smaller amount on the capital market than the stated R3,1bn net financing requirement. Other borrowers would then have more room for manoeuvre.

"Past experience leads one to suspect the corporation is over-estimating its financing requirement. Another factor is that Eskom will not raise all the finance on the domestic capital market. Some will come from the money market and some from foreign purchasing of Eskom stock."

Van Wyk expected government's new issues of stock in the next financial year to be "less than R4,4bn, but certainly more than R1,5bn".

Eskom's assumption that R4,6bn of institutional cash flows would be available for investment on the capital market followed from a belief that only slightly more than the legally required 10% would be invested in gilts.

"But there is nothing to stop institutions from investing more."

During the current fiscal year, initial difficulties in marketing stock turned around dramatically and government managed to sell about R4bn of stock more than it needed. These extra funds will probably not be used to finance the deficit in the next fiscal year — government spokesmen said extra finance will go to reducing Treasury's debt on the Reserve Bank's forward cover book.

South Africa's oldest bank goes national

58

14/11/89

Finance Staff

The British Kaffrarian (BK) Savings Bank has agreed to a merger with the Pretoria-based EG Chapman Group and will expand nationally from December 1 onwards.

The BK Savings Bank was founded in 1860 and is the oldest bank in South Africa. Its operations are currently limited to the Eastern Cape and Border regions and the group has its head office in King Williams Town.

A statement released by both groups yesterday said: "An agreement has been reached between BK Savings Bank and the EG Chapman Group to restructure the bank which would result in an increase in capital and to broaden the scope of its activities."

The restructured bank, to be known as the Union Bank of Southern Africa, will open its doors for business at their head office in Sandton on December 1, while continuing operations in King Williams Town and Queenstown.

Union Bank will have a 30 percent shareholding in the EG Chapman company, Bonus Card, which has a large client base in Pretoria. EG Chapman also runs the Buy Aid card operation.

The Union Bank will start off with a capitalisation of only R20 million, but will be headed by two experienced bankers — Colin Waterson, previously from First National Bank, and former Allied group senior general manager André Latre.

The good news and the bad

58 Star 12/11/84

Diagonal Street

DEREK TOMMEY

Gold reached $390 an ounce yesterday — helping to reinforce the view that the metal is at last in a bull market and that its price is more likely to rise in the coming months than to fall.

This is good news for a country such as ours which depends to such a great extent on gold for much of its wealth.

But not all South Africans will be happy. Exporters of non-gold products and especially of manufactured goods, face tougher trading.

A higher gold price is bound to lead to a firmer rand.

In September when the gold price dropped to a three year low of $355,75, a US dollar bought R2,80. Last night, when the gold price was around $390, the dollar bought only R2,65.

In other words, a 9,6 percent increase in the gold price has resulted in a 5,6 percent appreciation in the rand against the dollar — and the competitive edge of many exports has been slightly reduced.

CONCERN

A matter of even greater concern is the threat of a major increase in inflation.

In the event of a significant increase in the gold price it would be difficult to stop the mining industry going on a spending spree — especially as it would be encouraged to do so by the existing tax system.

And unless our politicians have changed their spots, a Government suddenly grown affluent by a sharp rise in gold mining tax revenues, is also likely to start spending money freely.

In such a situation it is not difficult to imagine what would happen to the country's cost structure should, for example, the mining houses suddenly decide to embark on a major mine-opening operation.

SHORTAGE

We are already experiencing a serious shortage of skilled workers. Were the mining industry suddenly decide to open, say, between four and six major new gold mines labour costs could go through the roof.

Exporters, faced with mounting costs and lured by the likely rich pickings of the home market, could well turn their back on the export markets that have been so laboriously developed in the past four years.

And with this could go the hope of developing a more balanced economy which was less vulnerable to changes in the gold price and less dependent upon the gold mining industry for its prosperity.

This is not just supposition. It has happened before. Dr Estian Calitz, chief economist with the Central Economic Advisory Service, one of the Government's economic "think tanks" had something to say about this recently.

"A matter of particular concern is that since 1975 the structure of South African exports has increasingly been moving backwards on the industrialisation road," he told a seminar in Somerset West.

South Africa's export industries have been moving in the direction of material-based products instead of forward into the export of manufactured foods — which was what the so-called newly industrialised nations have been doing.

And what he did not mention is that it was in 1973 that the gold price broke away from the $35 an ounce at which it had been stuck for the previous 40 years and suddenly took off.

POVERTY

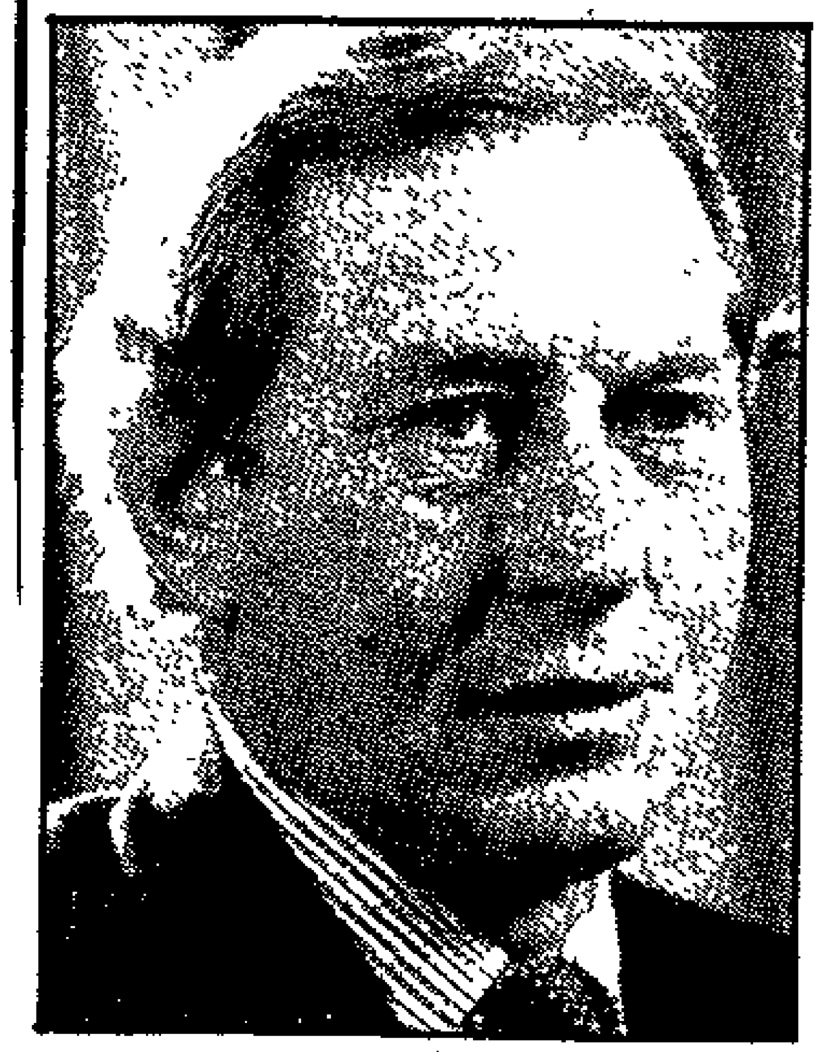
At the moment most of the Government's problems are those of poverty. But a higher gold price could make then problems of prosperity.

Let us hope that this time the Government is prepared for these problems and the windfall from a higher gold price is not squandered, as was the case in the late 1970s and early 1980s.

Barlows stages another impressive performance

Star 14/11/89

68



Warren Clewlow

By Ann Crotty

That Barlows financial 1989 results were in line with analysts' expectations is indicative of the high level of performance the market has come to expect from it.

For the 12 months to September it has reported a 33 percent hike in earnings to 543,8c (408,2c) a share. A dividend of 170c has been declared — 31 percent up on the previous year's 130c.

Highlight was the excellent performance from **MIDDLEBURG & ALLOYS** (MS&A) on the back of the combined effect of exceptionally strong ferro-alloy prices on world markets.

At the half-way stage, MS&A was reported to have almost doubled its contribution to net income. Indications are that this sort of performance was sustained for the full year, which means MS&A's contribution to net income was about R200 million.

The bonus for Barlows' attributable performance is that MS&A is wholly owned.

Chief executive Warren Clewlow says that although there were signs that world commodity prices had begun to turn down in June, MS&A had locked into the stronger prices, so the effect of the weakness will only really only be felt in the current financial year.

MINING turned in a strong performance — helped by the continued buoyancy of international markets for coal and base minerals.

CEMENT and **LIME** interests reported a reasonable increase in volumes, which were lifted to a good improvement at net income level by a hike in margins.

It seems that **ELECTRONICS** and **ELECTRICAL ENGINEERING** interests turned in the strongest improvement.

COMPUTERS reported fairly pedestrian figures due to the combined impact of difficult market conditions and problems at micro-computer distributor, TSD.

The performance from **EARTHMOVING EQUIPMENT, MOTORS** and **APPLIANCES** slowed down in the second half.

At the half-way stage, contribution to net income was up about 50 percent but it seems that the full-year improvement was only about 25 percent. Worst hit in the second half was appliances.

A strong level of infrastructural development ensured a good contribution from earthmoving equipment.

PAPER and **PACKAGING** interests continued to benefit from the wide product base and exposure to the more resilient food and beer markets.

FOOD and **PHARMACEUTICAL** interests had another year of good growth after a fairly acquisitive period. It looks like being one of the stalwarts in the leaner years ahead.

On the international side, **BIBBY** continued to disappoint, but other interests managed to ensure a creditable overall international contribution.

The combined effect of all of this was a 25 percent increase in Barlows turnover from R21,2 billion to R26,4 billion. Operating profit reflected a significant improvement in margins — from 9,5 percent to 10,4 percent — and increased 37 percent to R2,7 billion (R2 billion).

Interest payments were up 62 percent to R491 million (R302,8 million). This larely reflects the hike in interest rates — borrowings were up about 15 percent.

But heavy capex commitments and acquisitions depleted some cash resources.

Attributable profit rose 35 percent to R1 billion (R742 million).

The relative performances of the divisional interests is likely to see the mining and mineral beneficiation arm become the most important contributor at attributable-profit level, with industrials (which headed the field in 1988) taking second place.

In terms of contribution to net income, industrials continue to be the most important arm.

Food and pharmaceuticals is third in line — in terms of contribution to both attributable profit and net income.

Although local economic conditions and international commodity prices look set to take their toll on performance in financial 1990, management is doing all that it can to ensure sound, sustainable long-term real growth.

In financial 1989, capex was R1,7 billion (R1,1 billion in 1988). Some R1,1 billion of the review year's capex was spent on expansion projects, the remainder on replacement. In addition, R600 million was spent on acquisitions.

Much of the expenditure (capex and acquisitive) was devoted to mining operations. Food and pharmaceuticals was second in line. Paper and packaging received a significant injection.

For financial 1990, Barlows is facing the double blow of weaker ("more realistic") international commodity prices and a slowdown in the local economy (which is expected to feature a more stable rand exchange rate).

This means that a significant slowdown in the rate of profit growth is on the cards.

Fedvolks turnover rockets to R1,9bn

B/Day (58) 15/11/89

BRENT MELVILLE

SANLAM'S diversified industrial arm Federale Volksbeleggings (Fedvolks) has hiked turnover by 16% to nearly R1,9bn (R1,6bn) in the six months to September.

On the bottom line, profits climbed by 33% to R59,9m (R45,1m) reflecting the group's ability to shrug off decreases in consumer spending and rising interest rates over the period.

Due to the 30% increase in shares in issue after last year's R100m rights offer, earnings remained virtually unchanged at 35,6c (34,8c) a share. The interim dividend was maintained at 8c a share — covered 4,5 times.

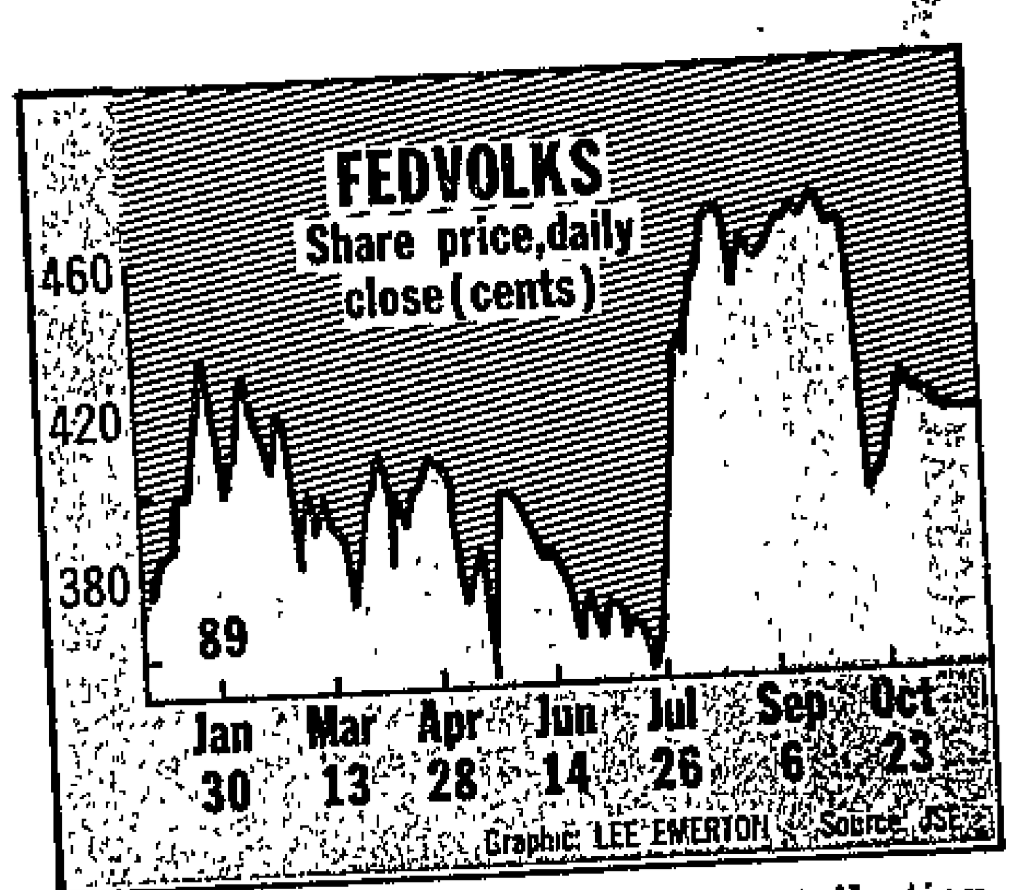
MD Johan Moolman said the capital injection put the group in a strong position to finance not only further takeovers but organic growth as well. "It has also helped cushion the rise in interest rates," he said.

Income from associated companies improved by 85%, adding R15,7m (R8,5m) to operating profit of R162,8m (R134,4m).

Divisionally the group's motor components and agricultural equipment division (represented by Fedmech, Firestone, Gabriel, Midas and Raylite) showed the most improvement — bolstering its profit contribution 49% to R11,0m.

Two of the group's divisions did comparatively less well. The mineral fibre division (AFI) dipped 43% to R1,3m and domestic consumer goods (Continental China, Morkels, Tek, Teljoy) which dropped its offering by 7% to R8,2m.

Services (Avis, Fedics, Interleisure, Interpark, PFV) improved their contribution 25% to R12,7m, Fedfood donated 18% more at R15,2m and a 17% improvement to R13,8m was recorded by SA Druggists.



On the balance sheet interest bearing debt jumped 32% to R469,2m resulting in higher gearing of 47% (42%).

Moolman expects a further slow-down in the economy for the second half, with the decrease in consumer spending having a detrimental effect on group activities. He is optimistic of maintained earnings for the full year.

"The fact that we were able to overcome these negative trends in the business climate is mainly due to efficient management, the strong impact of our wide range of products and services and our expert management team's ability to read markets rapidly and accurately," he said.

Finansbank bolstering its capital and reserves

B/Day 15/11/89 (58)

BARRY SERGEANT

NEDCOR-subsidiary Finansbank has hiked its capital and reserves 23,3% to R65,7m for the year to end-September (1988: R53,3m).

In an interview last night, new CE Johannes Hamman and outgoing CE Hennie van der Merwe, who has been promoted to Nedcor, said Finansbank was well poised for further growth.

Finansbank set a new corporate finance standard with the Rusfurn management buy-in and, along with Senbank, was the merchant banking force behind the highly successful privatisation of Iscor, which was listed last week.

● VAN DER MERWE

Finansbank's results, which saw taxed profit hiked by 43,9% to R14,8m (R10,3m) are of major interest to main competitors Rand Merchant Bank and Standard Merchant Bank. The taxed profit, which comes after transfers to a tax equalisation reserve, contained R5,3m contributed by Finansbank subsidiary Cape of Good Hope Bank.

Hamman and Van der Merwe said Finansbank's dividend cover was increased and return on average ordinary shareholder's funds increased to 24,8% (21,1%).

Van der Merwe said: "The return on shareholder's funds is the bottom-line measurement in merchant banking."

Hamman and Van der Merwe said the profits from the Iscor listing and the Rusfurn deal had not been taken to book in the 1989 financial year.

They said the largest contributor to Finansbank's profits "remains the development capital and investment services division". They explained this was equity stakes taken by Finansbank in smaller to medium-sized businesses.

Van der Merwe said: "Taking an equity stake shows our bona fides." The longer-term intention in taking equity stakes was to turn the gains to account.

Hamman said: "We look at smaller to medium-size companies that are growing fast but are constrained by capital scarcity." He said that this type of business was "certainly becoming one of the features of merchant banking". Any losses on these accounts were immediately written-off in full through the income statement.

While Finansbank had one of the soundest capital:assets ratios among all banks, Hamman and Van der Merwe said it was important to note that Finansbank was mainly concerned with "one-off, erratic-type business". The ratio fluctuated during the year.

Wholly-owned subsidiary The Cape of Good Hope Bank contributed more than one-third of taxed profits — an "exceptional year", said Hamman and Van der Merwe. They added that Finansbank was "pushing hard" to expand the Cape-based subsidiary. "We are working hard at managing margins and are marketing as hard as we can."

Unlike Finansbank, its book comprises mainly recurring business — particularly instalment credit and home finance. Hamman and Van der Merwe said that Finansbank would be looking to a real increase in profits of 10% a year — which was all but achieved in the latest financials.

● HAMMAN

On the expansion of its business, Hamman and Van der Merwe said that trading in new areas like options was making a meaningful contribution to the bottom line.

B Day 15/11/89

BUSINESS SCENE by HAROLD FRIDJHON

Strange bedfellows in a bank

58

THEY are strange bedfellows, the two companies which have come together to form the new Union Bank of SA.

The one, a tough, profit-driven group which has built up a multi-million asset base in 25 years; the other a 130-year-old, non-profit savings bank without shares or shareholders, but with a balance sheet which shows assets of about R40m.

The family-owned E G Chapman Group, operating out of Pretoria but with connections in other major areas, has grown organically from its Buy-Aid and Bonus Card base into a property-owning, property-management and property development enterprise through careful cash and asset management and a very high level of profit retentions.

Loyalty

Superficially, the BK Savings Bank would appear to be a laid-back rural organisation content to serve largely the farming communities of the Eastern Cape from its King William's Town head office, Queenstown branch and a couple of agencies.

It was part-and-parcel of Brit Border culture, which ranked bank-customer loyalty far above an unseemly drive for market share.

But this old-fashioned loyalty was the secret of its growth, in assets and in profits, which were never available for distribution because there was nobody to whom to distribute them.

Instead the profits were ploughed into the local communities as bursaries and donations to worthy causes.

What was the common cause which brought these two organisations together?

It is believed that in spite of their considerable financial strengths, the authorities were somewhat concerned about them.

In the case of the Chapman Group there was some eyebrow-raising about aspects of buy-aid schemes.

As for the BK Bank, it was an anomaly, a vestigial relic from the days when there was no Banks Act demanding capital ratios, asset ratios and the iron-rod controls to protect depositors.

Little wonder then that the formation of the Union Bank has received official blessing and probably grateful thanks, particularly with banker-to-his-marrow Colin Waterson in the chair.

His appointment is almost a replay of the Barclays trauma, when Waterson succeeded Bob Aldworth as managing director prior to the appointment of Chris Ball.

Chapman Group chairman Eric Chapman invited his friend Aldworth to take the Union Bank chair.

He declined because he regarded that as a conflict of interest with his part-time Corbank chairmanship.

WATERSON... a banker to his marrow

Aldworth recommended Waterson, who accepted on the basis of his personal knowledge of the strength and integrity of the Chapman Group.

Waterson retired earlier this year from the First National Bank board to prevent any remote possibility of a conflict of interest.

Finansbank lifts profit by 43,95

(58) Cape Times 15/11/89

FINANSBANK lifted after-tax profit by 43,9% to R14,8m in the 12 months to September 30. Its capital and reserves rose by R12,4m to R65,7m.

And return on shareholder's funds, already at 21,1% a year ago, improved further, to 24,8%.

Discussing the bank's performance for the 12 months, CE Johannes Hamman said that he was very pleased with the results, achieved under the guidance of his predecessor Hennie van der Merwe.

Hamman said that the development capital and investment services division remained the largest contributor to the bank's profits and the project finance division contributed meaningfully to profits.

"The assets management division, which was launched last year, has established itself in the market and the banking division also performed well."

Hamman said that he expected all the bank's operations to improve their performance in the current financial year.

The Cape of Good Hope Bank, a wholly-owned subsidiary of Finansbank, had an exceptional year and its net profit contribution increased to R5,3m. It had increased the number of its outlets in the past year and was also expected to perform well in the year ahead.

Hamman added: "Finansbank is well capitalised, it has a clear focus and is strategically positioned in the markets it serves."

Finansbank's growth set to continue

Star 15/11/89

68

Finance Staff

Nedcor's unlisted merchant bank Finansbank reported good profits in the year to end-September and is expecting another good performance in te current financial year.

Taxed profits over the period were lifted by 43,9 percent to R14,8 million, while the bank's capital and reserves were increased by 23,3 percent to R65,7 million (R53,31 million).

Finansbank's return on shareholder's funds rose from 21,1 percent a year ago to 24,8 percent at the end of September, while its assets were up by 63,1 percent to R1,19 billion (R726,72 million).

CE Johannes Hamman said the development capital and investment services division remained the largest contributor to the bank's profit's, although the project finance division contributed meaningfully to profits.

"The assets management division, which was launched last year, has established itself in the market."

The wholly-owned subsidiary, the Cape of Good Hope Bank, also had an exceptional year, according to Mr Hamman, improving its net profit contribution to R5,3 million.

He expects further strong growth in the current financial year as the group is well capitalised.

Finansbank's results are also likely to be boosted by its share of the approximate R40 million Iscor is paying in fees for its JSE listing.

Berardo: hearing told of tax probe

Own Correspondent

CAPE TOWN — The finances of a company owned by Johannesburg tycoon Mr Joe Berardo were frozen because of a massive income tax probe, the commission of inquiry into Mr Berardo's export of rare cycads to Madeira has heard.

In the resumption of the cycad inquiry this week, Sergeant Paul Hattingh of the police's Cape Town commercial branch was giving evidence before the former chief magistrate of Cape Town, Mr C van Zyl, on the question of whether or not Mr Berardo profited from the cycad export.

The commission was ordered by the former State President, Mr P W Botha. It came as a result of questions in Parliament by Mr Rupert Lorimer, DP spokesman on environmental affairs.

Mr Lorimer had asked how Mr Berardo had managed to get a permit to export a priceless collection of South Africa's rare and endangered cycads.

Earlier, the commission heard that Mr Berardo had told government conservationists the cycads were destined for Madeira's Funchal Botanical Gardens.

Evidence was that the Reserve Bank had been given false information about the value of the consignment.

Yesterday, Sergeant Hattingh testified that one of Mr Berardo's companies, Aujack Investments, had issued three cheques for a total of R285 000 for the cycads.

Mr Berardo's auditor told Sergeant Hattingh that because of a massive investigation by the Revenue department the company's books had been frozen.

58

Star 15/11/89

IN PALACE

Earlier this week the commission heard evidence from the Stellenbosch Herbarium's Dr Pieter Vorster that an unofficial delegation to Madeira had seen the South African cycads in the gardens of a palace owned by the Berardo family.

Dr Vorster said Mr Berardo and his agent in the cycad deal, Mr Steve van Bloemenstein, were in Madeira at the time and refused to make formal statements.

However, they promised to submit affidavits to the commission.

The assistant Director of the Chief Directorate of the Department of Nature Conservation in the Cape, Mr Gert Nieuwoudt van Wyk, was recalled to give evidence.

Mr J Slabbert, leading evidence for the commission, asked Mr van Wyk whether he was aware of the amended Forestry Act of 1984 in which cycads were placed on the protected list and could not be moved, chopped or damaged in any way without written permission from the Minister.

Mr van Wyk replied that at the time the export permit had been issued to Mr Berardo he had not been aware of this legislation.

He added that it appeared the provincial ordinances (which give permission for certain species to be moved) did not conform with the parliamentary legislation.

The commission adjourned for an undetermined period.

JSE index hits record high

Finance Staff

The Johannesburg Stock Exchange hit a record high yesterday, as measured by the overall index, driven by the strong performance of gold share prices.

The overall index rose 25 points to close at 2 843, a point higher than the previous high achieved in late August. Only 10 months ago the index was languishing at around 2 000.

However, sellers were evident in the market in late afternoon trading as the gold price fell from its earlier highs in Europe to close at \$391,40. It opened in Hong Kong today at \$390,25.

Gold share prices are the cause of the current bullish phase on the JSE. The crucial all-gold index rose above the 2 000 mark for the first time since the stock market crash in October 1987 to close at 2006. Over the last month alone it has surged by more than 600 points. It is still well below its August 1987 peak of 2499.

Behind the rise is new overseas demand for South African gold shares, particularly in Europe. The Star's London Bureau reports that about 20 UK trading firms are believed to be willing to trade the stocks now.

Medical fees hike for insurers causes clash

B/Day 15/11/89 (58)

KAY TURVEY

THE Medical Association of SA (Masa) and the life insurance industry, which spent more than R50m this year on medical examinations for potential policyholders, are embroiled in a bitter clash over the proposed hike in medical fees for insurers.

