MANUFACTURING - BEVERAGES

1998
Partners waiting for speedy action from SAB

ANN CROTTY

Johne was not too keen on the empowerment disaster that the JCI has quickly become, but it is certainly not looking like a very attractive deal for the cash-strapped members of the National Empowerment Consortium (NEC) who scratched together to get the necessary funds to finance their stake.

Just over a year later, most of them are loosing money on the deal — not as much money or time as Mzi Khamulwe's team, but enough for it to feel more disempowering than empowering. The NEC members have four years to go before they take possession of their shares.

To give Anglo American the benefit of the doubt, it probably did not realise how quickly the straw pyramids that underpinned Johannse would begin to fall apart. But right now, Premier Group is on the verge of a major unbundle exercise and SAB should be.

How these processes unfold will be critical to the value of the NEC's assets and will determine whether they will be able to take possession of their shares or will instead have to pay up for the dubious pleasure of being, for a brief while, empowerment partners.

While Premier has declared its intention, SAB's has been much more coy. In November it was announced the OK Bakers was sold to Shoprite/Checkers for the princely sum of R1. This was for a retail group that in the '90s and '70s had been the star of the South African retail sector.

While the sale was highly significant in its own right, what was almost as important was that this was the first real indication that SAB head office was prepared to dispose of assets.

Throughout the '90s and into the first half of the '90s, the beer giant had seemingly only known how to acquire anything from textiles to glass to clothing retailers, it had even acquired the odd brewery.

The acquisition drive had more to do with ill-conceived and short-term perceptions within the financial sector than with SAB's own strategic drive. Cash flush institutional managers used SAB as a hold all for all manner of industrial and consumer assets seemingly without considering the negative effect it would have on the focus of SAB's management.

By the mid '90s it had become apparent that even SAB's excellent management team could not add value to such a wide array of assets. In the absence of focused direction, casualties were emerging throughout the portfolio.

The greatest fear was that SAB head office would stretch itself so much in a futile effort to patch up the problems, that it would lose the edge in its most important business — brewing. Given the competitive changes in SAB's domestic and international brewing operations, it was becoming increasingly important that head office stuck to the knitting.

Despite growing rumbles of disquiet among investors and analysts and disquiet the fact that the share price rating has been its position as the fourth largest brewery in the world, SAB head office continued to copy that remark that they had no plans to sell off assets.

Within weeks of the announcement that OK had been sold, analysts were unloading months ofpent-up analyse about how the whole portfolio would be trimmed back to the beer essentials. By the time management faced the media and analysts to discuss the September interim results, it was apparent that the main areas of interest were the plans for asset disposals.

The market immediately interpreted this to mean that everything apart from Anlagamed Beverage Industries, Appletiser and domestic and international beer operations would be up for sale or would be unbundled in the foreseeable future.

In brief, here is what the market is expecting. Because of its size and the possible difficulty of attracting a buyer, SAB will be left with the bundle Edgars, leaving the retailer without any controlling shareholder. Analysts say this would be good for management, which might have become accustomed to a comfort zone but had obviously had little to do with being under the direction of SAB head office.

For reasons of size it is also likely that the Plate Glass stake will be unbundled and the shares distributed to SAB shareholders. This would again result in a no-control situation, but analysts point out that as there has been little drive from SAB and the best performers of the group are the overseas operations, which are closely watched by the Laffer family, a no-control situation would not necessarily be a disadvantage.

Most of the other listed investments are of such a size that disposal to an existing or new international competitor would not come up against Competitor Board opposition, but present too great a financing burden. Indeed, many could present useful opportunities for further empowerment exercises.

For the time being, the hotel interests will have to stay where they are, but analysts are expecting a separate listing in the not-distant future.

Another important consideration is that the SAB financial muscle is needed to strengthen Southern Sun's Tsogo Sun but for casino licences. Gaming analysts are optimistic that one of Tsogo Sun's strongest assets in the battle for licences is the backing of SAB.

At the recent Gauteng gaming board hearings, Tsogo Sun indicated that it would not seek a listing for at least three years. It would not make sense for SAB to carry the development costs of Tsogo Sun and then not want until it could reap the full benefits of licence allocations.

For the benefit of NEC partners, SAB needs to act with a little more haste to generate value from its conglomerate of assets.

(182) CT(ER) 1/3/98
Consumers warned of illegal tequila

South African consumers should be aware of illegal tequila in the market, Aldo Aldana, the secretary for economic and