Talks on the increase have reached deadlock, although the Life Offices' Association (LOA) is expected to decide how to proceed at its AGM on Friday.

Masa initially put forward an effective 77% increase for a standard medical examination by a GP, but later reduced this amount to an effective 42%.

The large life offices in Cape Town and Johannesburg employ their own doctors to conduct checkups on policyholders, but are, however, reliant on outside doctors in other centres.

LOA public relations officer Juries Wessels said the industry was prepared to meet a 20% rise this year as the rates were to be adjusted for a 15-month period.

The LOA and Masa meet annually to negotiate rates which are usually in line with the CPI.

Masa proposes rate increases in three different categories. One for doctors contracted into medical aid, another for those contracted out and a separate rate for those servicing insurers.

This year, Masa sought to adjust the manner in which fees are calculated, which would result in an effective 76% hike for a standard medical examination — specialist fees would be reduced.

However, Wessels said specialist doctors had not been represented at the talks and overall the cost increases would have been too great.

Masa acting secretary-general Hendrik Hannekon declined to comment.

● See Page 3

FNB court action against commodity broker

15/11/89

SUSAN RUSSELL

INTERNATIONAL agricultural commodity traders Agrimin Trading (Pty) Ltd, which its bankers said had liabilities of more than R30m, was provisionally liquidated yesterday.

B/Day

The urgent application for Agrimin's winding-up was brought before the Rand Supreme Court by FNB.

(58)

In an affidavit, bank manager Ian Garth Crawford said FNB, International Bankers Incorporated SA, International Bank of Johannesburg Ltd and LDC Financial Services had claims totalling more than R25m against Agrimin, representing more than 80% of the company's total liabilities.

Crawford said Agrimin was "hopelessly insolvent with liabilities exceeding R30m and assets of less than R10m".

Crawford added that the company's annual financial statements showed Agrimin's gross profit for the year ended June 30 1987 was R233m, while the figure for the three months ended September 30 1989 was R440 610, giving an annualised figure of R1 762 440.

Spectacular surge in gold share prices

58

Star 15/11/89

Share movements since September 16:

	Percent
Durban Deep	247
Grootvlei	194
South Roodepoort	160
Wit Nigel	100
Randex	97
Unisel	83
West Rand Cons	78
PGA	75
Modbee	73
Blyvoor	71
Kinross	70

60-70 percent
Elands, Vlakfontein, Venters Elsburg, Beatrix.

50-60 percent
Buffels, Leslie, Deelkraal, Osprey, Doornfontein, Lindum, St Helena, Loraine, Western Areas.

40-50 percent
Southvaal, Western Deep, Modder, Vaal Reefs, Fregold, Freddev, Harmony, Nigel, Ofsil, Welkom, Bracken, ERPM, Ergo, Barbrook.

30-40 percent
Simmers, Lydex options, Dries, Joel, Winkels, Kloof, Gazgold, Knights, Randfontein, Harties, Libanon, Southgo, PGA options.

20-30 percent
Rhoex, Barnex, Oryx, Zandpan, Stilfontein, Lydex, Corex, Cengold.

10-20 percent
Weswits, Ergo, Sub Nigel, Primrose, Rand Lease, Waverley, Western Deep options, South Wits, ETCons,

Under 10 percent
Sallies, Sowits, Eesteling.

No gains
Dalsig, Afrikander Lease, Wit GM, Benco options, Digoco, Falcon, Benco.

By Derek Tommey

The rally in SA gold shares in the past four weeks has probably been unprecedented in the history of the JSE for the speed at which it has generated so much wealth.

Since September 16 (only 22 trading days ago), the gold share index has soared almost 42 percent, rising from 1399 to close at 1984 last night — its highest since the October 1987 share market collapse.

In hard cash, this means that the market value of gold shares on the JSE has appreciated by R20 billion in these four weeks to reach R67 billion.

In the same period, mining house shares have risen about 23 percent, adding about R20 billion to their market value.

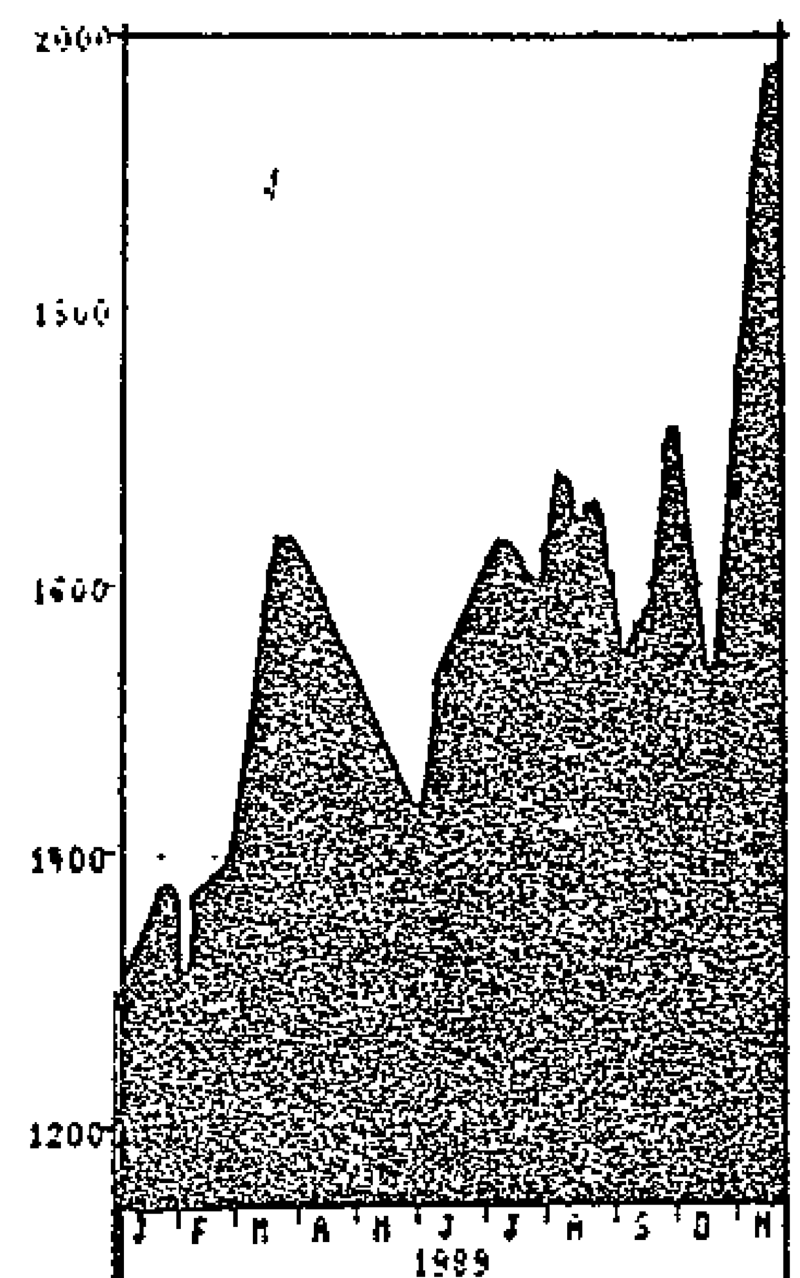
All told, the boom in gold shares has added R40 billion to the value of shares listed on the JSE.

However, several individual shares have enjoyed far bigger gains than the index.

Shares of Durban Deep, regarded earlier this year as one of Rand Mines' problem operations, have risen 247 percent in the past four weeks from 850c to 2950c.

Grootvlei shares, a marginal mine in the Genmin group, reached 910c yesterday to show a rise of 194 percent in the past four weeks.

Two small marginal mines, South Roodepoort and Wit Nigel, have made gains of 100 percent or more.



JSE gold index

As the table shows, many other mining shares have risen 50 percent or more in this period.

The sharp rise in gold shares tended to baffle local analysts at first. Even now few find it easy to see any good fundamental reasons for the rally.

In the past four weeks the dollar price of gold has risen just over six percent and the rand price by 5,8 percent.

Moreover, at R1030, the local gold price is some way below what it was 18 months ago, when gold shares were much lower than they are now, and mining costs were 20 percent less.

But many telephone calls overseas by local brokers have started to produce what is looking like a credible reason for the rally.

It is simply that investors in the US, Britain and Europe, after suffering huge losses in October 1987, and then having to face the prospect of a another share market collapsefour weeks ago, are turning to what they regard as a better and safer form of investment. Many see gold shares as filling this role.

It is interesting that the rush into golds began only after the last share market scare.

London brokers say that "little old ladies" have suddenly become major buyers, encouraged by the drop in sterling and reports that it could fall further.

It is interesting that they should mention little old ladies because they are the people who will remember the pre-war and post-war view that an investment in gold was "counter-cyclical" as gold mining profits and dividends remained unchanged in times of a downturn.

Brokers say that a desire for greater earnings and dividend stability could attract foreign investors to gold shares.

Those who buy them through the financial rand receive a dividend almost 50 percent higher than do South African investors.

Moreover, dividend and interest rates overseas are much lower than they are here, so South African gold shares could seem a good investment to people trying to maximise their income — especially as the gold price does appear to be rising.

Probably helping the rally along has been South Africa's better image overseas, encouraging investors to buy gold shares again.

It should be mentioned that the buying has not been on a large scale.

Volume on the JSE in fact has been on the quiet side.

So the number of people buying shares has not been large, but they have been willing to pay well for them.

Brokers have also gone some way to clearing up another mystery, which is why Durban Deep's share price should rise into the stratosphere, while the share prices of other more exciting investments languish.

Much, it seems, depends on whether the share is listed in London or other European share markets.

Investors in Britain, France, Belgium and Switzerland have tended to buy only those SA golds which are listed on their own exchanges, and it is this which has resulted in demand for some shares being greater than for others.

At present, holders of gold shares must be feeling extremely content.

It is not often that the value of one's portfolio rises 42 percent in four weeks. Let us all hope that South Africa continues to be seen favourably abroad, which seems to have played an important role in the share rally.

Development Bank pledges its support

BIDCA 16/11/89

LESLEY LAMBERT

CAPE TOWN — Development Bank of SA chairman and CE Simon Brand yesterday pledged the bank's support for the economic development of the Western Cape.

(58)

Speaking at the AGM of Wesgro, an organisation which promotes business development and economic growth in the area, Brand said the bank had been approached to provide financial and technical assistance for a study on the comparative economic advantages of the Western Cape.

The study, initiated by Wesgro, aimed to identify the economic and commercial strengths of the Western Cape and to establish guidelines within which the natural, financial and human resources could best be used.

Disposal will affect Curfin

CHARLOTTE MATHEWS

CURRIE Finance (Curfin)'s disposal of its interest in Currie Motors would affect earnings for the year but dividends should be sustained since a lower dividend cover would be required, Curfin executive chairman Mackie Brodie said in the group's annual review released yesterday.

The trading assets of Currie Motors were sold to Barlow Motor Investments (BMI) from February and the listed company was sold to Bidcorp for R24m.

This leaves Curfin with investments in clearing and forwarding — under listed company SA Freight Corporation (Safcor) — property, finance and leasing.

Brodie said Curfin would exercise its option to buy the Currie Motors properties at their value when Bidcorp bought them.

The seven months' trading period of Currie Motors and a good performance from Safcor contributed towards Curfin's 31% improvement in pretax profits and 10,7c gain in earnings to 58,1c (47,4c) a share. A dividend of 34c (30c) a share was declared.

Brodie said Safcor had enjoyed "a most satisfying trading year", with a 47% increase in attributable profits to R10,7m.

This year Curfin's property portfolio should exceed R25m in value.

The leasing division performed according to expectations.

8 / Day 16/11/89

58

New economic vistas open up at Berlin Wall

(58)

Star 16/11/89

By Neil Behrmann

LONDON — Most people tend to view the breaching of the Berlin Wall as a victory for an oppressed people over their masters.

But the industrialists of Western Europe are reading much more than this into last weekend's stirring development.

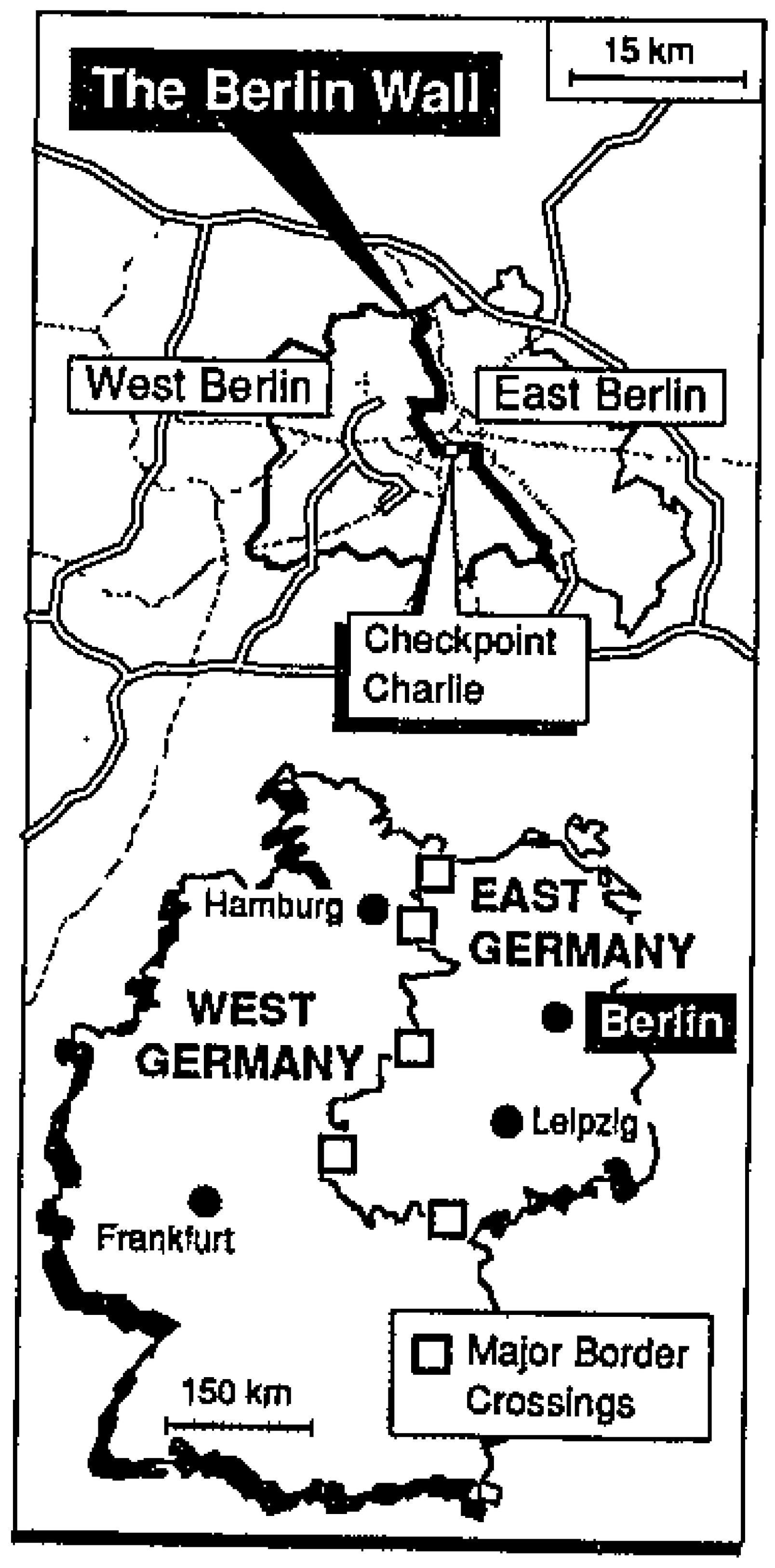
They see it as the start of a movement which, coming at the same time as the European Community is creating a market of 200 million people, will greatly boost economic growth in West Germany and other European economies.

This is good news for South Africa because exports of minerals and metals, which have levelled off this year, could soon start to recover.

Economists who study European developments believe that the meltdown of communism in East Germany and Eastern bloc countries is likely to be a major impetus to growth.

They believe that the long-term benefits of a single German and European arena far outweigh intermediate social and economic upheavals.

Particularly since a $1,25 trillion dual, but intertwined, West and East German economy, and the possibility of economic and



AP

political reunification at a later stage, have far wider implications.

There are, of course, many uncertainties. East Germany's finances are in serious disarray.

The outflow of young qualified workers and technical specialists seriously endangers production flows in the immediate future and casts a shadow over its prospects.

Yet this implies that its regime will be forced to adapt. It can do nothing but shift towards political and economic freedom. The same applies to other East European states.

"The collapse of the Russian-dominated East European communist hegemony, disarmament and the end to the cold war implies that Europe is entering another renaissance, ' says Chase Manhatten Bank.

In short, the combination of perestroika and a barrier-free EC in 1992 pushes Europe into an entirely new place in the international political, economic and cultural pecking order, says Morgan Stanley.

Growth of the West German economy could rise to between four and five percent from present levels of three percent. From a very low base, East German growth could soar to between five and six percent.

More than half a million East European refugees will create a massive construction boom in West Germany.

So far the government is planning on building 400 000 housing units per annum in the next few years, compared with the recent annual tally of 240 000.

Since immigration is likely to increase even more, the multiplier effect on the economy is considerable.

Consumption will rise and, given the skilled and educated labour force that is entering West Germany, the nation's powerful unions will lose much of their bargaining power.

East Germany has the most sophisticated economy in Eastern Europe after the Soviet Union. Its gross national product is about two-fifths the size of China's. It supplies 40 percent of the capital goods and information technology required by the Soviet Union.

Given the likelihood of direct investment in East Germany and the probability of joint ventures, there are considerable opportunities for West German and other European industries.

Since the Soviet Union and other East European states are also shifting towards capitalism, the benefits for other European economies are enormous.

Since West German industries are operating at near full capacity, the nation will be forced to import goods.

Other European companies will also gain from ventures in Eastern Europe. It is the most exciting economic prospect in decades.

Mercury wins shareholders' approval

58

BDay 17/11/89

LESLEY LAMBERT

CAPE TOWN — It took a long time and a major battle before Mercury Trust could secure its shareholders' approval of a proposal to make it a wholly owned subsidiary of the Board of Executors (BOE).

But yesterday shareholders voted by an overwhelming 99,7% in favour of the scheme which was first proposed in August, before Investec saw the company as a convenient doorway to the Board of Executors.

The directors of both companies were delighted. "It's almost like the turnout for the Namibian election," BOE chairman Paddy Wilson joked.

Shareholders were also pleased. Since Investec's offer to them, in what was regarded by BOE as a hostile bid, was R27,50 a share, BOE had to up its original offer.

In terms of the offer, 1 106 127 Mercury shares not held by BOE will be cancelled and replaced by 3 318 381 new BOE shares of R5,25 each and R12,9m cash.

With BOE's share trading at around R5,60, shareholders can smile.

US firm stops trading in SA securities

Cape Times 17/11/89

58

From SIMON BARBER

WASHINGTON. — Merrill Lynch, the largest US securities firm, has told its employees it is ceasing all SA-related transactions in response to pressure from local governments which have banned dealings with firms that have ties with SA.

Other brokerage houses are expected to follow Merrill's lead.

Under the new policy, Merrill will immediately cease researching SA companies and making recommendations on their stocks, although it will continue to follow the mining industry overall.

As of December 1, it will stop buying and selling SA securities including American Depository Receipts (ADRs) for shares traded on the Johannesburg Stock Exchange, and will refuse to execute clients' orders to buy or sell SA securities except to liquidate current holdings.

From the end of January next year, all accounts of customers in SA will be closed, as will all accounts of SA-based banks.

The moves were announced in an internal memorandum whose existence was disclosed by the Wall Street Journal yesterday.

Merrill officials confirmed that the memo was genuine but declined to comment further.

The document notes that the policy meets the requirements of selective purchasing laws adopted or pending in various city governments around the country.

Such laws could, for example, prevent Merrill from being selected as the lead underwriter in major — and highly lucrative — municipal bond issues.

The company's sweeping decision goes beyond any similar moves by its competitors American Express-controlled Shearson Lehman Hutton Inc, for example, trades in SA securities for US customers, but will not do business directly with SA companies or individuals.

● **Our London correspondent, ROBERT GENTLE**, reports that SA gold shares, which of late have enjoyed a resurgence of interest on the London Stock Exchange, fell sharply yesterday in response to a surprise decision by Merrill to stop trading them.

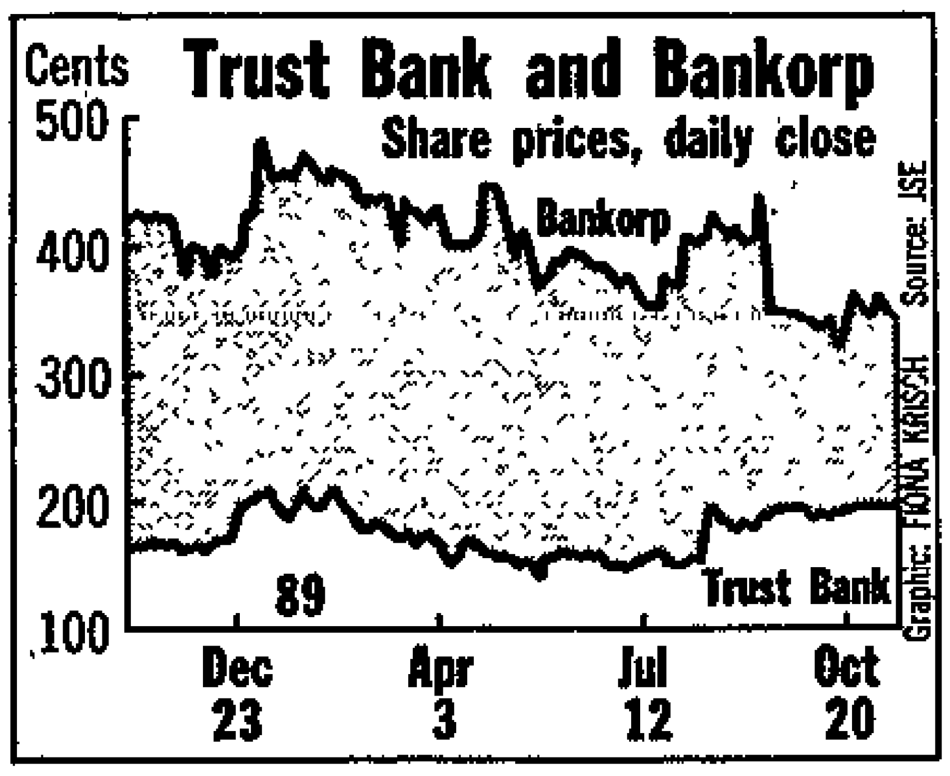
There was no comment from Merrill in London at the time of going to press.

Among the major falls were Driefontein (down 25p to £8,65), Harties (down 20p to £5,22), Kloof (down 21p to £7,22) and Harmony (down 14p to £3,75).

An analyst said the falls were probably more a result of panic-induced markdowns than actual selling.

Vansa Vehicle for futures

Cape Times 17/...



JSE bids farewell to TrustBank today

B/Day 17/11/89

BARRY SERGEANT (58)

BANKORP 78% subsidiary TrustBank is to be delisted at the closing bell on the JSE today. Sanlam and its associates, which own over 70% of Bankorp's equity, will be watching to see how the bid to take out minorities comes out. Today is the last day for shareholders to register in the Bankorp-TrustBank scheme of arrangement.

The action follows an announcement in August that Bankorp would make a rights offer and restructure, which included the delisting of TrustBank. The restructuring, according to a stockbroker's analysis, was forced when the Bankorp group overexpanded its asset base from a capital base that was too low and a return on assets that was "far too low".

A report on bank quarterly figures for June show that of 37 banks analysed, TrustBank had the lowest equity to assets ratio, of 2,1%.

More recent figures at end-September show Bankorp with a ratio of 2,93% (June: 2,8%), TrustBank 2,14% and Santambank — also in the Bankorp stable — 4,14% (4,2%).

In terms of the scheme of arrangement, qualifying scheme members are offered a choice of either 50 Bankorp ordinary shares or R200 in cash or a combination of the two, for every 100 shares held in TrustBank. Those that do not register today will be deemed to have elected the share alternative — 50 Bankorp ordinary shares.

There was activity in both shares yesterday, with no price changes. Bankorp closed at 350c and TrustBank at 195c. At these prices, TrustBank shareholders who are deemed to have taken the share alternative for every 100 TrustBank shares held will "forfeit" R25, compared with taking R200 cash.

The share alternative gives the opportunity of possible capital gains in Bankorp

☐ To Page 2

TrustBank

B/Day 17/11/89

(58)

☐ From Page 1

shares and, of course, dividends. In September, Bankorp announced a rights issue to raise at least R340m. If all the TrustBank minorities accept Bankorp shares, net cash available to Bankorp, including R200m to be injected into TrustBank, will be R390m.

Bankorp CE Chris van Wyk says that if the net figure is R340m, the capital to asset ratio will be raised to 4,25. This is still below comparable ratios for other big banking groups such as Nedcor (4,74%), Stanic (5,42%), and First National (4,86%).

TrustBank minorities that opt for the share alternative may have a long wait ahead before real returns materialise. A broker forecasts that after earning 25c a share this year, Bankorp may earn 26c next year.

A stockbroker says the current rights issue is a "fiasco". Bankorp had on occasion said that its inner reserves, which are not disclosed, were sufficient to enhance its equity to acceptable levels. In December 1988 Bankorp said in a circular to shareholders that in that month "the group's banks were within their respective capital requirements in terms of the Banks Act".

"This bears out once again the stand taken by Bankorp that it does not at this point in time have to consider a rights issue." Shareholders, the broker says, must have been surprised when in September, Bankorp announced that a very heavy 1:1 rights issue at the depressed price of 340c was proposed to "restore Bankorp's capital position to an acceptable level . . .".

The broker concludes that under the new stewardship of Bankorp chairman Derek Keys "another fiasco like the run-up to the current rights issue is most unlikely to recur". Moreover, "shareholders taking up their rights will probably be correct on a medium- to longer-term view".

58 17/11/89

FEDERALE VOLKSBELEGGINGS

Downturn biting

In the six months to end-September, Federale Volksbeleggings (Fedvolks) were mainly affected by the increase in the weighted average number of shares, negative growth in consumer durables and difficulties experienced by Fedfood. The result was a climb of only 2% on the year-ago period.

CE Johan Moolman says the easing in economic growth has been noticeable since the beginning of 1989, which makes the 14% rise in turnover (18% for the year to March) look good. This is especially true as subsidiary Fedfood, which contributed 23,4% of profit in 1989, was hit by a bad fishing season and drought (*Fox* November 10).

"The challenge is to produce profits even in a downturn," says Moolman. This is difficult for a group which derived 17,4% of attributable profit from domestic consumer goods. Moolman suggests some other divisions, notably motor components and pharmaceuticals, could be more resistant if not actually anti-cyclical.

The results from SA Druggists, which improved 17%, helped to bear this out; another excellent performer was 36%-held Interleisure. There was also the addition of the remaining 50% of Teljoy, an increased stake in Midas, and the purchase of 50% of Champion Spark Plugs in the 1989 financial year — the holding was increased to 100% from October 1.

Though Moolman thinks Avis might be hit by high interest rates, the services division (which includes Interleisure, Fedics, Interpark and Price Forbes Federale Volkskas) performed well and should help offset lower consumer demand.

Fedvolks sets acquisition criteria aimed at reducing vulnerability to economic swings. In the case of motor components, the group requires that at least 65% of turnover should be in the replacement market and the stake in Teljoy was increased with an eye on spiralling prices of television sets, which encourages hiring.

The results were assisted by the cash injection last year from the R101m rights issue. This helped to finance R81,4m capital expenditure, as well as acquisitions and redemption of some preference shares. But borrowings also increased by R112,7m to R469,2m and Moolman notes that more working capital was needed. He says the group is heavily stocked ahead of Christmas trade and strategic stocks, previously financed by government, had to be financed by

58 Finweek 17/11/89

the group at a cost of R15m.

Interest payments climbed from R28,9m to R45,9m, but Moolman says about 35% of the rise was due to higher rates and the increase in borrowings had been planned. Debt:equity is now 47% against the maximum target of 50%.

Moolman sees the downturn accelerating after Christmas, which he expects to be good, though less so than last year. Though he suggests management would like to exceed forecast, the target remains to maintain EPS for the full year, suggesting a year-on-year decline in the second half. The weighted average number of shares on issue will be 13% higher for the year, so attributable income will have to be increased by about the same percentage if EPS are to be simply maintained.

Once the dilution effect is out of the way and, if the group shows it can perform in a recession, Fedvolks should be given another look by investors. *Pat Kenney*

Riot insurance rates drop

B|Day 17/11/89

KAY TURVEY

THE SA Special Risks Insurance Association (Sasria) — the short-term riot insurer which is re-insured by government — has announced it is to reduce rates for certain risks from the beginning of next year.

The move flows from favourable claims experience because of a fall in the incidence of unrest and follows intensive lobbying by the insurance industry and community bodies.

For material damage of residential risks, which will include schools, hospitals, churches and clinics, rates will be reduced by 50% to 0,015% of the sum insured.

Non-residential risks including industrial, corporate and commercial properties will by cut by 37,5% from 0,12% to 0,075% of the sum insured as from January 1 1990.

Sasria MD Rodney Schneeberger said the reduction of rates was made possible by favourable claims experience as shown through careful statistics. (58)

Unfortunately the claims experience for motor vehicles, such as fleets of buses did not warrant any decrease of rates and the current premium of R15 a vehicle would remain, he said.

Rate reductions would not be extended to the TVBC states because a reliable statistical picture had not yet emerged from Sasria's two years of operations there.

Barlow Rand chief risk and insurance manager Des Vernon welcomed the reduction, but said he looked forward to the day when corporations would be given some reduction for self-insurance.

SA Insurance Brokers Association (SAIBA) spokesman on Sasria Peter Law-

☐ To Page 2

Riot rates drop

B|Day 17/11/89. (58)

☐ From Page 1

rence welcomed the reduction and said it too was hoping refunds would be given if a percentage of the risk was borne by a company.

Priceforbes MD Don Gallimore said: "It is good to see a response at long last as Sasria is a healthy fund."

Sasria, formed after the Soweto riots in 1976, has a fund estimated at about R2bn, well in excess of any other short-term insurer.

At a time when competition between insurers is fierce and rates covering standard perils are low, Sasria's rates have remained exceptionally high, in many instances accounting for 60% of a company's short-term insurance costs.

Sasria is the only insurer able to offer riot cover, leading insurers to repeatedly call for its deregulation, particularly in view of the high premiums charged.

US brokers drop all SA business

58

Star 9/11/89

By Ramsay Milne
Star Foreign Service

NEW YORK — In what is seen as a major blow to the conduct of South African business with the US, Merrill Lynch, one of Wall Street's biggest and oldest securities firms with a long association with South Africa, announced yesterday it was discontinuing all active trading and research in South African securities.

The move specifically blocks financial and commercial transactions with any South African company, agents or arm of the South African government or South African citizens.

But South African mining interests are expected to be the most drastically affected by the surprise announcement.

The move goes further than similar policies of other securities firms and could encourage others to take a tougher stance in protest at South African racial policies, *The Wall Street Journal* reported.

Merrill Lynch's move, announced in an internal memorandum to employees reflects the growing public outcry that Wall Street firms continue to maintain ties to South Africa, the journal said.

Other financial firms, such as Shearson Lehman Hutton, do not do business with South Africa, its corporations and individuals.

INITIATIVES

A Merril Lynch spokesman said the company's tougher policy "substantially broadens" it's existing policy and is "significantly more stringent than is required by law".

The new policy, he added, also meets requirements of "anti-apartheid initiatives that have been adopted or are under consideration by various states and local governments in the United States".

However, Merrill Lynch researchers will continue to follow trends in South African gold production as part of the firm's continued coverage of the international gold and metals industries, but will not offer an opinion on such developments.

The company also said that as of December 1, it will cease making markets in South African securities, including American Depository Receipts, options and warrants and will no longer buy or sell South African securities for its own account or for clients' accounts.

Orders will, however, be executed beyond that date on an agency basis in order to liquidate long or short positions in South African securities.

In addition, financial or investment accounts maintained on behalf of individual or business customers in South Africa will be closed as of January 31, next year.

All accounts with banks based in South Africa or with their subsidiaries will also be closed from February next year.

Before yesterday's action, Merrill Lynch's policy forbade conducting business in South Africa, owning or operating property there, controlling any business in the country, making markets or executing orders for South African gold coins or other South African commodities, or paying any taxes, duties, or fees to the South African government.

POLICY

Earlier today, a Merrill Lynch analyst, Patrick Magilligan, said the company's new policy would lead to the reassignment of three traders in London and New York and two analysts, including himself, who specialized in South African securities.

The combined coverage of Mr Magilligan and a New York colleague, Warren Myers one of the most respected gold analysts, extended to about 48 South African companies, about 31 of them involved in mining, including Anglo American and De Beers.

Company briefs

Strong international markets for vanadium and chrome played a large part in **Vansa Vanadium** achieving taxed profit of R39,8 million (R5,9 million) for the year to September.

Capital expenditure was R14,6 million, leaving R25,2 million in attributable profits.

Chairman Allen Sealey says in his annual statement 1989 was the first year of vanadium production and sales, which earned attributable profits of R12,2 million.

"Buoyant market conditions in chrome ore enabled Winterveld Chrome Mines to improve attributable earnings to R13 millionfrom R4,3 million in the previous year.

"Overall profits for the coming year are expected to be much in line with those of 1989," he says.

□□□

The failure by recently acquired businesses to perform profitably saw **Yelland Technology's** earnings per share fall by 40 percent to 4,9c (8,1c) in the six months to end-August.

This follows despite a 38 percent rise in turnover to R22,29 million and the rise in profitability of its core business.

The directors say, however, that the group's performance had been adversely affected by the poor results of recently acquired businesses and the costs incurred in relocating the Durban workshops.

"Actions have been taken to curtail unprofitable businesses and management anticipates that there will be a significant recovery in earnings for the full year."

Reports by Sapa and Finance Staff

Star 17/11/89

(88)

COLOUR TVs STAX'S LOW PRICE

STAX SUPER STORES

CITY

Gold resumes its climb

58

Finance Staff

Star 17/11/89

Gold surged further in Hong Kong today, opening at $393,75, after reaching a seven-month high of $393 in late afternoon trading in London yesterday. The Hong Kong opening price today was $2,50 up on yesterday's close.

Gold was generally weaker in yesterday's early trading on the major world markets, moving down below the $390 level in Honk Kong, London, Paris and Frankfurt. But late trading in London saw the price move back over $390 to reach a high of $393.

The late rise in bullion helped gold share prices on the JSE to recoup some of their earlier losses and the all-gold index closed just 2 percent lower at 1966.

The index had fallen by as much as 50 points at one stage to 1956 as sellers took their profits in the wake of the recent bull run in golds, which has seen prices appreciate by over 40 percent on average over the last month.

/11/89

2 policemen hurt

New interest in no-interest bond

58

Star 18/1/89

SPECIAL CORRESPONDENT

WOULD you like an interest-free loan to pay off your house or flat? No, this isn't just a pipe-dream, its a reality which has been available to first mortgage bond holders in South Africa since at least 1904!

That was when the Southern Cross Terminating Building Society was founded in Cape Town. It has been operating ever since and is registered with the Registrar of Building Societies as a non-profit making institution.

There are 3 or 4 other terminating building societies in Cape Town but, as the information in this article comes from the Southern Cross, let's concentrate on that.

Perhaps you've never heard of a terminating building society? The reason is that the TBS doesn't spend its money on advertising or on marble halls to impress its clients.

Mr Cliff Jones, the secretary of the Southern Cross, runs it on his own and his salary, rental for one office plus ordinary running costs are all that is spent by the society. The rest of the money collected goes to the members in interest-free or low, fixed interest loans.

How does it work?

First, for security you must be able to offer the society a first mortgage bond on some property or, of course, a property that is fully paid up.

Even if you haven't got either of these, you're eligible to become a share holder in a TBS by applying for shares, each share being worth R200 in borrowing power. The more shares you get, the more you can borrow.

So what does it cost?

First there's an entrance fee of 20 cents a share. This is a one-off payment.

Next is a passbook which can represent up to 225 shares. It costs R1,00 and is also a one-off payment.

Finally you pay 50 cents a month subscription for each share. For instance, if you want a loan of R90 000 (the maximum allowed at present) you will need 450 shares worth R200 each.

Payment would work out as follows:

1) Entrance fee of 20 cents per share (a once-only payment) 450 x 20c equals R90,0.

2) As each passbook represents a maximum of 225 shares, you'll need two books for 450 shares at R1 a book. Total R2,00

3) Instalments of 50 cents a share per month amount to R225,00.

Grand total: R317,00.

So the first month's payment would be R317,0. After that payments drop to R225 a month.

Loans are allocated by ballot. Members conduct the draw themselves, so it is absolutely fair.

Each share book has its own special number. The book numbers of all the members of the group are available for the ballot, and the one that is drawn gets its owner an interest free loan up to the value of the shares in that book, against the security of a first mortgage.

With a book representing 225 shares, the owner would be entitled to an interest-free loan of R45 000.

Each group has around 300 members, so the chances of being drawn the first time are about 300 to 1. But, as a book wins its number is dropped from the ballot and the odds improve for the next ballot, and so on, until all the shareholders have been drawn and the section terminated.

It all boils down to the luck of the draw but there is a way to jump the queue and that is at the auction.

Loans are granted alternately by ballot, auction, ballot, etc. Before either is held, every member is notified.

Bidding for a loan

What is being auctioned is a loan and, just as at any other auction, the highest bidder gets it. For instance, you might bid R250 for a R200 loan. This would mean you'd be paying a premium of R12 500 for a loan of R10 000. (Total cost to you R22 500).

Or, to take an example of a R90 000 loan, the premium would be R112 500. Compare this with the R270 000 to R360 000 which most permanent building societies would charge on a loan of R90 000 — almost five times what you borrow as opposed to only 1,25 times what you borrow from the TBS — supposing you don't want to wait to win the ballot.

And the bids reduce as the section ages — fewer bidders, less competition and lower rates.

If you can't get to the auction you can submit a proxy form and delegate another member or a director to bid for you up to whatever amount you stipulate. (By the way, you're not going to believe what the directors get for attending a board meeting. Just R10,0 for each meeting!)

Once your bid has been accepted the rate is fixed so you don't get any nasty letters every few months to say the rate has gone up.

The premium bid is the "interest" on the loan and cannot be altered.

And, because most of your monthly payments go to reducing the capital of your loan instead of just paying off the interest, loans from a TBS are usually paid up in 12,5 years if by auction or 9,5 years if by ballot.

Your R90 000 loan would cost you a total of R202 500. At R1 335 pm, you'd have paid it off in 12,5 years.

What you can't get

Terminating building societies are only allowed to operate in urban areas,. You can buy a house or flat through a TBS in any town or city anywhere in the Republic. But you can't buy a farm or smallholding in this way.

There are other benefits and, for more information you can write to Mr Cliff Jones, Southern Cross Terminating Building Society, PO Box 457, Goodwood 7460. Telephone (012) 591-8452.

RICHARD ROLFE in LONDON

Russian bear in wings as gold bulls take over

(58) S. W. Times 19/11/89

GOLD shares have almost doubled from their lows in February, but they could double or treble from current levels if this is really the start of a sustained new gold market.

On the other hand, they might halve from current levels, so it is a familiar dilemma where the individual, as Keynes observed, must make his choice between fear and greed.

Most of the pundits seem to be advocating greed. The consensus is that gold will challenge $400 soon and the optimists are looking for an advance to $500 in 1990.

TIGHT

Continuing demand from the Far East and a better view of gold among Western investors have caused a tight physical market. Against this background, mining companies who earlier sold gold, either spot or forward, to set up loans are trying to unwind the deals.

As a generalisation, gold loans enable a mining company to raise cash in return for repaying the lenders out of metal mined over the period of the loan.

If the miners suspect gold is on the upward tack, they will try to repay the loans now rather than over the original term. This is what is happening at the moment, says Peter Miller, of Yorkton Natural Resources, and an expert on financing Canadian gold mines.

He calculates this will reduce supply to the gold market by 8-million or 9-million ounces in the next three years. Mr Miller also thinks it is unlikely new gold loans will be taken out on any scale.

Several mines which did take out gold loans have defaulted. The banks have burnt their fingers and are much more wary. So the interest rate on gold loans — they used to be one of the cheapest ways for a mine to raise money — has risen, making them much less attractive to would-be borrowers.

Gold supply has probably also peaked.

"SA production will not increase," Mr Miller says. Australia's will fall next year, Canada has reached a plateau and Papua New Guinea, the most important of the emerging producers, has become politically unacceptable.

Mr Miller believes that only the US is a growth area for gold mining.

Securities group Shearson Lehman is less sure, however. Its latest forecast sees gold output rising slowly between now and 1991, including a recovery in SA output to 620 tons a year.

But with fabrication demand rising as well, Shearson is confident the surplus investors are called on to absorb each year and will be relatively static.

Shearson Lehman has entitled its latest review of the gold market The Sleeper Awakes. The firm's Rhona O'Connell expects a range of $350 to $450 in 1990 and sees a test of $400 soon as "a distinct likelihood".

JEWELLERY

The house view at Shearson is that economic growth will moderate in 1990, but there will be no recession.

Miss O'Connell says: "This environment militates against strong physical gold investment in Europe and North America."

If this sector of the market stays out, a serious bull trend cannot develop. Still, the Swiss have run down the gold content of their portfolios — traditionally 5% to 10% — to between nil and 3%. So there is scope for replenishing if they are convinced the market has turned.

Moreover, adds Mr Miller's colleague Ian Lamont, financial assets held by investors have grown much more rapidly in value than gold in the 1980s, so if Western investors do stock up with gold again, it will be against this background.

Mr Lamont says: "To be a bull of gold, you have to be a bear of economies and societies generally" — which at the moment he is.

"The only bear factor I can see for gold is the state of the Soviet economy," Mr Miller says. The extent of its deterioration may be such that the Soviet leadership will have to sell gold to stay afloat.

That could mean an increase in the amount of gold flowing to Western markets, currently about 300 tons a year. The Soviets are estimated to have more than 2 000 tons of gold, worth about $25-billion at current prices.

But whether they will bring the gold-share party to a premature end is any one's guess.

Miss O'Connell says the Far East is buying an increasing quantity of jewellery instead of bar gold, as in the past. Jewellery is less easily traded — and because of the higher retail mark-ups, the buyer's intention may not be to trade it. The conclusion is that more gold is going into firm hands in the Orient.

Even Vietnam has now legalised gold buying. Vietnamese are bartering food for gold, Shearson reports. In China, gold absorption is returning to normal.

"The importance of this region remains paramount to the well-being of the gold industry," says Miss O'Connell.

NEUTRAL

Chartist David Fuller, having predicted a technical rally for gold after its failure to break downwards in September, is becoming more bullish, and sees the move above $370 as significant.

Mr Fuller thinks a rise to $500 is not an unrealistic target, assuming no major rise in the dollar and the onset of a global bear market in other equities. If other forms of investment become less attractive, gold will benefit, Mr Fuller believes.

I asked James Capel's Rob Weinberg if he was the last remaining bear of gold. "I've turned neutral," he replied.

Dr Weinberg has been predicting a fall to between $280 and $320 for gold.

He thinks there is at least no question that the downtrend has been broken and expects a range of $360-$400 for the immediate future.

"All I can say is it's nearer the top of the range than the bottom."

Although others see the price at $420 or $500, Dr Weinberg believes there is no good reason why it should go there. The shares are rising because "huge sums of money are going into the gold funds and the managers are buying gold shares — which is what they're paid to do".

If bear markets develop in the major equity centres, gold should at least hold its value, Dr Weinberg thinks.

Milly's deal earns Len Gullan bread

S Times 19/11/89

58

By Julie Walker

INVESTMENT adviser Len Gullan received a R50 000 commission for introducing listed company Milly's to its latest acquisition, The Bread Basket.

Milly's announced last Monday that it had bought Bread Basket. The announcement came only four days ahead of the deadline by which shareholders had to elect whether to accept an offer of 10c a share made by Unidev.

Double

Unidev says it is the controlling shareholder of Milly's, but a change of control can take place only after the transaction has been ratified by shareholders at a general meeting.

Because the acquisition of Bread Basket is forecast to double Milly's earnings a share to 1,2c for the year to July 1990, some shareholders say it is a material factor in the decision on whether or not to take 10c.

The cost of Bread Basket is R3,86-million, of which R2,396-million has been paid in cash. The balance, subject to certain profit warranties being met, will be satisfied by the issue of 14,64-million new reconstructed Milly's shares at 10c.

Milly's acquisition record has not been good. In 1987 Unidev bought Davos Coffee Bar — trading as Deli's Bakery — and sold it to Milly's for R1,4-million.

The company Milly's Stores Manufacturing was set up to house the acquisition of Davos.

Davos tangible worth was less than R70 000, and more than R1,3-million was paid in goodwill. Three months later Unidev released the sellers of profit warranties, absolving them of any responsibility should Deli's fail to meet profit forecasts.

Indifferent

Deli's taxed profit for the year to February 1983 was R31 000, the next year R29 000, then R66 000 and in 1986 a mere R3 000. In 1987 it made a comparatively huge R152 000.

Milly's therefore paid nearly 10 times historic earnings for Deli's, even though the profit history was indifferent.

In the 1988 Milly's report, the book value of Davos (trading as Deli's) is nil, and Freshbake Foods — formerly Milly's Stores Manufacturing — owed Milly's R1,3-million.

This brings the total writeoffs regarding the Deli's purchase to R2,3-million.

Homework

Shareholders will be hoping that Milly's directors and controlling shareholder Unidev have done their homework more thoroughly on Bread Basket and the other recent acquisitions.

Milly's directors could not be reached for comment, but shareholders need answers to a few questions — for instance, who are Milly's directors, why there was no warning announcement about the Bread Basket acquisition when negotiations started, who put up the cash and why the buyer paid a commission to Mr Gullan?

World Bank hides SA in the wings

S Times 19/11/89 (58)

WASHINGTON — The World Bank's report on the economic crisis in sub-Saharan Africa makes for eerie reading.

By Jim Srodes

Although the 300-page report is chock-a-block with statistics and telling tables about the deteriorating conditions in the region, one has to look closely for the footnote which says the data "systematically excludes South Africa and Namibia".

The reasons for the exclusion by World Bank public affairs officials are as astonishing as the exclusion itself. One says. "We set South Africa aside for two reasons — as a gesture of protest against apartheid and also because the SA economic data distorts the overall picture of the region."

Truth

And Namibia? "At the time the data was being collected and interpreted last year there was little prospect, in our judgment, that there would be time to acquire data on an independent Namibian economy."

Significantly both Lesotho and Swaziland data are included.

The truth of the matter is that the very same African-ists at the World Bank who excluded SA and Namibian economic data are engaged in closed-door discussions with SA Embassy officials as to the economic role their country could play as both a source of development aid and as a economic growth generator for many of those same desperate economies.

Catastrophe

In short, the working assumption at the World Bank and the International Monetary Fund is that the time for "normalisation" of relations between the multilateral institutions and Pretoria is fast approaching.

With it is the need to begin considering Southern Africa as it really is — 45 countries in various stages of economic catastrophe and one First World industrial economy nearby. For the moment, however, one must publicly pretend SA does not exist.

The report is a mixture of disturbing facts and optimistic forecasts.

There is nothing new in the bank's assessment that Southern Africa has had to endure almost a decade of falling per capita incomes, increasing hunger, and accelerating ecological degradation. The earlier progress made in social development is now being eroded.

"Overall, Africans are almost as poor today as they were 30 years ago."

Indeed they may be much poorer than that if only because the 45 nations now support 450-million inhabitants — more than twice the number that lived there at the beginning of the independence era in 1961

Since 1961 overall economic growth has *averaged* 3,4% — only a fraction above population growth, says the report. What that means is that the gross domestic product of the 45 countries is now about $135-billion annually — "about the same as that of Belgium, which has only 10-million inhabitants".

Luxury

But even that is assuming an even and average economic growth. The World Bank economists make it clear that black Africa has not even had that luxury.

After a first decade of positive per capita growth, sub-Saharan economies stagnated through most of the 1970s. Since then declines in per capita income have in come cases — Liberia, Niger and Nigeria — exceeded 25% in real terms.

The report says. "The outlook for Africa is potentially devastating. This threat can only be averted through urgent action. Yet there are no quick fixes, no simple blueprints."

Reforms

World Bank officials point to a future which must, first of all, centre on the need to restructure the largely statist economic structures of the 45 black nations. It is cheering to note that fully two-thirds of them have already embarked on some major reforms.

Private intiative, the end of bureaucratic controls, greater reliance on market mechanisms and less dependency on managed production and exchange rates all are recommended first steps.

But throughout the bank's list of prescriptions and proscriptions is the acknowledgement that most of all the 45 black nations must become self-reliant economic and political entities. That will require huge injections of capital as well as a ready market in the region for those infant efforts to build production and productivity.

This is the role the World bank sees for South Africa, but it must remain off-slate for the time being as far as the aid agency is concerned.

Dr Venter uses the scalpel on Fintech

(58) S. Times 19/11/89

WIELDING a mean scalpel, electronics pioneer Bill Venter is reshaping Fintech to restore the plunging JSE rating of his empire.

By IAN SMITH

Largely because of losses in Punch Line, Fintech last year earned only R15,1-million on sales of R542-million and assets of R263,7-million. Simultaneously, earnings of key company Altech went sideways after a 70% fall in telecommunications orders from the Post Office.

Powertech, once a group problem child, has not missed a beat.

Punch Line, the glamour personal computer company taken over from high-flying Barry Schechter in 1987, was bought together with other PC firms at huge cost. They lost money last year.

Three of Punch Line's recently relaunched retail Business Centres have been sold and negotiations for the disposal of the remaining eight are well advanced.

Punch Line parent Fintech has been thinned by the R14-million management buyout of its fax division and the fax operations of Altech Informatics.

Now, as part of a scheme to co-ordinate the group's activities in the data communications and networking sector, Punch Line networking operation Lan Design moves under the Altech umbrella as part of a new division, Altech Data.

Rapidly

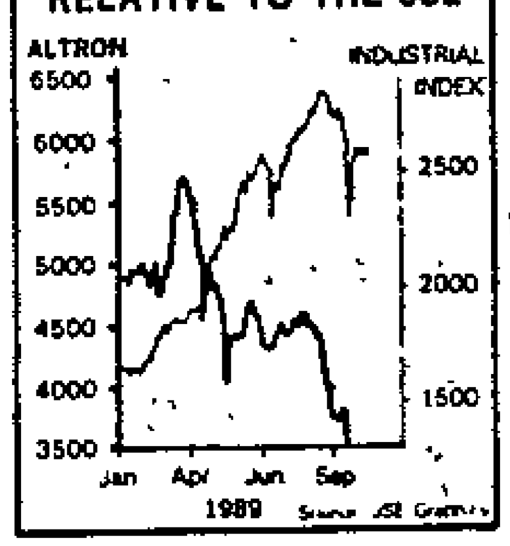
The division will include Netlink, which specialises in the supply of high-level communications solutions, and the established data-communications business of STC.

Altron chairman Bill Venter forecasts turnover of R75-million in its first year.

Altech executive chairman Don Sneddon says: "Altech is building on its strong technological base in telecommunications and electronics system to increase its significant share of SA's rapidly expanding data communications market."

Investors have treated the group warily since Punch Line's problems became public and fears have been expressed about the effect of Post Office capex cutbacks on Altech.

HOW ALTRON SLUMPED RELATIVE TO THE JSE



The alarm bells rang when Punch Line reported a loss of R1,4-million in the year to February after a R7-million profit in the previous year.

Repercussions

Drastic steps failed to stem the bleeding and the company reported a loss of R2,5-million in the half-year to August after an extraordinary charge of R4,5-million arising from rationalisation.

The repercussions were wide. Fintech's loss in the six months was R1,2-million.

Altech showed only 2% profit growth and Altron produced a meagre 6% rise in earnings to R33-million on record turnover of R1,4-billion.

Altron shares are on a low of 3 300c after a March high of 5 700c. Altech is slightly above last month's low at 7 450c and Fintech is down to 875c from a February high of 3 100c.

Fintech deputy chairman Richard Savage says Punch Line was a victim of undisciplined trading among personal computer traders. Altech did well to cope with Post Office cutbacks as well as it had.

"There are signs that orders from the Post Office are picking up again," says Mr Savage.

But it will take a while to eliminate all problems and to get the group back to the fast growth of the past — but good management is in place and he is confident that all Altron companies will soar again.

At least one leading analyst believes the group is "inadequately and incorrectly" rated.

"There is no question that there was a foul-up in Punch Line. But it was in a fairly small part of the group's business. It's unfortunate that it coincided with a fall-off in business from the Post Office.

"But what is impressive is the speed with which the companies have reacted. I don't think the market gives them credit for what they have done."

Altech has made aggressive drives into three main sectors — industrial, mining and financial electronics — to restore historic growth rates.

Former Punch Line chief executive Llew Jones, who will head the new Altech Data division and take a seat on the Altech main board, believes the worst is over.

"Punch Line has been through a traumatic time. But it is doing well in PC manufacture and the traditional distribution business is strong.

"Altech Data will give the group a strong presence in an area which is still growing strongly." Mr Jones is confident it will quickly achieve

● To Page 3

FRANKA SEVERIN . . . speculation about platinum link-up with Anglovaal Picture: TOM EDLEY

Severins linked with Anglovaal

By Julie Walker

MINING sources in the Eastern Transvaal believe that Anglovaal and family mining prospecting company Severin Mining & Development are looking at a platinum prospect near Steelpoort.

Anglovaal is the only one of SA's big six mining houses

Rand Leases used to be an Anglovaal-administered mine.

Anglovaal intended either to close the mine or sell it to a neighbouring operation

R45m for SA Drug factory

Business Times Reporter

A R45-million factory being built by SA Druggists will cut the cost of medical supply imports and place the company in line for an export drive.

The Federale Volksbeleggings subsidiary decided to go ahead with the factory next to its Lennon plant in Port Elizabeth after a three-year strategy and product study.

The factory, expected to be completed in 1992, will produce glass ampoules and vials and intravenous solutions.

SA Druggists is the biggest supplier of small injection solutions, but it has only about 20% of the intravenous solutions market.

Initially, the development will mean more than 200 new jobs in Port Elizabeth.

An agreement has been signed with a large European company for the supply of technology and licences have been taken out for the manufacture of new and established pharmaceutical products.

Barlows beats Bibby setback

S. Times 19/11/89

(68)

BARLOWS managed to maintain the pace in the year to September 1989 in spite of a poor showing by UK subsidiary Bibby.

By Julie Walker

The group reported turnover of R26,4-billion, 25% ahead of the previous year's. Efficiency improved, pre-tax profit rising by a third to R2,5-billion. Earnings a share were similarly higher at 543,8c and the thrice-covered dividend for the year was 170c.

Barlows reported exceptional earnings from mining, especially coal and base minerals. Ferroalloys and stainless steel were in unprecedented demand and made a big contribution to earnings. Cement and lime were steady.

Pinch

Electronics did well for Barlows, but computers made only reasonable headway in a difficult market. Carpets and textiles felt the pinch of reduced consumer spending. Barlows directors consider the results very pleasing.

Premier reported good interims to September. Turnover climbed by 10% to R2,1-billion, but earnings a share climbed by twice that margin to 72c.

Premier was restructured in the six months, its interest in SA Breweries now being housed in Bevcon. The bothersome broiler division was also reorganised.

Premier directors believe the earnings are gratifying.

Tongaat's board said the group operated well in the six months to September. Turnover was up by 15% to R1,9-billion, and earnings a share added 16% to 115,7c.

Sweet

Higher prices and production benefited the sugar division, but a drop in demand affected building materials. Aluminium did well, and the other divisions were satisfactory.

The fourth industrial holding group to report this week was Fedvolks. Its earnings growth a share was meagre in the six months to September. Turnover hit R1,85-billion, 14% higher than a year ago.

Pre-tax profit added 16% to R132-million, but a rights issue diluted earnings a share. Growth was only 2% to 35,6c.

Fedvolks was satisfied with its performance, even though it was only half as good as that of Barlows. The board expects the same earnings a share for the year.

So Barlows earnings a share up 33% was considered very pleasing, Premier's up 20% was gratifying, Tongaat up 16% performed well, and Fedvolks up 2% was satisfactory — all comments coming from the respective boards.

It obviously depends whose standards are applicable.

Focus — the specialist retailer of bedding and clothing — raised its earnings a share by 23% in the six months to September. Turnover was 132% up at R21-million because of the acquisition of the Cashworths retail branches.

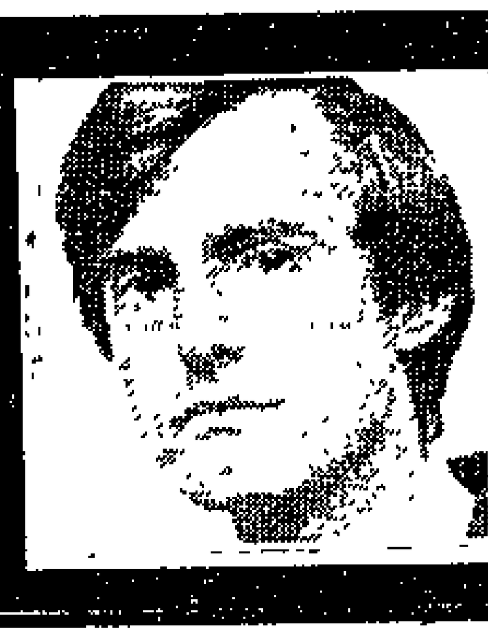
Out of the 18 companies which reported this week, 11 achieved earnings a share growth higher than 20%, and four recorded worse performances. They were Wedge, Morkels, Yelland and Longrail.

Perils of a stronger rand in gold's wake

58 S. Times 19/11/89

REX

Cees Bruggemans reviews the local and world scene



THERE is a romantic notion that the rising gold price could take the rand to a more "reasonable" level.

Gold has barely broken \$380, and the bugs speak breathlessly of \$400 and even \$500, implying a stronger rand.

Two large constituencies in the private sector — exporters and consumers — are affected by the rand. Exporters never cease to ask when the rand will decline because they stand to profit.

Consumers are a far more muted crowd. They experience the rand's decline more indirectly by way of dearer consumer durable and capital goods and increased foreign travel costs. The rand's trend has seemed to be forever downward and consumers have acquired an air of resignation. They seem to have come to accept permanent impoverishment from this corner.

FLOWERS

However, gold has the power to revive consumers. Hope springs up like the flowers of Namaqualand after rain. Deep in consumer consciousness is buried the memory of those joyful days when a rising gold price changed everything in their favour.

These sentiments are being rekindled. Consumers sense in the rising gold price an imminent return to fun and plenty. A stronger rand would be the manifestation of rediscovered prosperity. However, all of this begs two questions.

First, is this gold price for real and not some cruel joke.

SAMBA

Second, what are the vested interests of the third major rand constituency, the policymakers, and how will they wish the rand to perform?

The gold-price rise was sudden and steep. It was also a lone event, like a samba artist erupting into wild dance at a convention of accountants.

Indeed, looking at sister silver and cousin platinum, one could not help but smile because both appeared to have got their cues wrong. They weren't told that they were supposed to samba and gave an impression of not even knowing the dance.

But, better late than never, platinum finally got to imitating a few dance steps as well.

Commodity prices in general are supposed to be falling this year. The Commodity Research Bureau index, however, has been moving sideways since mid-year and has actually been trending upwards in the past two months. This may not mean much, but it could imply that the imminent demise of the world business cycle may be overstated.

The Far East is going strong, Europe seems to be still accelerating, Germany leading.

RECESSION

Given the changes taking place in the Eastern bloc, Europe's expected growth performance over the next few years should not be prematurely whittled down.

Then, too, the US is taking its time to slide into a growth recession. Only the UK looks weak and in danger of sliding into recession. However, it is unlikely that the brighter outlook for commodities can explain the sudden rise in the gold price.

Oil bottomed at slightly below \$17 a barrel in August and is once again near \$20 as world growth drives demand up.

It is perhaps significant that gold buying was noticed from the Middle East, but such talk can mean anything.

The Saudis learned to their detriment that they should not allow the oil price to rise much above \$18 because it prevents them from optimising their oil wealth in competition with coal. Any expectations of a steeply higher oil price would be highly premature.

Inflation may still rise in Germany and Japan. In contrast, US inflation appears to have been arrested. The inflationary momentum in the US industrial sector has slowed as international and recessionary competition intensifies.

However, European monetary policies are tight, and in Japan are expected to become tighter, with substantial real interest regimens.

Australia's real interest rate is now above 12%, in the UK it is 7,5% and in the other leading countries 4% to 6%, the US in the higher range. So the countries that are traditionally prone to inflation are taking their monetary medicine, while none of the others is remaining soft. Except for Wall Street, all stock markets are once again climbing.

US bond yields have fallen further, possibly reflecting a flight-to-quality from stocks, but they remain fearless of inflation. While gold would no doubt like to believe that it too benefited from flight-to-quality, anti-inflation policies should simultaneously undermine its attractiveness.

DISTURBING

There are, of course, these unsettling developments in Eastern Europe, which are perhaps regarded as positive when seen from afar, but which are highly disturbing when taking place next door.

This could have reinforced gold's rise, although it is stretching the imagination to attribute too much to this factor.

Last week there was a change in Japanese legislation, whereby life-assurance companies were authorised to invest up to 3% of their portfolios in gold. There was much trading in gold as the price went up, but relatively little taking up of the metal, suggesting overactive speculation ahead of an institutional change

Certainly, the currency market did not warrant any play in gold, the metal for the first time in a long while rising in all currencies.

The dollar still appears strong, even in the face of eroding interest-rate differentials. Either gold's expectations are focusing on an imminent and spectacular slide in the dollar, or it has got to be something isolated and hidden.

The other markets are not bearing gold out.

RAINY

This brings us back to our policymakers. If the gold price surprise were to be sustained, they would like to take it all and hide it away for a rainy day. In particular, they would not want it to be spent on imports. But if this gold increase proved to be a flash in the pan, the policymakers would have even more reason to prevent a rise in the rand.

Besides, we still have a 12% inflation differential and we are immensely dependent on a sustained export performance to pull us through. In these circumstances, one does not contemplate appreciation of the currency. Indeed, with the exporters, one speculates about the next downward rand adjustment in order to keep them in the money and encouraged to carry on their good work.

However, there are always short-term temptations. Attention will remain riveted on our money-supply growth, which to an important degree in the past two years ballooned because of excessive rand depreciation and consequent Reserve Bank forex losses.

By keeping the rand stable, or allowing it to be stable by not mopping up every available dollar, for a little longer than merited from an export viewpoint, those forex losses may remain down and help to improve the money-supply picture.

Together with slowing domestic credit demand, it can only be made to look better than for some time.

However, it is unlikely that such domestic policy considerations would favour an overvaluation of the rand in time because that would jeopardise the export effort.

BUSINESS SCENE

by HAROLD FRIDJHON

Investment is a word not always understood

B. Day 20/11/89

68

INVESTMENT is a word which requires sharper definition these days than that given in most dictionaries.

What is a real investment?

Is a deposit in a bank or building society an investment?

Is a deposit "converting capital into some species of property from which an income or profit is expected to be derived"? — an Oxford English Dictionary (OED) definition.

I think not.

A deposit in a financial institution is a loan and the interest which it earns is an agreed fee paid for the use of that money. But when the contract period for which the money was lent has expired, the depositor does not receive back the *value* which was originally lent; he gets back less, depending on the period of the loan and the rate of inflation.

If, say, R1 000 is deposited with a building society, or lent on a participation mortgage bond for five years at current rates of inflation, the value returned to the lender is around R500.

In fact, the depositor is not investing; he is speculating, willy-nilly, on the rate of inflation.

If, however, he invests "in some species of property" which returns full value, in other words which grows in step with, or faster than, the inflation rate, he has truly invested.

Without indulging in semantics, there is today a vast difference between lending and investing and it is this difference which renders the arguments once raised by UBS CE Piet Badenhorst somewhat hollow. He railed against the assurance industry on grounds of its tax advantages, particularly in the case of so-called policies which in reality were pure investment gimmicks designed to avoid tax

He certainly had a point when he claimed that the playing field was not even, because his depositors were paying tax but the clients of assurers were getting their rewards tax-free. But the real difference is that the building societies and the banks borrow money, making their profits on the interest turn and not on capital growth, so there is nothing to share with depositors. This is where the assurers gain; they invest in growth, sharing some of the proceeds with policyholders.

Depositors/lenders suffer from the dry rot in the system which is inflation, and positive interest rates alone will not eradicate it. The ultimate cure is a real low rate of inflation; at 5%, capital halves in value in about 14 years and even the foolish will surely adjust "investment" during that timespan.

Shorter-term loans (deposits) to banks and building societies, however, are essential lubricants in the monetary system and for an arm's length of reasons there will always be depositors, private and corporate, who will use this facility. But there are also those to whom immediate income means more than future growth and perhaps Deputy Finance Minister Org Marais' hint of levelling out tax savings on dividends and interest will provide a partial solution — also levelling out the assurers/borrowers playing field.

BIDCorp makes offer for 55% stake in Afcom

58 B. Day 20/11/89

BARRY SERGEANT

BIDCORP has announced a R23m bid for 55% of JSE-listed Afcom, whose suspension ends today. The offer is through BIDCorp 60%-subsidiary Curries, which is to be renamed.

Curries was BIDCorp's second major acquisition after Chipkins, each transactions also valued at R23m-R24m. If the bid for Afcom is successful — which should be known by February — the Curries cash shell will still have R28m in hand.

● JOFFE

Afcom, whose directors hold about 70% of its equity, in turn holds a 70% stake in JSE-listed Afpac, manufacturer and distributor of packaging equipment and materials.

Afcom's shares were suspended on November 1 at 120c a share, when cautionaries were issued on Afcom, BIDCorp and Curries. BIDCorp executive chairman Brian Joffe said yesterday the offer had already been accepted by Afcom's major shareholders and translated to a price of 123c a share.

Curries has agreed, subject to JSE and shareholders' approval, to purchase 55% of the controlling shareholders' ordinary shares and convertible debentures.

In terms of JSE requirements Curries will make a similar offer to acquire 55% of each minorities' ordinary shares and convertible debentures at 123c a share or convertible debenture.

The acceptance by Afcom's majority shareholders of the offer for 55% of their ordinary shares does not in itself give Curries the 55% stake it wants in the overall capital structure. To the extent that the minorities of Afcom do not accept the minority offer, the controlling shareholders have undertaken to sell further securities to Curries.

This is to ensure Curries' resultant shareholding in Afcom is 55% of Afcom's issued share capital after taking into account the conversion of the convertible debentures. In corporate finance, this possible further transaction, depending on the reaction of the minorities, is referred to as a "top up".

Had the acquisition of 55% of Afcom's equity been effective for the year end June 1989, it would have increased Curries' EPS from 120c to 158c a share and decreased NAV a share from 1 793c to 1 481c. The respective figures for BIDCorp are 92c to 93c, and 318c to 273c. Joffe explained the dilution of NAV arose because the 123c strike price for Afcom was at a premium to Afcom's NAV.

He said the difference between the two amounted to goodwill that would be been written off immediately. Joffe said Afcom, whose latest full- and half-year financials were somewhat disappointing, would make minimal impact on BIDCorp's earnings in the short-term. But in the medium to longer-term the contribution was expected to be substantial.

58 B.day 20/11/89

Expansion makes Nu-World's gearing rocket

SYLVIA DU PLESSIS
and BARRY SERGEANT

LATEST full-year results from Nu-World Holdings indicate the listed electrical appliance manufacturer and distributor is struggling to keep its head above deteriorating economic conditions.

The group has maintained dividends at 4,3c after improving earnings by 16% — marginally above the rate of inflation — to 16,6c (14,3c) a share in the year to August on turnover which grew 35% to R25,7m (R19m).

A year ago, the company reported on October 31, showing a 134% increase in earnings a share and a 57% increase in turnover. At the time it said its strategy was focussed on first, launching new products for the local market and, second, import replacement.

The latest results show dividends grew negatively by about 15%. This was despite a fall in the tax charge from R978 000 to R801 000, helped by tax allowances flowing from expansion, and export incentives.

But the most outstanding feature of the latest financials was the dramatic change in gearing. Interest payments rocketed by 448,6% to R598 000 (1988: R109 000). The overall gearing situation deteriorated in sympathy.

Long-term liabilities were up 357,5% to R1,8m (R402 000), and current liabilities up 121% to R8,5m (R3,9m). Further, shareholders funds are 44,9% higher, but long-term liabilities as a percentage of this are up to 36,2% from 11,5%.

Company secretary Alan Lipchin said the gearing ratio increased from 1:0,25 to 1:0,95. Nu-World had no cash balances. At the balance sheet date, the group was carrying about R3m short-term loans under current liabilities, and R1,8m long-term liabilities.

Lipchin said most of Nu-World's long-term debt was provided by the Industrial Development Corporation (IDC) and carried interest at 5%.

The 448,6% increase in interest payments would have been materially higher if the group had been paying market-related interest rates on all its debt.

After the balance sheet date, further low interest loans running into millions of rand had been taken from the IDC. This would further help finance the ambitious expansion plans the group had been involved in for a number of years, Lipchin said.

The share price, which has traded as high as 150c, is currently quoted at 55c.

The Goldberg family holds about 85% of the equity and the share is subject to thin trading.

With the gearing situation that prevailed on the latest balance sheet date, the likelihood of a rights offer to strengthen shareholders' funds is high. In the meantime, Lipchin said sales of Nu-World's new steam iron had shown dramatic sales in the months after the balance sheet date.

20/11/89 FINANCE 58 B.day

Fears of another increase in rate

IN THE MONEY MARKETS

Harold Fridjhon

THE underlying tendency for rates in the money market to harden during last week revived fears that Bank rate would be raised during the weekend.

The rate for the 90-day bankers acceptances (BAs) was raised twice last week — to 17,75% from 17% on Tuesday and then up to 17,80% on Friday.

Three months non-liquid rates edged up to more than 19% and then up to 19,75-19,80%, while six-months CDs (negotiable certificates of deposits) moved up to 19,75% and 12-months CDs were traded with 19,80% the top rate.

The one rate which stood firm as a rock was the TB (Treasury bill) rate which has held unchanged at 18% for three successive weeks. And people in the market are convinced that this rate is not entirely market determined.

Insurance

The market, however, can see no reason for interest rates to move up at present unless rates overseas rise. They agree that if the differential between local and foreign rates widens, the Bank will raise its rate to protect the balance of payments against the switching of import finance from offshore to onshore. Other than that possibility, local indicators are clearly signalling that the slowdown in the economy is now well entrenched.

The BA rate was shifted upward primarily as a defensive move, not only to discourage an inflow of BAs of doubtful quality but also as an insurance against a possible Bank rate rise. The present Reserve Bank re-discount rate for BAs is 18,30%; the rise to 18,80% is meeting a possible one percentage point hike in Bank rate halfway, thereby lessening the houses' exposure by 50%.

At present the market is getting by without being abnormally bruised. The Big Money call rate is between 18,5% and 18,75% and the market shortage — its direct debt to the Reserve Bank — R2,715bn, well down from the R4,7bn at the month-end, thanks to the central bank's careful management of the Iscor outflow. This week should see the upward movement start with GST payments.

But December is the problem. About $2bn (R5,26bn) is due to be repaid against foreign debts on December 15. It is possible that some of this money has already been provided for, but it is a potential overhang influencing market perceptions which are that the end-of-year shortage could reach as high as R4,8bn.

The note issue alone will drain cash from the banks. Currently it is R7,4bn. At the end of September it exceeded R8bn and as holiday-makers draw on their savings and spend Christmas bonuses, banknotes in circulation might be as much as R8,5bn.

The Big Money call rate might then be around 20% and banks will bleed.

DEATH BLAZE

Sowetan 21/11/89

By ALI MPHAKI

TWO Kagiso men were stabbed to death at the weekend and their bodies were put inside a vehicle belonging to one of them before it was set alight.

The men, Mr Clifford Moeketsi (24), and his friend only known as "Whitey", were saved from burning by the intervention of police.

Moeketsi's body was half-burnt and "Whitey" was found with 24 stab

● To page 2

'Death squad' row hots up

SOWETAN Reporter

THE row over allegations of a police "death squad" involved in political assassinations was expected to feature prominently at a meeting of the State Security Council in Pretoria yesterday.

A spokesman for Mr FW de Klerk's office said the President had called for a report from Law and Order Minister Mr Adriaan Vlok before he decided whether it was necessary to make a statement.

Police announced on Friday that an investigation was being carried out

● To page 2

Death blaze

38 Sowetan 21/11/89

● From page 1

wounds in the body.

The two were ambushed by a group of men travelling in two combis at Moeketsi's home on Friday night.

According to Moeketsi's sister, Miss Dorah Moeketsi, who is seven-months-pregnant, the group arrived at her home about 8.45pm and asked for Moeketsi's girlfriend, Jane.

"I told them she was not present and they demanded keys to my brother's car which was parked in the yard. The group threatened to stab me and one of them entered our shack and found Whitey and my brother who was taking a bath at that time.

"Within seconds they started stabbing them and ordered my brother to accompany them in his car. That was the last time we saw him alive," Miss Moeketsi said.

Later that night, Moeketsi's burnt car was found about two kilometres away from his home, just behind the Leratong hospital.

Police have confirmed the incident but no arrests have been made.

Govt mops up liquidity

Bday 21/11/89 58

GRETA STEYN

GOVERNMENT has borrowed R7bn more than it has needed so far this fiscal year in an effort to offset the liquidity inflows of the Reserve Bank's forward cover losses.

Latest statistics for the exchequer account show that net borrowings for the April-October period were R10bn — while the deficit was only R3bn. During the same period, forward cover losses on the Reserve Bank's books rose by an estimated R5,1bn. These losses represent an inflow of liquidity into the banking system, but to a large extent they have been offset by outflows to the exchequer account.

"We have seen the fiscus used effectively as a monetary weapon," says Nedcor economist Edward Osborn. He notes that on the capital market side, borrowing has proceeded more or less according to Budget, with net borrowing totalling R6,5bn. In addition, an extra R3,8bn was raised on the money market in the form of Treasury Bills (TBs), indicating the extent to which the Bank has mopped up liquidity in the markets.

He expected the Bank to continue using public debt management as a monetary policy instrument.

The extra cash flowing to government pushed the exchequer balance to an extraordinary high R8,9bn at the end of October — and this should be boosted further by the inflow from the Iscor privatisation.

The money will be used partly to repay Treasury's debt to the Reserve Bank on the forward cover losses. UBS economist Hans Falkena expects about R3bn-R4bn to be used in the Budget to knock off the forward cover debt, which now stands at close to R17bn. This is over and above the R1bn which has still to be paid in terms of this year's Budget. Falkena has called for the forward cover losses to be properly provided for in the annual Budget, while Osborn believes these losses should rather be written off.

58 B.Day 21/11/89

DIAGONAL STREET

Market beats a retreat after gold peters out

THE market retreated from its firmer opening yesterday as an early thrust by the gold price towards the crucial $400 level petered out.

Dealers said the gold board was looking overbought and share prices were likely to drift sideways as the market waited for a renewed assault on the psychological level of $400 after the metal was fixed at a 10-month high of $396,05 in London yesterday morning.

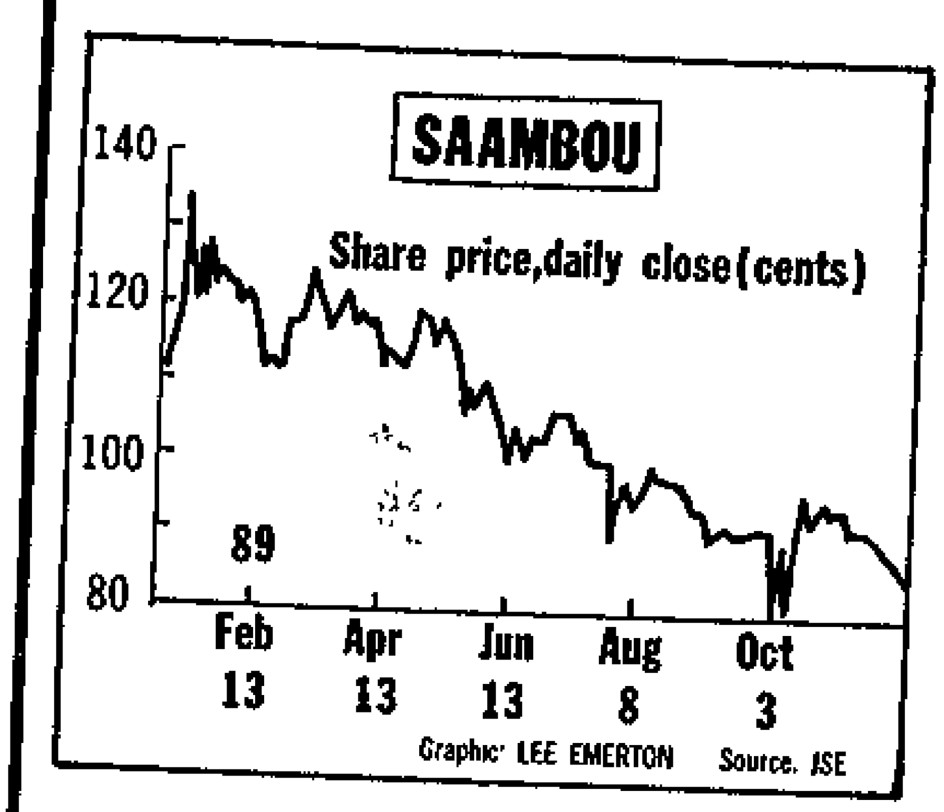
After rising to a high of 1 999, the JSE all gold index gave up most of its gains to close seven points up at 1 977, with the overall index mirroring the retreat to close five points higher at 2 818.

Industrials were steady in featureless trading and the index closed unchanged at 2 560.

Lightweight golds held up better than heavyweights but dealers were inclined to attribute this more to jobbing than fresh private investor interest.

MODBEE in the Wits sector of the gold board was the best performer, rising 19,4% or 7c to a new year peak of 43c, but off its high of 45c. The shares were at a low of 15c in mid-October.

GAZGOLD attracted most attention with 837 600 shares traded compared



with the monthly average of just under 348 000 in the previous 12 months. The shares rose 9,7% or 6c to 68c.

LESLIE continued to feature among the better class of lower priced shares on strong demand. The shares rose 5,1% or 35c to close at a new high of 725c, with a foreign purchase at that price. The mine recently paid a dividend and is on a current historical yield of 7,6%.

Heavyweight VAAL REEFS gave up a R5 gain and eased a further 100c to close at R399, while medium-weight KLOOF retained 25c of its rise to close at R46.

Market leader DE BEERS traded in a narrow range and closed unchanged at R57,40, while associate in the mining house sector ANGLOS edged up 50c to R106, but off its high of R107.

Platinums maintained their firm trend and leaders held on to their gains as the free market price of the metal remained above $520 at both London fixings.

RUSPLAT firmed 125c to R79,50, and IMPLATS rose 100c to equal last week's peak of R63. BARMINE was looking better and closed 10c up at 560c, while the nil paid letters added 12c to 90c. Dealers said the shares were likely to go better once the rights issue was out of the way.

The lacklustre state of the industrial market was reflected in the muted reaction to news that BIDCOR's cash shell CURRIES is to take over packaging group AFRICOM.

Curries was traded only late in the afternoon and the shares firmed 25c to R20, while Bidcor edged up 10c to 730c. Africom was relisted at 125c, 5c above the last traded price and 2c below the 123c strike price of the deal.

BARLOWS attracted most attention among leading industrials in value terms and the price edged up 25c to R41. ISCOR was the leader in volume terms and the price slipped 2c to 231c. Private investors started receiving their share certificates only over the weekend and analysts are watching to see how they will act in the next few days.

Ahead of good results, engineering group DORBYL held steady at R20. The shares rose from a low of R11,25 a year ago to peak at R22 last month.

PUBLICO in the printing and publishing sector advanced 5c to 100c after issuing a cautionary announcement last week that it was involved in negotiations.

The weak spot among building society-related shares has been SAAMBOU, which is approaching its October low of 80c in contrast to the other shares which have been on a firmer trend. Saambou shares showed an effective loss of 5c to 87c after being stripped of a 5,5c dividend.

DCM-listed ANJET, which ran into financial problems earlier this year and last week sunk to a fresh low of 10c, climbed 4c to 16c on reasonably good volume.

MERVYN HARRIS

58 B.Day 21/11/89

Iscor listing cost R8m — but raised R3,1bn

BARRY SERGEANT

THE Iscor listing — net of R108,5m taxes which the state sacrificed — cost R8m. The final costs of the listing were released yesterday by joint communications consultants to the Iscor offer, TWS Communications and Penelope Gracie.

The costings sheet takes the amount raised by the Iscor offer as R3,1bn, which excludes the R600m worth of Iscor shares the Industrial Development Corporation purchased separately. It shows that the taxes foregone of R108,5m added to the R8m comprises 3,75% of the total R3,1bn.

This cost, Public Enterprises Minister Dawie de Villiers has said, rates favourably, if not lower than, most similar listings in the UK. In the 1987 JSE listings boom, some listings costs expressed as a percentage of capital raised were as high as 33%.

The Iscor listings costs, expressed as a percentage of the total R3,7bn raised by the state, were 3,15%. Iscor shares were offered at 200c a share for each 100c ordinary share and were listed on Novemebr 7. Yesterday the share closed at 231c. In 11 days, the market had added R610m to its offer value of R3,7bn.

Excluding taxes foregone, the R8m costs of listing were derived from R32m less R24m that the state earned on interest. The public offer of 150-million ordinary shares at 200c each was 4,16 times subscribed. The "extra" cash was banked and the interest earned while refund cheques were being returned.

The R32m costs were incurred on:

☐ Marketing R17m;
☐ Prospectus R3m;
☐ Consultants R3,3m;
☐ Brokerage R2,4m;
☐ Underwriting R4,5m; and,
☐ Miscellaneous R1,8m.

Of the largest cost — marketing at R17m — R10m went to advertising. Of this, just over R6m went to SABC-TV and the rest to print media. Also included in marketing costs was R700 000 that went to the Share Information Office that operated between August 21 and November 18.

It ran up 10 years of man-hours, handled 150 000 queries, and dispatched 750 000 pieces of information. The R4,5m underwriting fee — 1% lower than normal — went to joint underwriters Finansbank and Senbank. The R3,3m consultants' fees went to merchant banks, attorneys, reporting accountants, four sponsoring stockbroking firms, technical reports, and communications consultants.

The prospectus costs of R3m went on three-million tabloid prospectuses that went into 14 newspapers and 250 000 "glossy" prospectuses. A large portion of the R1,8m miscellaneous fees went to the Iscor registrars, Senreg, which had to process about 500 000 applications.

The R108,5m tax costs to the state, regarded as non-cash flow items or inter-departmental transfers, were:

☐ Free and discounted shares R53m;
☐ Marketable securities tax waived R46,5m; and,
☐ Fringe benefits tax waived R9m.

JSE newcomer Grintek sets sales target of R1bn

(58) B.Day 21/11/89

ZILLA EFRAT

GRINTEK, listed on the JSE last week, is a well-diversified electronics group which is budgeting for R1bn in sales and a 25% growth in earnings in the year to June.

Held by Anglovaal subsidiary Grinaker Holdings, the new group consists of Grinaker Electronics Limited (GEL) and Siltek, which holds M & PD and Q Data.

Grintek entered the JSE's electronics sector through a reverse listing into cash shell Mooi River Textiles.

The share opened at 275c, which represents a 60c premium. Since then it has traded within a narrow range between 265c and 275c. It was one of the most traded shares yesterday with 408 500 shares trading hands in six deals.

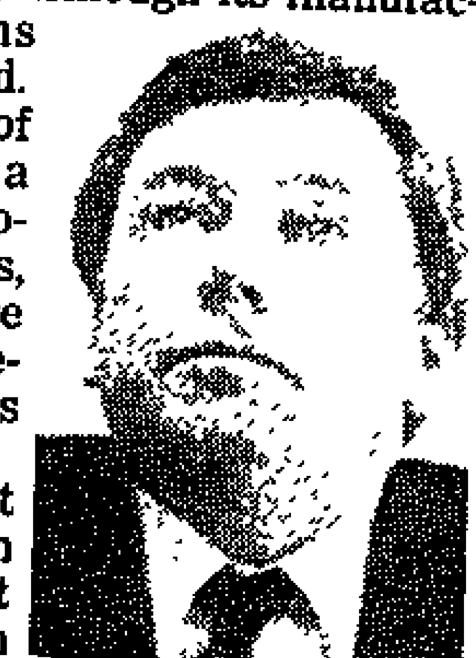
According to the group's transmuted listing statement, over the past five years its earnings have grown at an average compound rate of 72%.

Grintek has cash resources of R50m which will be used to finance continued internal growth, take advantage of acquisition opportunities, improve manufacturing efficiencies, increase local product development and expand export markets.

Since Ginaker Holding acquired Siltek over four years ago, growth in its electronics side has steadily outstripped that of construction, with electronics now accounting for two-thirds of its profits.

With the Grintek listing, Siltek has made an offer to acquire M & PD shares from minorities. If the offer is successful, M & PD will be delisted.

Chairman Jack Saulez says this is being done to achieve the maximum benifits of rationalisation. M & PD will continue in the same business, although its manufacturing operations may be centralised.


● SAULEZ

A subsidiary of Siltek, M & PD is a distributor of microcomputers, printers, packaged software and computer peripheral products and services.

Asked about M & PD's focus in some markets that have recently seen casualties, Saulez says M & PD has good products, is efficient and is maintaining its market share. It is performing according to budget.

In a deal that became effective in July, Siltek acquired Hewlett-Packard, now called HiPerformance Systems.

Saluez says the group has a five-year distributorship agreement with Hewlett-Packard and he expects the acquisition to add substantially to Siltek's profits.

Q Data, a listed subsidiary of Siltek, specialises in a full range of software, an area Saulez expects to show faster growth than computer hardware.

Another Siltek subsidiary Trans Systems manufactures packet and circuit switching equipment for the post office. However, Saulez says cutbacks in GPO spending have not affected it as much as they have some larger local companies.

He says Siltek has been successful in its acquisitions from disinvesting companies over the last few years. These include Hewlett Packard and the Amdahl and McDonnel Douglas distributorships.

Siltek has been negotiating to acquire the Prime distributorship held by liquidated Central Data Systems.

GEL, which makes radio communications equipment and systems for professional users, has shown significant export growth.

Saulez says the Namibian settlement will not result in the SADF spending less on GEL's defence communication systems. He says cuts in military spending on consumables will enable the SADF to upgrade its communications systems.

A growing side of GEL's business is the production of communication systems for the mines.

Santam lifts earnings 32,3%

Cape Times 22/11/89

Financial Editor

CAPE TOWN-based Santam Insurance lifted after-tax profits for the year to September 30, by an impressive 32,3% to R51,3m compared with R38,8m in 1988. This is equal to earnings of 73,3c (55,4c) a share.

The final dividend has risen to 13c (10c) bringing the total distribution for the year to 23c (18c), with increased cover of 3,2 times (3,1 times) earnings.

The underwriting surplus, before tax, improved by 11,6% to R26m (R23m). This was a major contributor to better results. Investment income rose by 58,8% to R60,5m (R38,1m).

In spite of rate cutting in this competitive industry in the past year, gross premium income rose by 12% to R748,3m (R668,1m). Net premium income rose by 9,5% to R657m from R599,7m.

MD C J "Oosie" Oosthuizen said the sharply improved results were achieved largely because of the absence of natural disasters during the year. There were no serious hail storms or floods, which usually take a heavy toll on insurers. And Santam was not involved in any major fire claims in the past year.

"The marketplace continued to be extremely competitive and rates continue to be cut on most fronts. In spite of this we managed to gain market share and we are pleased with the outcome for the year."

Oosthuizen said Santam had made its first transfer to the catastrophe reserve, as now required by law. "This amount of R13,1m is equal to 2% of net premium income, and the catastrophe reserve will be built up to 10% of net premium income over the next four years.

"Our solvency margin has also increased to 33,3 from 25,8 and is considered to be very healthy.

"Santam Insurance's financial base (solvency margin plus insurance funds as a percentage of net premium income) rose to 92,4% from 77,8% in 1988 and is now the best it has ever been in the history of the company."

Insurance funds totalled R388,6m (R311,5m) at the end of September and the company's total assets rose to R666,8m (R514,6m).

Oosthuizen said that management expenses were equal to only 12,3% of total premium income. "This continues to be one of the lowest in the local short-term insurance market."

Discussing the current financial year, Oosthuizen said: "I see no reason why profitability should not improve further this year, in spite of the rate war and the fierce competition in the industry.

"However," he warned, "we are in a high risk business and our profitability can be adversely affected through one major catastrophe or a string of natural catastrophies. Major fire claims can also have a negative effect on final underwriting results."

Retco directors congratulated

Cape Times 27/11/89

Financial Editor

THE directors of Retco were congratulated by the chairman of the Shareholders Association of SA, Issy Goldberg, at the general meeting yesterday on "turning what was a struggling, cash-hungry company into one which can almost afford to be profligate".

Goldberg said they had achieved this by disposing of Retco's property interests in exchange for Retprop debentures, 9,6m of which were sold to institutions for R5 each.

Conditions of the sale are that Retco must redeem the debentures at the end of the five years at R5 each if the institutions wish them to do so, but that it can avoid this by requiring the institutions to sell the debentures to a third party in the meantime.

In answer to questions from Goldberg yesterday, Retco chairman Cedric Walton said that 38% of the debentures had already been sold by the institutions at a higher price.

He said Retco could ask the institutions to sell at any time when the price was favourable, and receive a share of the profits at the end of the five years. There were still four-and-a-quarter years to go.

Walton said more debentures could have been sold but the directors expected the price to rise further.

Referring to a cautionary announcement about Fraser's, in which Retco holds a 23% stake — its biggest investment — Walton said: "Unfortunately at this stage I can give no further information."

Goldberg pointed out that before they were suspended at the request of the company, Fraser's shares were "at an all-time high" following the sale of its 20% interest in Rusfurn for R47m.

In answer to questions, Walton said Retco had two directors on the board of Fraser's.

Discussing Retco subsidiary Premcon, Goldberg suggested that there was no advantage in holding a stake as large as 89% in one company. The fact that minorities held only 11% made the share "virtually untradeable".

He suggested Retco should consider reducing its shareholding in Premcon.

Walton said this was "under discussion".

Retco achieved attributable profits of R8,8m in the year to June 30, compared with R8m the previous year.

Mystery buyer pays £240m cash

B Day 23/11/89

Hanson sells off last stake in SA mining

ROBERT GENTLE

LONDON — Hanson has sold the last of its SA mineral interests — acquired when it took over Consolidated Goldfields (ConsGold) — to a mystery buyer for £240m in cash.

The interests include an 8% stake in Gold Fields of SA (GFSA) and interests in Kloof, Driefontein and Deelkraal gold mines. The stake in Northam Platinum was also sold.

Hanson vice-chairman Martin Taylor said he was delighted with the deal, which had been wrapped up in the past 36 hours and had involved a series of transactions over two to three weeks.

"We already have the money," he said, confirming market speculation over the past fortnight that the shares had been placed and the deal all but done.

He would not disclose the identity of the buyer, saying it was a strictly private transaction. Asked if Hanson had now sold all of its SA assets, he said: "All the interests I am aware of have gone."

London gold analysts said it was likely a big financial institution, rather than a mining house, had snapped up the shares. Old Mutual was a possible candidate.

"Virtually all the shares were placed in SA," said one analyst who watches the finrand market.

Analysts agreed there had been signs that a major disinvestment was in progress, but the recently active gold market had made it easier to camouflage large finrand transactions.

They said one way of doing this was to "park" the finrands in SA bonds, before moving them out little by little.

There was no significant fluctuation in the finrand yesterday to show a large deal had been done.

The Hanson disposal comes on top of the sale in August of a 30% holding in GFSA, which realised approximately £368m. It brings to £608m the revenue received on the sale of ConsGold's SA assets.

Meanwhile, Hanson's US arm, Hanson Industries, yesterday announced the agreed disposal for $650m in cash of four companies belonging to building construction giant ARC America. The buyer is the Australian company CSR.

A British analyst said he doubted whether ARC in the UK — often spoken of as the jewel in the ConsGold crown during the Minorco bid — would be sold off yet.

On Monday, Hanson sold its interests in UK oil and gas exploration company Renown Energy for £28m.

The market expects Hanson's remaining interests in Renison Gold Fields of Australia and Newmont Mining in the US to go under the hammer soon. Minorco is thought to be a possible buyer.

□ Old Mutual MD Mike Levett last night refused to confirm or deny that Old Mutual had bought any of ConsGold's SA assets, reports REINIE BOOYSEN.

"I never comment on Press speculation, whether it's true or false," said Levett.

Liberty Holdings director Roy McAlpine said his company had not bought the 8% stake in GFSA, but would not comment on ConsGold's other SA assets, as any transactions would have been the result of "normal portfolio investment decisions".

GFSA deputy chairman Colin Fenton said GFSA had bought an unspecified amount of Driefontein and Kloof shares, but not the whole lot.

Gencor executive chairman Derek Keys said Gencor had not purchased any ConsGold assets.

Probe into increase in interest rates

68

Sowetan 28/11/89

CONVENTIONAL wisdom has it that the recent increase in interest rates will benefit the economy.

It is claimed that higher rates will cool the economy, improve the balance of payments and pave the way to sounder and more rapid economic growth.

But many people who are labouring under the high cost of money are beginning to have some doubts.

High interest rates destroy business confidence and do more harm than good, they say. As yet nobody can say which view is the correct one for no one in South Africa has researched the effects of high interests rates.

The situation is now being changed. Professor Joubert Botha, former head of the Department of Economics at Wits University, who now heads the new Centre for Economic Analysis at the Human Science Research Council (HSRC), hopes shortly to be able to make a definite statement on the effects of high interest rates.

As consumers stagger under the burden of sky-high home bond rates and struggle to meet the higher cost of loans credit,

Professor Joubert Botha.

Botha has launched what promises to be the first full-scale investigation into the rates in monetary policy and its repercussions.

Outside researchers in the private business sector and universities will also be invited to join in the exercise.

"Comprehensive research is long overdue," Botha says. "What we need to better understand is the sum total of all the ripple of changes in rates.

"The monetary authorities somehow invariably stress the beneficial effects when they announce changes - but stay quiet about the hardships that may be expected to follow.

"They have hoped that higher interest rates would attract funds from abroad and so strengthen foreign reserves, and discourage spending to contain imports and so check the drain on reserves.

"Subsequent developments proved them wrong in many respects. Yet they were still not impressed."

As an example Botha recalls the repercussions in the wake of the climb in overdraft and new home bond rates to an unprecedented 25 percent in 1984 in an identical exercise to cool down the economy.

"It was not hoped it would cause less borrowing and curb the creation of credit," he says. "In the event, nothing of the kind happened."

Total advances by the commercial banks increasing the debt mountain soared from R23 billion in 1984 an an unbroken upward curve to as high as R47.4 billion last year.

"It caused tremendous hardship for householders, farmers and small businessmen," he recalls. "Some of us still remember those rising graphs of liquidation and unemployment - and the falling graphs of house building plans.

"It was a nasty experiment in monetary policy. We failed to draw conclusions from it. And now, it seems, we are repeating the experiment. Today, our economic problems are compounded by the

* To page 32.

Interest rates

69

* From Page 30.

dead weight of huge foreign debts, due largely to earlier policy mistakes.

"Government debt, which stood at R36 million at the end of 1984, had risen to R80 billion by August this year - against total current government revenue of R53.3 billion in 1988.

"It means that for every one percent rise in interest rates, the service charges on the debt rise by R800 million a year. There's a view in private financial circles nowdays that our salvation lies in aligning our interest rates in real terms with those ruling overseas.

"We can, it is said, eliminate losses on forward cover for foreign exchange transactions if we raise the prime rate from 20 to 24 percent.

"To soften the blow at home, it is argued, farmers and homeowners should be subsidised on a huge scale. In this reasoning, the line seems to be drawn at farmers and homeowners. This may mean that small businesses will be wiped out.

"It would also mean that the interest burden on the national debt would increase by no less than R3,2 billion assuming that long rates would adjust to those at the short end.

"This mechanistic view of monetary policy is bound to spell disaster to the economy. It would require a very substantial increase in state expenditure, which the country cannot afford.

Gold hits $410 on European markets

(58) B. Day 23/11/89

MERVYN HARRIS

GOLD hit a fresh 10-month high of $410,25 on European bullion markets yesterday but local institutions were sellers of gold shares on the JSE.

The selling was, however, swiftly absorbed by strong foreign demand for SA mining shares. Some analysts suggested that the improving political climate in SA was helping to bring more US investors back into the market.

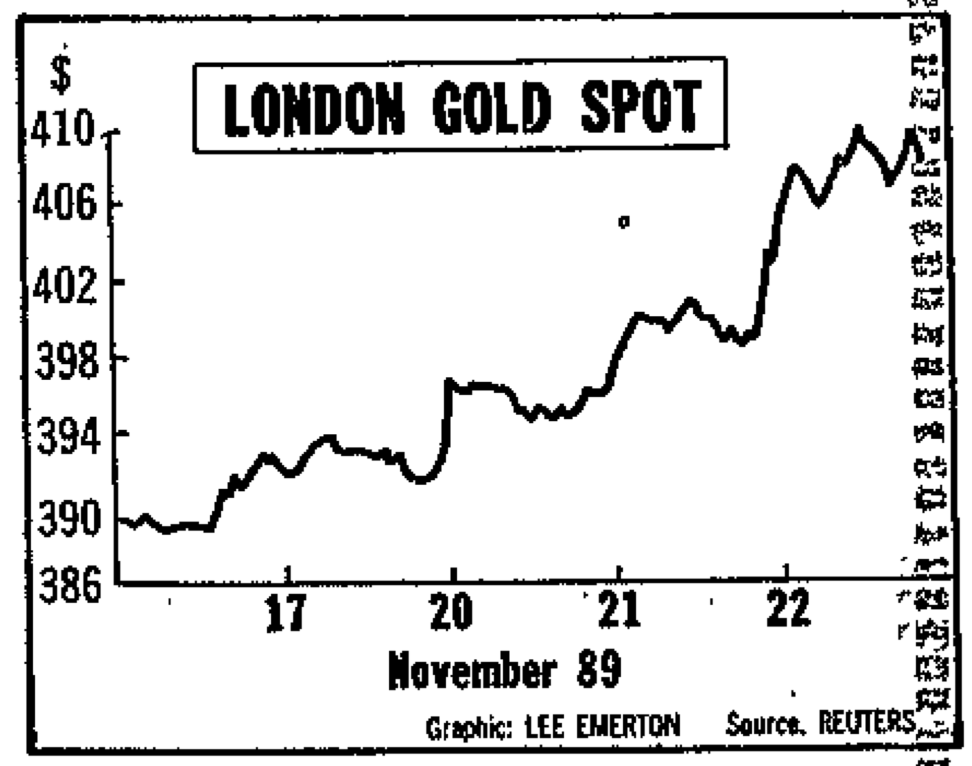
On the back of the strong demand, the JSE all gold index surged 2,7% to close at 2 113, a gain of 50% in just over a month.

Dealers ascribed profit taking by local institutions and professionals to a feeling that gold shares were now looking expensive as the gold price has only risen by slightly more than 12% in the same period.

Yesterday's firmness in gold stemmed from reports of heavy buying by Middle Eastern and Far Eastern investors but the metal was meeting resistance at the higher levels and analysts cautioned that it may have temporarily run out of steam.

Gold eased back from its highs to close $4 up in London at $408,25. Traders were said to be squaring positions ahead of the US Thanksgiving holiday today.

While the rand closed marginally firmer against a weak dollar — up from R2,6160 to R2,6103 — the surge in the gold price pushed up the rand gold price R26,20 to R1 069,96, its highest level since August 1988 when it was last above R1 070.



The active session of two way trading on the JSE was reflected in the value of shares traded rising from Tuesday's R159m to R163,3m. The volume of shares traded declined from 27,8-million to just under 21-million.

With mining financial and platinum shares rising to new highs, the JSE overall index chalked up a 1,3% gain to close at a record 2 897 points.

The free market price of platinum held firm at just under $530 but silver was trading at new seven month highs of $5,83.

was arrested for questioning in connection

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B Day 23/11/89 (58)

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BDay 24/11/89 58

Accountants vote today on whether or not to advertise

BARRY SERGEANT

TODAY thousands of chartered accountants (CAs) will be given the opportunity to decide on whether or not to advertise. The answer will be known after a vote at special meetings to be held at 11am.

The Council of the SA Institute of Chartered Accountants (Saica) has already come out strongly in favour of changing appropriate by-laws. But the decision has to be ratified by individual members voting in their respective provinces.

Saica president Paul Dreyer said last night: "We need a 75% majority in the Cape and two-thirds majority in the other provinces to vote in favour of this issue, either in person or by proxy."

After years of controversy regarding the advertising issue among CAs, today's meetings have been convened by the Societies of Chartered Accountants in the four provinces. The profession has come under pressure to make a decision from both commercial and governmental quarters.

Auditing — the mainstay of the accountant's income — has progressively produced less proportionate income as accountants have expanded into other areas, particularly tax advice and management consultancy. These areas of endeavour have non-accountant competitors who have long been free to advertise.

Governmental pressure follows in the wake of the policy decision to deregulate the economy. The professions are under pressure because of their "closed shops" — barriers to entry, fixed fees and exclusive rights to do certain kinds of work.

Leaders among CAs perceive that unless the profession takes steps to liberalise advertising rules, government may step in unilaterally and unban advertising. This would mean that the decision would come from outside the profession, and that the profession would then lack power over the nature of the advertising.

The international consensus among CAs is that advertising should be in "good taste". When accountancy advertising was allowed in Australia an advertisement using Tarzan caused consternation. Roger Sinclair, of Wits' Department of Business Economics, says that advertising could dramatically change the profile of CAs.

"If CAs are to spend money on advertising," said Sinclair, "it is important to understand the limits of the medium."

Said Dreyer: "We are concerned that many of our members will not bother to attend today's special meetings since they believe the decision in favour of advertising is a foregone conclusion.

"We want every one of our members to vote so that we can ascertain the true view of our membership as a whole."

LOA starts own advertising standards committee

KAY TURVEY

THE life insurance industry has established a committee to resolve internal disputes over advertising claims made by competing assurers. B|Day 24/11/89

The move, agreed to at the Life Offices Association (LOA) meeting last week, follows disagreements among the big assurers and the difficulty experienced by the Advertising Standards Authorities (ASA) in giving a ruling where industry specific technicalities are involved. (58)

AA Life MD Brian Benfield, who is to head the LOA sub-committee on advertising, says the committee should lead to speedier and more appropriate resolution of conflict. Any disputes that cannot be resolved by the LOA committee will be referred to the ASA.

Banking sector 'needs to address challenges'

B/Day 29/11/89 (58)

GRETA STEYN

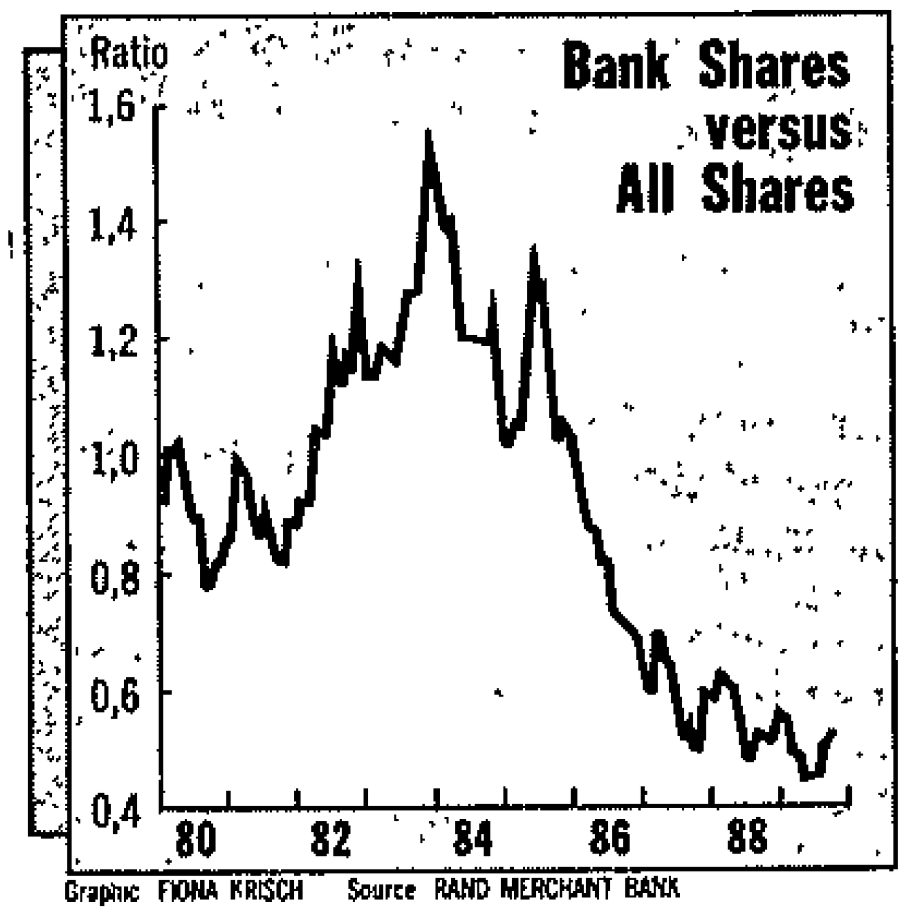
THE under-performance of bank shares relative to almost all the other major sectors quoted on the JSE had compelled the banking sector to address the challenges it faced, Rand Merchant Bank economist Rudolf Gouws said yesterday.

Speaking at the Axis Conference: Banking in the 1990s, Gouws said: "The financial services sector would have to look very hard and deep at itself as well as at the way it manages the forces that have an impact on it."

He noted that there had been a major acceleration in employment levels in the sector during the 1980s — in absolute terms as well as in relation to the rest of the economy. This had occurred despite large investments in computerisation and electronic banking.

"The unfortunate fact is that, if the rapidly rising index of the number of people employed in the financial services sector is divided into an index of the real (or inflation-adjusted) value added of this sector, a sad picture emerges of declining productivity," Gouws said.

This poor performance was paralleled by the decline in the performance of finan-



Graphic FIONA KRISCH Source RAND MERCHANT BANK

cial share prices relative to the rest of the share market in the 1980s.

Turning to the fortunes of the banks relative to other financial institutions, Gouws noted the flow of savings from households to institutional investors at the expense of the banking sector.

The life assurance industry had been in a position to offer savers a medium providing protection against the erosive effects of inflation and taxation. As a result, the annual flow of funds from households to life offices and pension funds rose by 25,7% a year between 1975 and 1987 — far exceeding the annual growth of 7,7% a year in total net savings by private households.

"Now, however, I sense that we are at some kind of turning point as far as the past trends in savings and the use of credit goes. If the new Governor of the Reserve Bank follows through in the years ahead on the goals he spelt out on August 29 and in several subsequent speeches, interest rates will remain high in real terms and inflation will gradually decline."

As a result of these policies and a move to lower taxation, the relative profitability performance of insurance companies and banks might narrow.

Nedfin new business tops R1bn for first time

(58) BDay 24/11/87

LIZ ROUSE

NEDFIN Bank, the leasing and instalment sales arm of the Nedcor Group, has posted record profits virtually across the board.

The bank's new business figure topped R1bn for the first time and taxed profit rose 75% to a new peak of R16,6m in the year to September. Total assets increased by 31% to R2,1bn.

The bank's contribution to Nedcor earnings, after stripping out recently acquired SA Perm, rose to 5,8% (4,5%).

Despite the substantial increase in the size of its business, Nedfin's specific bad debt write-offs fell by a fifth — giving a clear indication in the quality of its earnings.

MD Ron Rundle says the excellent results are in large part due to spin-offs of the quality and productivity focused programmes embarked upon three years ago.

He says the decision to stay out of the rate-cutting war, concentrating instead on satisfying clients' needs through offering more efficient service and delivery systems, is obviously paying off. So too is its philosophy of keeping the rates charged in line with the risk.

Productivity improved significantly as the bank's asset growth was not accompanied by any increase in staff levels. This is important because staffing costs account for about 60% of a general bank's operating expenses.

Much of Nedfin's gains came through from its targeted medium-sized firms in the corporate sector (firms with turnover from R10m to R100m), which accounts for the major part of the bank's business.

The focus on particular niche areas, however, is also reaping dividends. Rundle says the bank's share of the professional market, specifically in the medical and dental fields, grew strongly in the past year.

Nedfin acquired a susbtantial equity interest in Nissan Truck Rental on January 1 this year and, according to Rundle, further investments in the joint venture field are planned.

Rundle expects business growth to be lower than the inflation rate this year but is confident that, because of further productivity benefits, Nedfin will post real earnings growth.

In the 12 months under review, the bank's return on average equity rose from 11,8% to 18,7%, which Rundle says is satisfying but still below target.

CAPE TIMES 24/11/89 (58)

AAC earnings rise by 31%

Own Correspondent

JOHANNESBURG. — Anglo American Corporation (AAC) earnings for the six months to September were 31% higher, at R599m (R459m), largely as a result of improved performances by its diamond, platinum, base metals, coal and mining finance interests.

Earnings a share for the six months were 260c (200c), and an interim dividend of 85c has been declared — 21% higher than last year's 70c.

Anglo's equity-accounted earnings increased by 29% from R1 018m (443c a share) to R1 315m (570c a share).

Directors say the rise in investment income, from R476m to R632m, was largely attributable to higher dividends from the mining finance, diamond, platinum and base metals sectors.

The contribution from Anglo's gold and uranium interests to investment income fell from 38% (R181m) to 30% (R190m), reflecting "the impact of inflation on costs relative to the marginal improvement in the rand gold price", which rose by only 2,1%, from R965 an ounce to R985. The dollar gold price, however, declined by 15% from \$453 to \$384.

Trading income increased by 46% from R191m to R279m, mainly due to Amcoal's improved results from increased export prices and tonnages and a weaker rand/dollar exchange rate.

Directors say a large part of the increase in taxation, from R132m to R210m, and of the increase in outside shareholders' interests in earnings, from R86m to R130m, are also attributable to Amcoal's improved results.

Other net income rose from R10m to R28m, as higher interest and fee income more than offset increased prospecting costs. The net asset value per share rose by 47%, from 9 358c to 13 713c.

Retained earnings of associated companies, which are transferred to non-distributable reserve, rose by 28% to R716m. The sectors referred to above, together with the industrial sector, were the major contributors.

On the outlook for the rest of the year, the directors say: "Although difficult to predict, equity-accounted and attributable earnings for the year ending March 31, 1990 are expected to show a lower rate of increase than that recorded for the first six months."

They add: "The expectation of a deceleration in the rate of growth of earnings takes into account the continuing fall in the profitability of the gold mining industry (although the recent improvement in the US dollar price of gold will, if sustained, have a favourable impact), the slowdown in the number of export markets coupled with the slightly firmer rand, and more difficult economic conditions in South Africa."

Clients slam dud broking firm

58

Sowetan 24/11/89

Consumer Corner

By SY MAKARINGE

HUNDREDS of people who joined a financial broking firm and paid membership fees of up to R170 a year stand to lose out following the sudden disappearance of its directors and closure of its offices.

Finfocus, which was registered as a closed corporation last year, had set up offices in Cape Town, Pretoria and Durban and hired marketing staff and agents to promote its services in the black townships.

People who joined the company were promised a wide range of services, including discounts at a major hotel chains, financial assistance and direct purchasing.

Holiday Inn, which is listed as one of the backers, this week denied that it was involved in Finfocus' operations. Mr Nic Griffin, marketing director of the hotel chain, said he was approached by one of the directors of the company several months ago.

Fruitless

"We declined to get involved and there is no agreement between us," Griffin said.

Attempts to contact the directors, whose identities are known to *Consumer Corner*, proved fruitless as their telephones in the three centres kept on ringing. Information reaching us is that two of them have vanished from Pretoria and are now living in Durban.

A source close to the company said: "They were quick to take the money but very slow to provide the service".

A Durban resident, Mr Hamilton Zulu, who was working at the company's offices in Durban, has instituted legal action against Finfocus after the directors allegedly refused to pay him his commission of R60 000.

This was after Zulu had collected more than R150 000 from new members in Durban and paid the money into what he was made to believe was Finfocus' banking account. He said he later discovered he had unwittingly been depositing the money into a personal account jointly held by two of the directors.

Court

He said the balance in Finfocus' banking account at the time was only R39.

"They once approached me to try to have the matter settled out of court. But I refused because it would have meant that the clients would lose out", he said.

One of the victims is Mr Japhta Lesiba Masalesa, an Atteridgeville council worker, who paid the company R10 000 in July as a deposit for a mini bus. Masalesa paid the money after he was promised finance.

"I was promised that the kombi would be delivered at the end of the same month. When this did not happen, I went back to their offices and inquired what was going on. Instead of giving me a clear answer, they sent me from pillar to post," Masalesa said.

He said he once contacted one of the senior directors in Cape Town and demanded his money back. The man sent him a telefax and acknowledged the debt, but up to now Masalesa has not been refunded.

Consumer Corner has also learnt of attempts to change the name of the company.

Southern lifts earnings 25%

CAM-Times 24/11/89

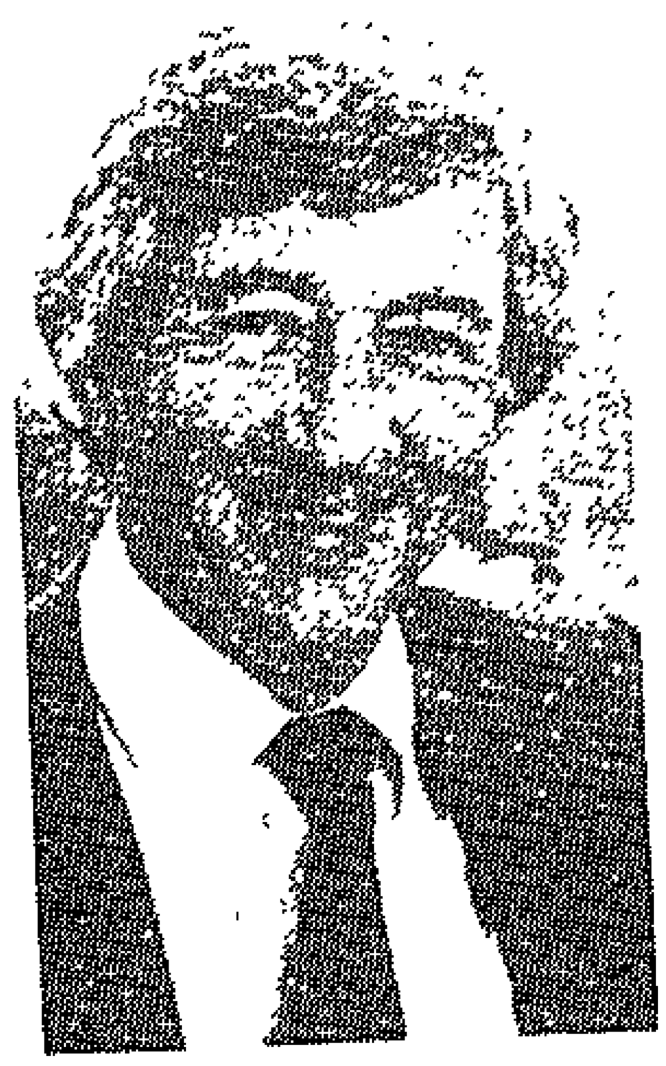
By AUDREY D'ANGELO
Financial Editor

SOUTHERN LIFE ASSOCIATION — which has lifted disclosed earnings for the six months to September 30 by 25% to 28,1c a share — has increased its investments in quality mining and mining financial shares, executive director Jan Calitz said yesterday. And it is one of the largest institutional investors in Iscor.

Announcing the interim results yesterday, executive chairman Neal Chapman said the dividend would be 18,6% higher at 18,5c a share.

Total assets had risen by 37% over the past 12 months to reach R11 976m. Assets had grown by R1 254m since the financial year-end in March.

Net investment income rose by 37%, compared with the corresponding six month period last year, to R442m and total income by 21% to R1 163m. Recurring premium income increased by 25%.



Neal Chapman

Chapman predicted continued growth over the remainder of the financial year, barring unforeseen factors, with satisfactory increases in the Southern's taxed surplus and dividends.

He said developments since F W de Klerk became State President were to be applauded and encouraged. "While they may only constitute a beginning — and nobody should have any illusions on this — the steps taken have been bold and are bringing about new hope both internally and externally.

"A stronger gold price is undoubtedly adding to a change of mood in our country. While none of this as yet lessens the hardship present in many sectors of the community, the vision of a new and better SA now has increasing substance."

Calitz said the abolition of the prescribed investment requirements was "the most significant change in the life assurance industry for years".

It allowed investment managers more freedom and would result in a higher portion of funds being channelled into income growth assets.

He said the Southern's investment strategy over the past six months had "been characterised by an increase in share investments, with funds being invested in quality mining and mining financial stocks. This strategy, together with the upswing in the gold share market, could result in good investment returns for Southern clients."

Calitz said the Southern had not been among institutions which took profits on gold shares on the JSE on Wednesday.

In general, with a growing cash flow, the Southern was in the market all the time. "But we have just had a very major run. It may be that this is the wrong time to be in the market."

If overseas markets stayed up, the JSE would do the same. "But we can always have a reaction."

Confirming that the Southern was one of the largest institutional investors in Iscor, Calitz said: "We saw it as an under-valued share at the listing price of 200c a share. And it is a big company, so the shares are marketable."

Now black business plans to launch its own banks

Weekly Mail 24-30/11/89.

By MZIMKULU MALUNGA

TWO black financial institutions are in the pipeline, but the question is whether potential participants can overcome a negative perception that black business enterprises do not survive.

One group seeking to establish a black financial institution has said it is concerned about the lack of confidence in black-run enterprises — even within the black community itself.

The Black Managed Investment Fund for Black Savings, which is made up of businessmen, academics and community leaders, is discussing the feasibility of establishing a "massive financial institution" to channel savings in a direction that could benefit the black community.

The Southern Africa Black Taxis Association has indicated there are plans to initiate a new black financial institution. According to Gaby Magomola, chairman of Taxi SA Marketing, a company owned by Sabta, the plan was going ahead.

Last Saturday, a steering committee to spearhead the fund's initiative was elected at a seminar held at the Wits Centre for Developing Business.

Among the members of the committee are Dr Nthatho Motlana, a member of the board of directors at Lesedi Clinic, Professor John Makhene, former principal of the University of Bophuthatswana, and Sam Moufhe, managing director of Zikhuliseni Community Programmes.

Moufhe said South Africa was allegedly "over-banked" and setting up another bank was inappropriate. "The question is, do existing financial institutions assist in the development of our community projects such as co-operatives, credit unions, self help groups or our business ventures which are normally starved of financial assistance?"

According to the fund, virtually all the savings of the black community were placed in white managed investment institutions and all the deposits — along with those of the white community — were then invested in shares and in the ownership of land as well as in buildings in the CBDs.

They argued that no investments in the black townships had been made by these institutions. The reasons for this were land ownership difficulties, security and low return on investment.

As a result, the fund has decided that a method should be devised to direct black savings into the townships, thus assisting in the development of the community.

It was suggested that the financial institution envisaged should be an investment corporation and not a bank.

The group cited potential participants or investors as trade union provident funds, *stokvels*, burial societies, the Independent African Church and other investment and savings groups.

Sabta's Magomola said the institution his association invisaged might initially not be a bank but the association hoped it would eventually become a joint venture finance company which will not be regulated by the Banks Act of 1965.

He said the company would not take deposits but could grant loans for specific purposes such as financing Sabta members to buy new vehicles.

The association hoped the finance house would eventually be granted a banking licence. "At that stage this institution will be a general bank catering for a large segment of the black community."

Magomola also mentioned that "non-blacks" would also hold shares in the bank, although he declined to give the percentage.

"It has always been the intention of Sabta's president, James Ngcoya, to establish an in-house financial institution which would be sensitive to the peculiar needs of a taxi operator," Magomola said.

He added that Sabta, through one of its projects, Sabta Foundation, has a scheme with a major financial institution which was working very well for members. However, he did not want to disclose the name of the institution concerned.

Old Mutual GFSA buyer?

(58)

REINIE BOOYSEN

OLD MUTUAL has been identified by London analysts as the most likely buyer of the 8% stake in Gold Fields of SA (GFSA) from Hanson. Old Mutual executive chairman Mike Levett has refused to comment.

Hanson announced on Wednesday that it had sold its last remaining assets in SA (acquired when it took control of British-based Consolidated Goldfields) to an unnamed buyer (or buyers) for £240m cash.

Few SA companies have the finacial resources to buy an asset of this size, worth more than R740m on the JSE yesterday, and most of those — with the exception of Old Mutual, Sanlam and Rembrandt, yesterday denied buying the business.

Market speculation from various independent sources, in the financial rand markets and equity markets, has focused on Old Mutual. Companies which have been eliminated as buyers of the 8% stake are: Anglo American, GFSA itself, Liberty Life and Gencor.

Business Day has been unable to get a response from either Sanlam or Rembrandt.

Rembrandt is considered an unlikely candidate as a purchase would upset the balance of its relationship with Asteroid and Liberty Life in GFSA Holdings. Sanlam, on the other hand, is a possibility, being as capable as Old Mutual of funding the purchase.

As regards the lesser interests sold by Hanson — minority stakes in Kloof, Driefontein, Deelkraal and Northam — it seems likely that they have been spread among a number of buyers. GFSA has confirmed that it bought an unspecified

☐ To Page 2

Old Mutual

BDay 24/11/89

(58)

☐ From Page 1

number of shares in Kloof and Driefontein, but not the whole lot.

Old Mutual's buying power is illustrated by the fact that it recently reported cash holdings of nearly R7bn.

ROBERT GENTLE reports from London that analysts there were still unable to put a definite name on the buyer.

An analyst from James Capel said his inquiries had turned up nothing, while an analyst from Smith New Court said something would surface sooner or later.

It was suggested that the mystery institution may be keeping quiet about the deal because it was in the market for even more shares and did not want this to leak out.

B/Day 24/11/89 (58)

BUSINESS DAY, F

Banks see SA as a good risk

BURGER . . . three areas provide opportunities

GRETA STEYN

MANY foreign banks regard SA business as among the best risks in the world and there are still quite a few who are keen to to business with corporate SA.

Speaking at the Banking in the 1990s conference in Johannesburg yesterday, FirstCorp vice-president Louw Burger said in spite of this there were no "off-the-shelf" answers for South Africans.

However, three areas provided good opportunities for "structuring transactions with foreign lenders which will amount to the raising of finance for SA borrowers". These were export credit in the form of foreign receivables finance, international asset finance and product loans. In receivables finance, the banks effectively purchased the goods from the SA exporter.

"Where the exporter and foreign buyer have long-term supply contracts the banks will even consider loans against future exports."

Assets classified as international, largely because of mobility, such as aircraft, could also attract foreign financing. This was over and above product loans, such as loans against gold, which are denominated not in money but in a quantity of a specific product.

Burger said foreign banks preferred to deal on a transaction-by-transaction basis.

"The appetite is also focused toward transactions of a short-term nature. These may again be repeatable, so that the effect is one of a facility over time, even a medium-term facility."

● See Pages 10 and 12

My Way, says Sanlam. But that's racist, state the unions

Limits attached to the new insurance policy introduced by Sanlam discriminate against people with little income and less education. Now unions are threatening to cut ties with the institution. By HILARY JOFFE and CASSANDRA MOODLEY

BUSINESS

SANLAM is coming under fire from trade unionists who describe as racist its new life insurance policy which excludes people who earn less than R1 000 a month or have less than a Std Eight education.

The policy, My Way, was introduced in August and is aimed at the R1 000 to R1 999 income group. Salaried black people are clearly a prime target market — the package incorporates a funeral benefit, a first for Sanlam.

But while Sanlam's George Rudman says the target market for the package is an extensive one representing nearly 40 percent of the total adult population, unionists stress the income or education qualifications exclude the majority of black people.

Actuary Anthony Asher, professor in Wits University's Department of Statistics and a consultant to trade unions, estimates at most 15 percent of black (African) households have incomes of more than R1 000 a month. A larger proportion would meet the Std Eight education criterion, but this is still a minority of black adults.

Trade unions in both the Congress of South African Trade Unions and the National Council of Trade Unions have come out against the discrimination involved in the policy. This could pose problems for Sanlam, which has been trying to make inroads into that part of the pension and provident fund market where unions have a powerful voice because their members are represented on the boards of trustees.

The assets of Sanlam's managed funds (mostly pension and provident funds) are in excess of R10-billion, perhaps half of which could be attributed to black fund members, say insurance industry sources.

National Union of Metalworkers of South Africa (Numsa) national organiser Geoff Schreiner said Sanlam's My Way policy "effectively discriminates against people who haven't had access to education and are tied into low paid jobs". He said if the policy were not changed, the union would "review any relationship we have with Sanlam through investment vehicles or pension or provident fund schemes". The union had asked Sanlam for a written undertaking that the discriminatory clauses in the policy would be removed, he said.

A Nactu representative said he would propose to the Nactu national council this weekend that they launch a campaign against Sanlam's racist policy urging all workers to distance themselves from the company.

And recently the National Union of Mineworkers and the Food and Allied Workers' Union threatened to cut ties with Sanlam over the issue.

Another insurance company, Metropolitan Life, was drawn into the fray too, since it is a subsidiary of Sanlam. But Metlife this week denied Sanlam had any influence on its managerial policy.

The My Way SavingsPlus policy also prevents people who have Aids or are HIV positive (have the virus but not suffering from Aids) at the time of their death from receiving the full life insurance. Instead they receive a payout of eight times the annual premium — the minimum the company can pay out on a life policy in terms of the law.

Most companies do exclude Aids victims from life insurance. But the difference is Sanlam's One Policy, the main life insurance package it markets, can pay out life insurance to Aids victims if they were tested at the time they took out the policy and were found not HIV positive.

One anomaly which the limits of the My Way policy will present for Sanlam is that, like other life assurers, it is already offering life assurance to black workers who earn less than R1 000 through group life assurance policies, usually attached to pension or provident funds. Most of these policies offer a "continuation option" — workers who are retrenched or resign can continue their life policies. But it is not clear whether Sanlam can continue to offer this option in its group policies, given the income and education limits it has now placed on its new policy.

Defending the My Way policy, Rudman said Sanlam was offering a product which met the needs of a particular market. Life assurers tended to focus on a segment of the market; for example Liberty Life concentrated on the high income market since its minimum premium of R70 a month excluded a large portion of the lower income earners, Rudman said.

"The aim of the (My Way) package is to make assurance available to this group at an affordable price with a funeral benefit included," he said.

The advantage of the funeral benefit was cash could be obtained quickly with a minimum of documents.

The package, for which the premium options range from R35 to R70 a month, comprises three options: the SavingsPlan which is in effect an endowment policy, allowing the client to accumulate maximum capital over a period of at least 10 years, the SavingsPlus which also offers funeral benefit and disability cover, and the LifePlus plan which offers life cover.

Sanlam is not alone in setting criteria for life insurance policy holders — but its latest policy does appear to be the most blatant example of this.

Chemical Workers' Industrial Union general secretary Rod Crompton said: "We have been saying for some time that financial institutions' products are not designed to cater for the needs of our membership — they tend to be designed for the upper class white market."

Asher says there are advantages for life assurers in targetting specific market segments which are lower risk. Black people do have higher mortality rates than white people but this is because they have lower incomes. A policy which sets minimum income criteria could offer insurance at a lower price, because of the lower risk. But the insurance company which offers lower prices for a limited, lower risk market segment will tend to attract all the low risk people. The result will be the higher risk people, those with low incomes, will have to go somewhere else where premiums are likely to be higher.

Southern Life Assistant General Manager Peter Atkinson pointed out Sanlam's directive was applicable only one of its range of policy covers.

Atkinson said it was "a tendency in insurance companies to have a qualification of education and income for special rates".

At Southern Life there were "three different bands" on which people were rated — a person with a low income and low education who was not eligible for insurance, the person with some education and some income who qualified for the standard rates and the person with super education and high income who qualified for normal insurance at special rates.

He said Southern's socio-economic criteria for policies were broader and less fierce than Sanlam's.

Old Mutual Marketing Manager David Hudson declined to comment on the Sanlam issue.

Regarding his company's policy he said people qualified for insurance cover on health grounds and affordability.

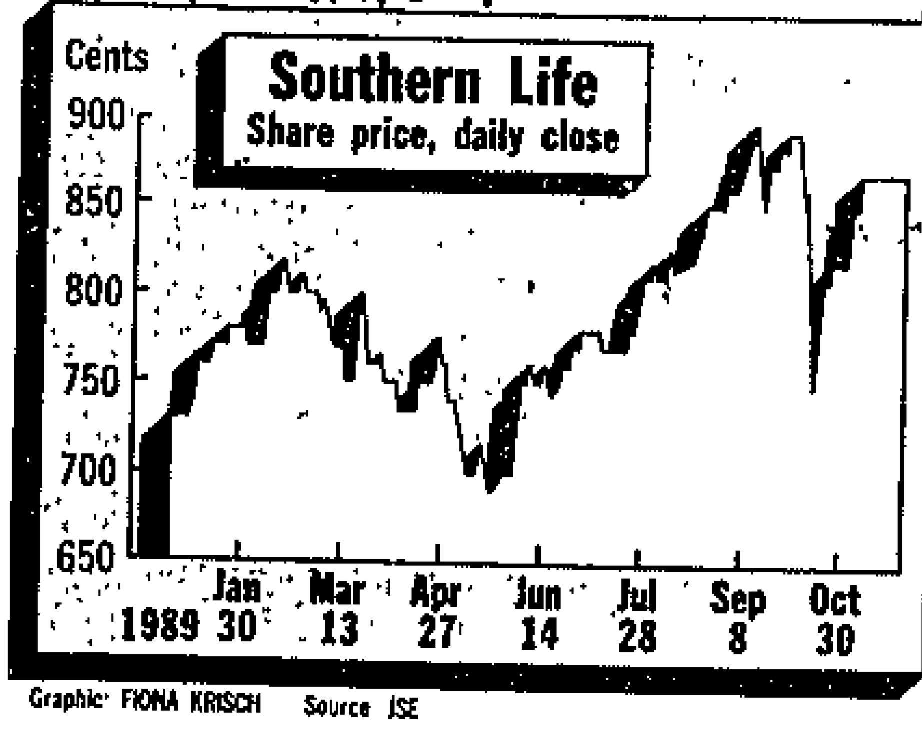
"If somebody earns below the minimum wage level the question of affordability would come in." This was designed to protect the consumer.

Metropolitan Life deputy managing director Marius Smit said although Metlife would not sell policies to those who could not afford it, they did cater for lower premiums than most companies — premiums were as low as R10 for funeral benefits, he said. And there was no discrimination according to education or income.

Investments lift Southern income 21%

BDay 24/11/89

58



KAY TURVEY

ON THE back of a strong investment performance Southern Life reported a 21% hike in total income to R1,16bn for the six months to June.

Net investment income rose by 37% to R442m and is likely to continue rise strongly. Analysts believe Southern's investment earnings could outshine competitors if the gold share markets continues its upswing.

Southern chairman Neil Chapman confirms the group invested heavily in quality mining and mining financial stock in June

☐ To Page 2

Southern

BDay 24/11/89

58

☐ From Page 1

and says the performance for the year will remain satisfactory even if gold shares hold around current levels.

The strong turnaround in First National Bank in which Southern has a 30% stake and the abolition of prescribed assets, will also favour the investment performance.

The impact on earnings of the unlisted UK life office Hansard, in which Southern acquired a stake in February this year, is still to be felt.

In line with the slowdown throughout the life insurance industry, resulting from higher interest rates, net premium income rose a modest 12% to R721,8m.

Executive director Adrian Arnot says it is pleasing that recurring premium business is 25% up. New recurring premiums rose 12% for the six months against the comparitive period. For the previous full financial year to March new recurring business had grown 40%.

A taxed surplus of R47,46m is reported in line with policy to set the interim taxed surplus at 50% of the preceding financial year.

Disclosed earnings a share are up 25% to 28,1c and the interim dividend is 18,6% higher at 18,5c a share in line with the policy of setting these at half of the totals of the previous year.

Southern's total assets increased by 37% over the past 12 months to reach R12bn. Assets have grown by R1,3bn since the beginning of the current financial year.

'Windfall' of R300m in bond rate rise

Cape Times 25/11/88

53

JOHANNESBURG. — Financial institutions have collected an additional R300 million since the sharp rise in the bond rate from 12,5% in July, 1987 to the current 21%.

Commenting on this development in a statement released yesterday, SA Co-ordinating Consumer Council director Mr Jan Cronje said that perhaps the time had come to peg interest rates on existing bonds at a fixed reasonable rate. This would restore confidence in the economy and enable the consumer to plan ahead.

He pointed out that many home-owners bought their properties at an interest rate of about 12%.

However, the arbitrary increase in interest rates had exhausted savings, increased unemployment as well as weakening confidence in the economy.

He said during October some 800 houses had been repossessed. — Sapa

R700m bonanza in Hanson deal

58 S.W. Times 26/11/89

SOUTH African interests involved in the purchase of a R1,5-billion parcel of gold shares from Hanson Trust have made profits that could exceed R700-million.

By DAVID CARTE

The shares — about 13% of Kloof gold mine, 12% of Deelkraal, 5% of Driefontein, 8% of Gold Fields of SA and 13% of Northam — were remnants left in the portfolio of Consolidated Gold Fields after Remgro and GFSA management acquired 30% of Cons Gold three months ago from Hanson.

According to an announcement by Hanson this week, the shares were sold for £240-million — R1,476-billion at the present financial rand rate and R1,515-billion at the rate obtaining six to eight weeks ago when the deal is thought to have been done.

Thanks to a run in the gold price, the shares today are worth about R2,290-billion.

Sources close to Hanson say Bernard van Rooyen, a director of Gold Fields of SA, did the deal of a lifetime.

Because the shares were only a small part of the assets of Cons Gold, Hanson was not too fussy about the price. It is more concerned with the billions of pounds due on the sale of Newmont and Renison of Australia.

Hanson sources say that when the gold price was languishing at about $350 an ounce, Mr Van Rooyen obtained a six-week option on the shares, at prices then obtaining, to place the shares with SA institutions.

The shares have since successfully been placed, says one analyst, "as far away from Anglo as GFSA could send them".

The gold price has soared close to $420 and gold shares have risen more than proportionately.

In the past eight weeks, the JSE Actuaries all-gold index has leapt from 1 550 to 2 102 — 36%. Kloof shares have gained 35%, Deelkraal 45%, Driefontein 31%, GFSA 11% and Northam 26%.

Slice

According to London sources, the financial rands needed for the transaction were created six weeks ago.

It is not clear what proportion of the huge profits on the shares accrue to the buying institutions and what slice will go to Gold Fields of SA.

Mr Van Rooyen is on holiday and incommunicado. GFSA chairman Robin Plumbridge could not be reached on Friday.

London sources say Old

● To Page 1

Bonanza

● From Page 1

Mutual and Cape institutions took most the GFSA shares.

Sanlam and Southern Life are the only institutions prepared to comment.

Sanlam managing director Pierre Steyn says: "We have been buying gold shares and we do not always know where they come from — but we have not dealt in the quantities you mention and not by way of a placing."

Southern Life says: "We have been buying gold shares, but have not received any from Hanson or Cons Gold."

Old Mutual managing director Mike Levett says: "We never confirm or deny deals. If I commented now and refused to comment in the future, you could infer all sorts of things."

His words were echoed by Liberty Asset Management managing director Roy McAlpine.

Liberty is thought to have picked up some Driefontein shares, but would have avoided further purchases of GFSA because that would have upset the balance of control of GFSA. Gold Fields Holding has 40% of GFSA. It is owned 40% each by Remgro and Asteroid and 20% by Liberty.

Institutions generally register all shares in their own names, so the names of the buyers will eventually come out.

The Star
Finance

Project may take mining group back to golden roots

58 27/11 Star

Special Correspondent

Mining baron Basil Hersov is poised to develop one of the biggest gold prospects in recent South African history — a project which would take South Africa's most diversified mining house, Anglovaal, back to its golden roots.

The mining and industrial group is one of several family-controlled business dynasties, like the Oppenheimer's Anglo American group, which play a strategic role in the economy because of their size and diversity.

Many, including Anglovaal, were founded by East European immigrants or their children attracted to South Africa by the Witwatersrand gold rush of the 1880s. They have grown into politically influential business empires.

Final drilling

This year for the first time Anglovaal, still controlled by its two founding families, the Hersov's and the Menell's, has stepped outside Africa to expand its mining operations by buying into gold interests in Australia.

It is also eyeing opportunities in the Pacific region.

But it is the huge Anglovaal deep-level mining prospect in the Free State that stirs most interest among Johannesburg's gold analysts.

"It's an exciting tradition and I'm very proud to be following it," said chairman Mr Hersov, recalling the gold mines started by the group in the years after its founding in 1933.

Final test drilling takes place early in 1990 and the decision to go ahead or shelve the project will be taken after he and deputy chairman Clive Menell have seen the results.

Basil Hersov

"It's potential is enormous — but you need a lot of courage," Mr Hersov told Reuters in an interview. "You probably won't be producing for five, six, seven years and you don't know what the market's going to be like at that time.

"So you take a deep breath...and take a decision."

Double area

To bring just one mine to production would require R2 billion because the gold is buried deep, up to 4 400 m underground, Mr Hersov said. He would not say how many mines the fields would sustain.

The 77 000-ha development would double the area of the province's gold fields, which already produce 28 percent of South Africa's gold output.

Mr Hersov said the field would be financed by a mix of equity and loans. Anglovaal will also seek government tax concessions.

But Mr Hersov and Mr Menell are also looking overseas for mining opportunities because exploration at home is becoming harder.

"South Africa has been thoroughly explored. We still find new things — but they're becoming more difficult and more expensive to find and deeper to mine," Mr Hersov said.

Anglovaal's mining expansion will restore a balance to the group, whose industrial side has been growing fast.

Australian foothold

A string of acquisitions in the past year include 76 percent of US electronics firm Hewlett-Packard's South African operation and a full takeover of Good Year Tire and Rubber Company's local subsidiary after the US firm disinvested.

This year it took a foothold in Australia, buying 29,9 percent of North Sea and General, a UK-incorporated company, plus 100 percent of its convertible unsecured loan stock.

Anglovaal renamed the company Anglo-Pacific Resources and sees it as a springboard for expansion into the Pacific region.

Anglovaal controls assets of R7,7 billion through more than 200 subsidiary and associate companies in precious metals, base minerals, food, packaging, construction, engineering, electronics, computers, textiles and fishing. It has 85 000 employees.

Net profit was R909 million in the year to June, up 26 percent on the previous year.

Mr Hersov, 63, and Mr Menell, 58, both patrician figures, personify Johannesburg "old money", the city's clubby British-educated mining elite customarily excluded from formal political power by the Afrikaner-dominated National Party.

"We're all on first name terms, we grew up to together," said Mr Hersov of his fellow Johannesburg business chiefs. "Our consensus is similar on the need for change in South Africa."

Mr Hersov says the divide between Afrikaans and English-speaking businessmen has crumbled recently and he and his fellow captains of industry have considerable influence in Pretoria.

Advocate reform

"We use the power we have to try and move things," he said, adding he is on good terms with President FW de Klerk.

Mr Hersov and Mr Menell, together with the heads of other business dynasties like Anglo American's Harry Oppenheimer and Anton Rupert of tobacco giant Rembrandt, support liberal institutions working to advance blacks and advocate major apartheid reform.

"We're not right-wing conservatives and we're not way out namby-pamby liberals," said Mr Hersov.

Mr Hersov wants Anglovaal's family ownership to continue. His and Mr Menell's sons, at present working abroad, will come into the business.

Of his own sons, he says: "They're both out doing their own thing — making themselves millionaires." — Sapa-Reuter.

Private sector aid is sought

Govt spending under scrutiny by Minister

28/11/88 Star

58

By Peter Fabricius, Political Correspondent

New Minister of Privatisation and Administration Dr Wim de Villiers is systematically scrutinising every government department to purge unnecessary spending.

And among the measures being proposed to cut State spending is to appoint experts from the private sector as financial managers of several government departments — especially those such as Development Aid where financial maladministration has been rife in the past.

Government sources said yesterday that Dr de Villiers — who was brought into the Cabinet from the private sector because of his reputation for tough administration — has been calling in his fellow Cabinet Ministers one by one to get them to justify their budget requests in detail.

He is doing this now as this is the time when Government departments prepare their budgets.

And Dr Stoffel van der Merwe, Minister of Education and Development Aid, said yesterday that the Government was seriously considering appointing private sector financial administrators on short-term contract to bring financial discipline to several government departments.

His own departments — Development Aid and Education and Training — have budgets of R4,4 billion and R1,9 billion respectively. They have both been involved in controversy over financial maladministration and even corruption during the period before he took over as Minister last month.

Dr van der Merwe said he would be happy to have private sector financial managers appointed in his departments.

"The whole idea is to bring the expertise of the private sector to bear on the public sector."

It was likely that other departments would do the same. He said the public service did not have the required expertise largely because it did not pay enough for these specialists.

UBS forges ahead with its banking challenge

58 Star 28/11/89

By Derek Tommey

Times may be hard in the banking world, but this has not stopped UBS Holdings, parent company of the United Building Society, from reporting a 33,1 percent increase in pre-tax profits in the six months ended June.

Pre-tax profits rose from R91,3 million to R121,6 million. But the tax rate also rose and taxed profits increased by only 27,2 percent — from R52,1 million (25,2c a share) to R66,2 million (32,7c a share).

More good news for shareholders is that a similar increase in profits is expected in the six months to March, next year.

The chairman, Mr Herc Hefer, says the results are highly satisfactory and most shareholders are likely to agree with him.

However, shareholders would probably liked to have seen the interim dividend raised by more than the 13,6 percent from 11,0c to 12,5c a share.

But the chief executive, Mr Piet Badenhorst, explained that the United needed to retain funds for the group's future expansion. "There is a considerable road to go in the development of the United", he said.

He also pointed out that the final dividend was usually at a higher rate than the interim payment. Last year, the 11c interim was followed by a 16,0c final payment, and a higher final could be expected this year.


Herc Hefer

A 45 percent increase in net earnings from advances from R121,1 million to R175,8 million was a major reason for the rise in the Unitd's profits. Although advances at June 30 were only 5,9 percent higher at R11,3 billion, the interest received from borrowers rose 48 percent, from R688,2 million to R1 023,6 million.

Interest payments rose 49 percent from R567,1 million to R847,8 million.

Mr Badenhorst said the increase in earnings from advances was the result of more normal conditions in the banking world. Earnings last year had been depressed by the interest rate war.

He expected interest rates to continue moving sideways. The authorities did not want a reduction in rates at the moment. But neither did they want them to go higher, and they had turned down flat a request from the banks last week for an increase in rates.

Net income from investments also improved, rising 37,6 percent from R93,4 million to R128,5 million. Deposits rose nearly 17 percent to R12,6 billion and investments by 34 percent. Reserves climbed 17 percent to R648,2 million.

However, the rapid growth of the recently formed United Bank and the need to build up an infrastructure, has resulted in operating costs rising 30 percent from R178,6 million to R232,3 million - in spite of tight controls.

The United Bank was making profits and had made significant progress, said Mr Hefer. As the bank's client base and services were expanded its fee income should rise.

Mr Hefer indicated that an increasing number of the United's shares are moving out of the hands of small shareholders into the vaults of the big financial institutions.

Some 49 percent of the group's shares were now held by institutions, and some were up against the 10 percent limit imposed by the Banks Act on buyers of bank shares.

The United did not expect anyone to try to take it over, and it had no plans itself for any acquisitions or mergers.

But he added that the United, like other banking groups, was continually seeking ways to reduce operating costs.

Looking ahead to the six months ending next March, Mr Hefer said that economic and trading conditions would remain difficult. But the increase in earnings to September should be maintained.

UBS Holdings posts higher earnings

58 Cape Times 28/11/89

Own Correspondent

JOHANNESBURG. — UBS Holdings has declared a conservative 13,6% increase in interim dividends to 12,5c a share (1988: 11c) for the six months to end-September.

The heavyweight blue chip financial services organisation posted a 26,7% higher earnings of 32,7c (25,8c) a share.

The dividends are covered 2,6 (2,3) times, boosting reserves 17,1% to R648,2m. Overall shareholders' funds were up 8% to R1,3bn. Yesterday the share shed 5c on profit-taking ahead of the results, to close at 580c.

This is just off its 12-month high of 585c and values UBS Holdings at R1,4bn on market capitalisation.

Chairman Herc Hefer said information showed that institutions now owned 49% of UBS's 239m shares.

He said the results were "highly satisfactory, bearing in mind the high cost of funds, the intense competition in financial services market, and reduced demand in some product areas against a background of prevailing high interest rates."

A recent analysts' report released ahead of the results said that UBS is "well capitalised and is expected to report about 25%-30% EPS and DPS growth for the year to March 1990.

"Retail margins after March 1990 are likely to narrow which will reduce earnings growth in 1991.

"UBS is well positioned to make further acquisitions in the next couple of years".

Attributable interim earnings were 27,2% up at R78,2m.

Interest earned on advances increased substantially in the period by 48,7% to R1,1bn (R688,2m) and interest paid on deposits was up in sympathy by 49,5% to R847,8m.

Taxation increased 41,3% to R55,4m as the tax rate changed from 42,9% to 45,6%. The share of associated companies' retained profit rose 46,8% to R13,8m. Deposits rose nearly 17% to R12,6bn as advances grew 13% to R11,3bn and investments by 34%.

Hefer said United Bank has made significant progress in penetrating the cheque and credit card markets. Overall, "although conditions are expected to remain difficult we anticipate that the group will maintain the level of increased earnings".

Heavyweight UBS increases dividends

B/Day 28/11/89. (58)

BARRY SERGEANT

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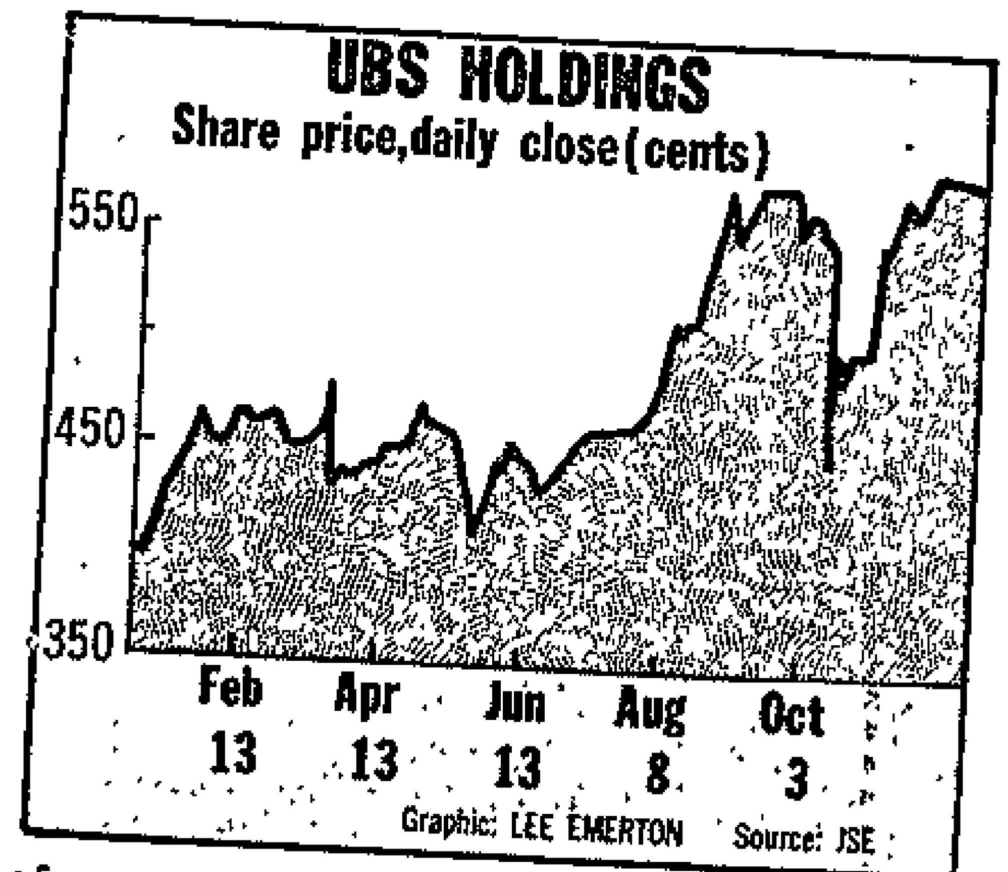
This is just off its 12-month high of 585c and values UBS Holdings at R1,4bn on market capitalisation. The highly rated share has recently been given much interest by institutions. Chairman Herc Hefer said information showed that institutions now owned 49% of UBS's 239-million shares. He said that one buyer of UBS shares had accumulated a stake of 10% over a 14-month period.

Investment experts generally rate UBS Holdings as a market leader in the banks and financial services sector, along with Stanbic, Nedcor and NBS Holdings. If the latest UBS results help to strengthen its share price, the indication of a break in the sector's four year relative strength down-trend-line may be confirmed.

Hefer said the results were "highly satisfactory, bearing in mind the high cost of funds, the intense competition in financial services market, and reduced demand in some product areas against a background



of prevailing high interest rates."

A recent analysts' report released ahead of the results said that UBS is "well capitalised and is expected to report about 25%-30% EPS and DPS growth for the year to March 1990. Retail margins after March 1990 are likely to narrow which will reduce earnings growth in 1991. UBS is well positioned to make further acquisitions during the next couple of years".

The analyst "strongly" recommends UBS share accumulation and said the share deserves a rating alongside Nedcor and Stanbic. Attributable interim earnings were 27,2% up at R78,2m. Interest earned on advances increased substantially during the period by 48,7% to R1,1bn (R688,2m) and interest paid on deposits was up in sympathy by 49,5% to R847,8m.

Hefer said that despite United Bank's

☐ To Page 2

UBS increase

B/Day 28/11/89. (58)

☐ From Page 1

current phase of rapid growth and the consequent requirements for expenditure on infrastructure, the growth in group operating expenditure has been contained within satisfactory levels. He said that United Bank's assets now exceeded R1bn and it was now making a meaningful contribution to group profits.

Taxation increased 41,3% to R55,4m as the tax rate changed from 42,9% to 45,6%. The share of associated companies' retained profit rose 46,8% to R13,8m. Deposits rose nearly 17% to R12,6bn as advances grew 13% to R11,3bn and investments by 34%.

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● Picture: Page 3

CIB appears poised for growth

B/Day 28/11/89

58

BARRY SERGEANT

SPECIALIST niche operator Cape Investment Bank Holdings (CIB) has announced its restructured balance sheet and projections for the year to June 30 1990.

Overall, the operation appears to be well-capitalised, well poised for growth and underpriced at 210c.

CIB, which reached the JSE through a reverse takeover of The National Discount House (NDH) Group Limited, shows R27,1m shareholders' funds on July 1, to which date it was effectively a cash shell.

The group is held 30% effectively by Picbel, 6% Cape Town Pension Fund, 20%-25% management and staff, with the general public holding the balance. After the reverse takeover and temporary cash shell structure, the consolidated income statement to June 30 is not comparable with earlier periods.

This shows net income after tax declining from R3,5m to effectively zero. This, mainly the results of the defunct NDH, saw earnings per share slip from 8,8c to zero. Extraordinary items of R4,3m, which include R2,3m from the sale of 30% of NDH, were earmarked non-distributable in the latest accounts.

CIB itself traces its start to January 1988 when it was granted a banking licence. It traded prior to the reverse takeover and declared a profit after tax and transfer to internal reserves of R500 000 for the year to June 30. No dividend was declared as this was regarded as covering the "formation phase of CIB".

After the CIB-NDH transaction effective March this year, says CIB chairman Jan Pickard jnr, "rationalisation in the banking industry and a realisation that 'small is not necessarily beautiful' dictated that CIB needed to increase its capital base".

The initial motivation for CIB's banking licence, says CIB MD Andy Swartz, was motivated by specialised merchant banking functions to the SA institutional and corporate markets, and government and semi-government institutions.

Leading

One of the main objectives was to become a key participant in the domestic financial trading market. Swartz says CIB has spent material costs on hi-tech trading systems. "Today CIB is active in domestic money and capital markets, including trading in futures, options and hybrid instruments.

"With our innovative development in the derivatives market, we have established a leading edge in the management of corporate debt." Of CIB's total staff of 55, 20 are dealers — a ratio which is quite unlikely to be found at any other bank.

But Swartz says CIB regarded as equally important the establishment of a presence in the corporate market for traditional banking services.

To this end, CIB has a project finance team in Cape Town and a special projects as well as a corporate finance team in Johannesburg — its only other office. In both cases, staff with substantial experience have moved over from other financial services organisations.

On the financial side, CIB has issued some 10,6-million shares giving it a market capitalisation of R22m at the ruling 210c price. A circular to shareholders forecast earnings on the enlarged capital base of R3,9m for the year to June 30 1990.

This gives CIB a projected earnings per share of about 36,8c. This in turn gives a forward earnings yield of 17,5%. The forward dividend, given the group policy to cover 2,5 times, is 7% and the price:earnings ratio 5,7 times.

All figures are above the sector average — for banking and financial services — but the figures are based on projections and it is not timeous to suggest that the counter is underpriced. At the ruling price the counter is trading at a 14,3% discount to net asset value. This is a rare phenomenon in the banking and financial services sector.

Swartz says the R3,9m projection was made before CIB entered into agreements regarding its corporate finance division in Johannesburg. At that stage, about 50% of the projected R3,9m was expected from the dealing desk. If the new partnerships do indeed help to swell the bottom line, CIB would be closer to achieving its targeted 20% return on shareholders' funds.

The projected R3,9m chalks a return of 15%, well below the 25% achieved by comparable competitors such as UAL Merchant Bank. But Pickard makes the important point that with R27m shareholder's funds, the bank is "currently adequately capitalised and we do not anticipate the need for further capital expansion in the forseeable future".

Consolidate

While CIB — which regards as its major competitors Johannesburg-based merchant banks — may be adequately capitalised, it would suffer nothing by fully disclosing its inner reserves. And the Picbel group, which no doubt saw the CIB joint venture as a means of diversification and saving costs, has not been doing as well as it might.

Pickard, however, sees a bright future for the 1990 financial year. "After the enormous growth that has taken place in the past 18 months, CIB will consolidate its positioning in those markets where it has already established itself."

Hotline to report lost or stolen cards

Sowetan 29/11/89

58

FIRST National Bank has introduced a 24-hour toll-free hotline for customers to report lost or stolen BoB cards and Firstcards.

This has been established as an additional service for clients who are unable to report lost or stolen cards to branches during normal banking hours.

Once a card is reported lost or stolen it will immediately be "hotted" on the bank's mainframe records and downloaded to its Automatic Teller machines.

At the same time, the BoB service centre will order or arrange for a replacement card for the customer.

"We are pleased to be able to provide our clients with this new facility which is able to offer them extra protection and peace of mind in the event of their cards going missing," said Jimmy McKenzie, senior general manager at First National Bank.

AA Life has achieved further growth

B Day 29/11/89 (58)

LIZ ROUSE

AA LIFE, recently selected as a non-listed company award finalist, achieved further growth in the six months to October.

The assurer posted an increase of 23% in the value of policies in force, after allowing for lapses, claims, maturities and other terminations; a 47% increase in net premium income; and a 54% growth in new business income.

● BENFIELD

In addition, according to Life Office Association statistics, AA Life has expanded its market share by about 20% over the past 12 months.

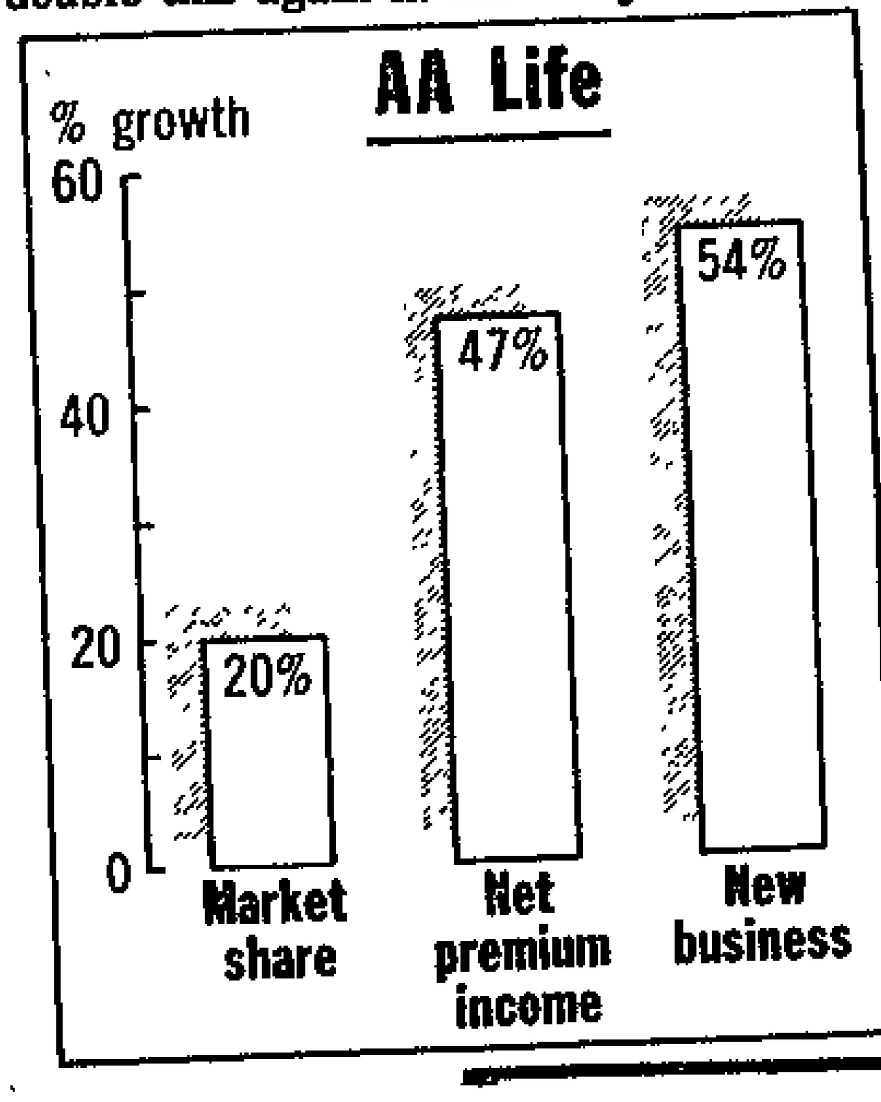
The company has now achieved one of its early ambitions, says MD Brian Benfield, and is now established firmly in the top 10 life assurance companies in SA.

Benfield says AA Life's business operations were strenghened considerably by a link with Anglovaal earlier this year when that group acquired a 41,6% stake in the company and the capital base was simultaneously more than doubled.

Benfield says AA Life is resolute in its drive for a greater share of the SA life assurance market and that growth has been stimulated through innovative products, including the terminal illness benefit clause now attaching to all its life policies and the Women Today Plan.

Since 1984 AA Life has often enjoyed the distinction of being the fastest growing life office in SA. Last year its net premium income rose by 164%, investment income by 36% and company assets by 30%. Management and overhead expenses were contained to a satisfactory 9,3% of net premium and investment income.

Benfield says the company is on its way to achieving its ambition to double its assets to R500m by December 1990 and double this again in the early 1990s.



B/Day 29/11/89

Only 10% of SA's blacks qualify for housing loans

(58) TANIA LEVY (339)

MORE than 90% of SA's black population earned less than R800 a month, TPA housing director Jan Breytenbach said in Pretoria yesterday.

At a conference for representatives of self-governing states, Breytenbach said this meant only 10% of blacks could be served with housing loans by building societies. He was quoting figures in a survey accepted by the Committee of Housing Ministers.

Breytenbach said building societies were not keen to grant housing loans for less than R20 000 — an amount way beyond the reach of the lower income group.

According to the Urban Foundation and Society of Financial Institutions, individual loans could be granted to suitable applicants for amounts as low as R12 500, representing monthly instalments of R210 at 20% interest over a 30-year repayment period.

However, it was generally accepted that individuals could afford to spend up to 25% of their monthly income on housing. A loan of R12 500 would only be affordable to applicants with a minimum income of R840 a month, he said.

The SA Housing Trust required a minimum monthly income of R600 before considering an application, Breytenbach said.

It was safe to say the backlog in black housing in SA amounted to between R1m and R2m. A provincial survey in March disclosed that about 1,25-million families lived in temporary structures.

It would cost R8,2m to provide each family with a site and rudimentary services. To erect a low-cost house on each site would cost a further R10bn (R7 000 a house).

Lack of funds would force government to supply only affordable rudimentary services such as water provision.

No more money would be available for loans for self-build houses. Local authorities and the private sector would have to play a role in provision of housing.

Involvement of private sector finances had still to be exploited.

Roetz resigns as MD at TrustBank

58

Finance Staff

TrustBank suffered yet another blow when it was announced that its managing director of barely eight months, Mr Kobus Roetz (51) suddenly resigned on Monday.

Mr Roetz, a career-banker who worked his way up through the ranks to head up one of the five largest commercial banks in South Africa, was appointed as successor to Dr Chris van Wyk in March this year.

Simultaneously Dr van Wyk was appointed chief executive of Bankorp, the holding company of TrustBank, which was delisted from the Johannesburg Stock Exchange earlier this month in the wake of the major restructuring at Bankorp.

According to a press statement issued by Bankorp yesterday, Dr van Wyk will fill both senior posts at TrustBank for at least a year until a successor is found.

Dr van Wyk this morning refused to comment on allegations published in the Afrikaans morning paper, *Beeld*, that Mr Roetz was asked to resign after alleged irregularities at the bank's debt collection agency Kolektor came to light.

Two luxury German motor vehicles, two bottle stores and a game farm was mentioned in the newspaper's report.

Dr van Wyk also refused to comment on rumours that more senior staff-members at TrustBank would be asked to resign.

"I have nothing to add to my press statement that Mr Roetz left in order to pursue his private business matters," Dr van Wyk said this morning.

"It is an internal matter for the bank and we have resolved our differences like gentlemen," he added.

Mr Roetz last night admitted some difficulties with his board and said that he decided to devote all of his time to develop his private business concerns.

"There is nothing sinister in my leaving. My board and myself were at loggerheads over various matters to which I could not resign myself."

However, The Star was not able to contact Mr Roetz this morning over the latest press reports.

Kobus Roetz

Star 29/11/89

TrustBank MD Kobus Roetz steps down after meeting of board

B/Day 29/11/89

(58)

BARRY SERGEANT

AFTER eight months at the helm, TrustBank MD Kobus Roetz stepped down with immediate effect yesterday after a board meeting on Monday. He has been replaced by Bankorp CE Chris van Wyk, MD from 1983 to 1989 and now the bank's chairman.

Van Wyk resumes his former post for a period of "at least a year", according to a statement released last night. He also retains his responsibilities as Bankorp CE.

Yesterday Roetz told Business Day that it was premature to give details about the change. But he said that "the parting is by mutual consent". He would not give details. A TrustBank statement last night said he had "tendered his resignation to pursue his own interests".

Shortly after Business Day spoke to Roetz yesterday, and he agreed to pose for a photograph, the newspaper received a Press release from Trust's communications agents which confirmed what Roetz had said. In a routine call to acknowledge that the release had been received, Business Day was told that the Press release had been "cancelled".

Official TrustBank spokesman Etienne van Loggerenberg confirmed that this was so, and that Van Wyk was unavailable for comment. Van Loggerenberg later issued another statement confirming Roetz's departure.

Roetz joined TrustBank in 1960 in Cape Town and served in Pretoria, Bethal, Namibia and the Free State.

TrustBank, a Bankorp subsidiary, was delisted on November 17 amid a restructuring of its holding company. The Bankorp share shed 5c yesterday to close at 340c, far off its 12-month high of 490c. The Bankorp restructuring is incomplete until reaction is known to the Bankorp-TrustBank scheme of arrangement. This offers scheme members the choice of cash or shares in Bankorp — or a bit of both.

The restructuring, according to a stockbroker's analysis, was forced when the Bankorp group over-extended its asset base from an inadequate capital base and return on assets that was "far too low". Of 37 banks analysed in June, TrustBank had the lowest equity:assets ratio.

The restructuring, as well as a number of highly-publicised foreign exchange irregularities linked to TrustBank, have given Sanlam-controlled Bankorp a lowly rating by the market.

Bankorp's market capitalisation at R361m yesterday, is the lowest of the "Big Five" banks. A recent analyst's report says Bankorp's rights issue will "result in significant dilution of earnings per share to June 1990".

"Nevertheless, the group still looks thin on capital. Rapid asset growth during the past two years probably means bad debt levels will escalate."

ROETZ

Business

URSDAY, NOVEMBER 30 1989

(71c + 9c tax)

Ex-TrustBank MD seeks legal advice

B|Day 30|11|89 (58)

BARRY SERGEANT

KOBUS Roetz, who on Tuesday stepped down as TrustBank MD, spent most of yesterday with his lawyers.

He said last night that the meetings were entirely to do with allegations made by certain newspapers about why he had left the bank.

He said a decision on whether or not to take legal action had not been made. He said he would be back in discussions with his lawyers at the start of business today.

TrustBank spokesman Etienne van Loggerenberg said the allegations made were of such a nature that the bank may need to make routine checks to confirm or deny them.

He said that one of the companies mentioned in the allegations, TrustBank subsidiary and debt collector Kolektor, had been subject to routine audit checks, as was normal in any operation or division of a bank.

He said that nothing extraordinary had emanated from the most recent report, which had been completed "some months ago".

Van Loggerenberg agreed that the announcement of Roetz's leaving the bank was abnormal in several respects. The Press statement was very brief and said that Roetz's resignation was "immediate" as was the appointment of Chris van Wyk to TrustBank MD.

The announcement also said the decision had been made after a TrustBank board meeting on Monday. Van Wyk, who was TrustBank MD from 1983 to March 1989, remains CE of Bankorp, TrustBank's full parent. The announcement said Van Wyk would hold the position of TrustBank MD for "at least a year".

Rembrandt lifts net income 42,5%

STELLENBOSCH — The Rembrandt Group posted a 42,5 percent increase in net income to R383 million (R268,7 million) for the six months to September.

Earnings a share were accordingly higher at 66,4c (51,74c) and an interim dividend of 8,75c (7,50c) was declared.

Rembrandt also clarified the extent of its interest in Gold Fields of South Africa (GFSA), after increasing its holding through the acquisition of the major stake held by Hanson through Consolidated Gold Fields in August.

After taking into account the recent GFSA rights issue, the group holds a 40 percent interest in Gold Fields Holdings which in turn holds a 43,7 percent interest in GFSA. The group's indirect interest in GFSA is now 17,5 percent, on a fully diluted basis as against 9,5 percent previously.

The additional investment, including costs and the taking up of rights, amounts to R911,2 million and is being financed out of own resources, by preference shares issued by a wholly-owned subsidiary and by loans.

The financial statement released yesterday says that the transaction has had no material effect on the group's results for the six months under review, as the reporting period of GFSA used for inclusion of attributable income in the Group's interim results ends on June 30.

Rembrandt Controlling Investments (Rembrandt Beheerend) increased net income to R195,6 million against the previous R137,2 million.

Earnings per share showed a corresponding increase to 49,17c (38,31c), while an interim dividend of 6,48c (5,55c) was declared.

Technical Investment Corporation reflected an improvement in net income which was higher at R79,3 million (R55,7 million), which translates into earnings a share of 26,56c (21,27c).

An interim dividend of 5,68c (4,87c) was declared.

Technical and Industrial Investments' net income was higher at R66,7 million (R46,7 million). Earnings a share rose to 45,76c (35,61c) and the interim dividend was raised from 5,16c previously to 6,02c. — Sapa

Weakening dollar will bolster gold

58

Star 30/11/89

By Neil Behrmann

LONDON — Gold's continued stability, despite this morning's decline to levels of $405 in Hong Kong, impressed bullion dealers who believe that a weakening dollar in coming weeks will provide support for the metal.

"Gold was clearly overbought and the market needed a correction," a New York precious metals dealer says.

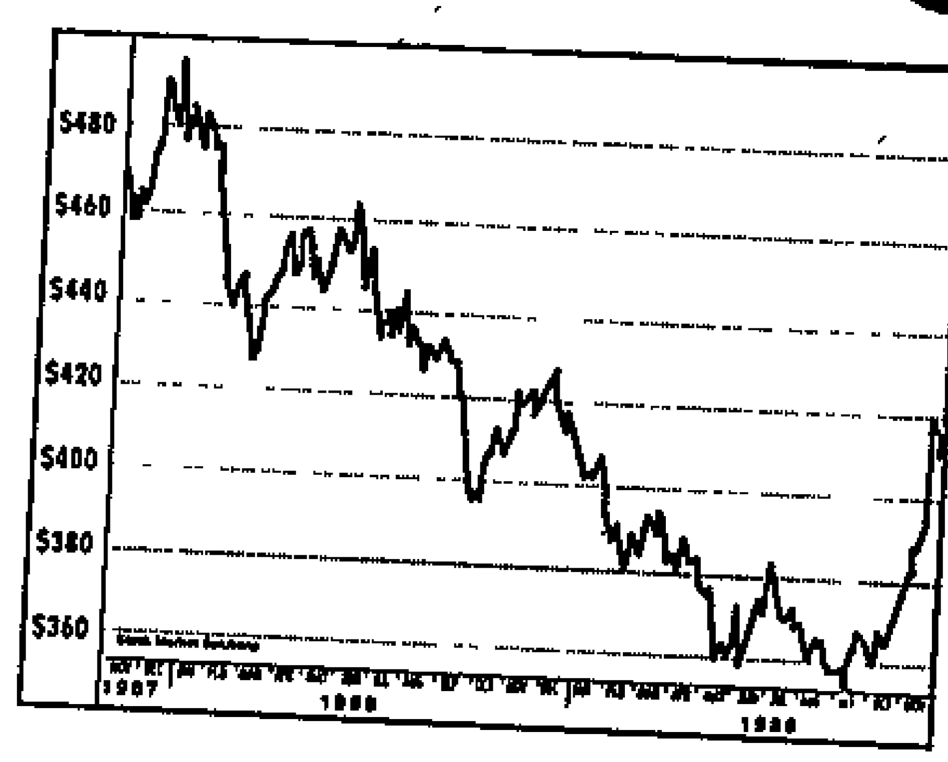
A Swiss bullion dealer, however, has noticed that Far Eastern and Middle Eastern fabrication and hoarding has waned. "This is perfectly reasonable considering the surge in prices in the past few weeks," he says. "It is not surprising that they are holding back".

A London precious metals dealer also notes that fabrication consumption tends to fall between December and January. Nevertheless the sharp increase in gold prices has startled Swiss portfolio managers who had steadily reduced their clients gold holdings in the past two years.

There was such a surge in demand from the Middle and Far East in 1988 and 1989, that it was difficult to supply the market with physical gold, the bullion manager said. Those supplies mainly came from disenchanted investors who sold gold.

Now the reverse is occurring. Swiss portfolio managers are prepared to raise their gold holdings whenever the price dips, he says and these purchases should underpin the market.

The surge in gold prices mainly took



Gold price in dollars

place because the professional market was caught short. The big question is whether investment demand will continue and fulfill the bulls' targets of $450 to $500 in the next six months.

Gold's main competitor from an investment point of view will be the Deutschemark. Funds have been flowing into DM currency deposits which are now paying interest of 8 percent, virtually in line with dollar rates.

In the past few days, the dollar has fallen decisively below the DM's support range of 1,80 and is currently trading at 1,775, only a few percent higher than central banks' lower support range of 1,70.

Since its low point in June, the DM has appreciated by 15 percent against the dollar, the same percentage as gold from its low point in September. The difference, however, is that investors have received interest on their money.

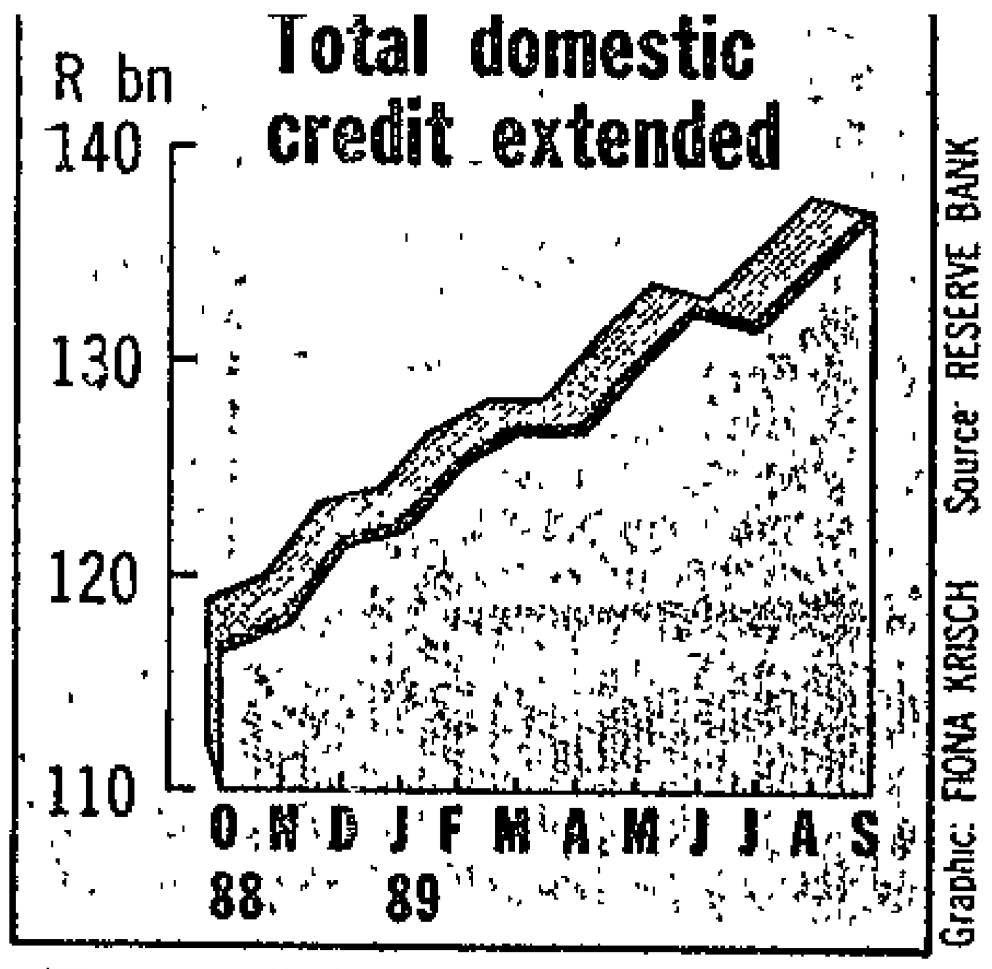
Most of the DM's appreciation took place in the past few weeks, but the DM accelerated in the past few weeks following the demise of the Berlin Wall. Even though the DM appears to be overbought dealers expect the curtrency to rise further.

The West German economy is expected to grow rapidly in the coming year because of the inflow of immigrants and increased business with the East. Since many industries are operating at full capacity inflationary pressures are building up. So the Bundesbank will have no alternative but to keep interest rates high or even raise them.

Menawhile the US economy is weakening and dealers are expecting a further decline in interest rates there. The inevitable result has been a flow of funds from the dollar to Deutschemark.

Nevertheless gold is such a small market when compared with currencies, that only a small amount of funds can boost it. So the metal will also benefit from the flow.

Few dealers expect a dollar collapse. Central banks will step in to support the metal. The Federal Reserve Board has also indicated that it will not drop interest rates regardless. If indeed rates rise unexpectedly, Wall Street and other stockmarkets could decline . Highly prioced gold shares will not be imune from such a reaction.



Durables suffer as credit growth slows

GRETA STEYN

RESERVE Bank figures for overall domestic credit extended by all monetary institutions show that the rate of growth has slowed to 3,5% between the second and third quarters from 5% in the second quarter.

B Day 30/11/89

On a longer term view, credit has grown by 17,3% between October 1988 and September this year — a moderate rate of increase when compared with the 41% explosion in bank credit in the corresponding period a year ago.

Standard Bank credit manager Ian Gilbert believes the slow-down is probably not as marked as the Reserve Bank would like to see.

"There is some distress-borrowing from consumers facing debt difficulties and corporate demand has not abated significantly."

Nedfin MD Ron Rundle said: "There is no doubt consumer spending on durables has been hit hard by restrictive policies. This Christmas should see spending on durables below last year's."

However, the slow-down in credit demand has been uneven and some banks report continued strong demand for home loans. The increase in banks' mortgage holdings has averaged R400m for the five months between May and September 1989.

This is not far below the average of R427m for the five months between September 1988 and January this year before the new round of interest rate increases began.

58

Standard Bank home loans manager Terry Power said: "The past quarter has been the best in a long time. Consumers are becoming increasingly aware of banks

☐ To Page 2

Growth rate slows

B Day 30/11/89

as providers of home loans."

The building societies, by contrast, have seen a far more marked slow-down. There was an average R166,4m increase in societies' mortgage holdings in the five months to September 1989 — a sharp drop from the R302m in the September 1988-January 1989

☐ From Page 1

58

period.

The Allied's Geoff Bowker said the banks had emerged as permanent players in the home loans market. He said the demand for mortgage finance had remained "acceptable" in spite of the competition.

FINANCE B/Day 30/11/89 58

Competition causes changes in corporate finance markets

ROBERT GREIG

COMPETITION has been the driving force behind recent changes in SA's corporate finance market.

But since the listings boom ended, competition has gradually yielded to a recognition that the competitive edge in corporate finance work lies in the innovation, creativity and thoroughness of execution of a team drawn from different disciplines.

In addition, there is a growing recognition that strength of teamwork also lies in the particular life experience of each member of the team, says a new survey of the SA corporate finance services market.

The survey is sponsored by UAL Merchant Bank and accountants Kessel Feinstein. It was researched and written by Rhonda Stewart & Associates and McGregor's On-Line Information.

Transactions

It reviews the listings boom of 1987, the subsequent crash and their effects on the corporate finance markets. It is aimed at the company considering listing. The survey was compiled during the second quarter of 1989 before the October mini-crash.

It names leading merchant banks, brokers, accountants and advisers in major transactions, describes the post-crash roles adopted by the major players, interviewing many executives and providing case-studies of major transactions.

Today the market is "characterised by plenty of corporate finance consultancies capable of processing documentations, on the one hand, and a shortage of skilled strategists on the other".

The survey says effects of changes include the entry of highly focused independents operating in niche markets; and the growing corporate finance capability of major conglomerates.

Blurring of roles in the corporate finance services market became pronounced during the strong bull runs of the '80s. The traditional divisions of functions of lawyers, reporting accountants, auditors, management consultants, stockbrokers became porous.

The survey continues: "Those brokers involved in going solo were quick to backpedal when they found their relationships with merchant banks suffering.

However the newly formed Venture Capital Market may "resuscitate the added-value broker".

The strength of the broking firms is their placing power, knowledge and understanding of market sentiment and ability to give crucial advice about pricing.

However, the survey says, potential conflict of interest limits the involvement of brokers in major transactions.

Another constraint on brokers is their smaller capital base, compared to merchant banks, and thus a limited underwriting capacity. Finally, according to Fergusson Brothers' Ian Davidson, brokers are limited by their agent role.

The scope for auditing firms' involvement in JSE-related corporate finance activities has "broadened significantly", says the McGregors survey.

Because they are closest to clients' financial affairs, "the experienced auditor is ideally placed to conceive and motivate the listing on behalf of the client".

Worldwide, the survey says, auditing firms are diversifying into non-audit work, because audit hours are shrinking — a by-product of audit technology efficiencies and merger activity among major clients.

The listings boom saw SA firms form corporate finance divisions competing on fees and skills for smaller corporate transactions. Their competitiveness lies in their overseas connections; their privileged position as auditors; and by the range of specialist skills assembled in auditing firms' management consulting divisions.

Limitations on the auditing firms, according to the survey, are: finance; inability to take equity in clients for fear of losing the audit; marketing constraints; and professional and financial services industry dissension about the propriety of independent auditors also acting as business partners.

Expertise

The survey sees a trend towards freer competition between merchant banks, with a gradual decline in "favoured nation" transactions provided through the structure of control of merchant banks.

The survey notes more major corporations are spreading their merchant banking business more as they develop in-house skills. Gradually, they are relying more on merchant bankers' expertise rather than their financial support.

The survey comments, citing the example of Barlow Rand's policy of leaving choice of merchant bank to group companies, that "tied business is more likely to be reinforced in the smaller groups ..."

Stals approves VAT recovery scheme

68

Finance Staff

The Governor of the Reserve Bank, Dr Chris Stals, has given his support to Safto's VAT Recovery scheme which allows South African business travellers to reclaim valued added tax levied on services in the European Community.

The facility saves the traveller's company foreign currency, reducing travel costs, and also saves South Africa valuable foreign exchange.

To reclaim VAT the company sends original invoices, with documentation supplied by Safto, to Travelex Financial Services, a clearing agent in Britain responsible for the collation and preparation of claims for submission to EC tax authorities.

The service is open to any company doing business in Europe, whether importing, exporting or merely attending a board meeting.

Business related

However, only business-related expenditure, such as hotel accommodation, car rental, subsistence meals, training and exhibition costs, is covered by the facility.

Safto has marketed VAT Recovery to South Africa's export community in the past 10 months.

In that time a South African motor manufacturer has reclaimed 52 000 German marks through the scheme.

Safto's marketing executive, Mr James Ford, says the time has come to extend the service to the business community as a whole.

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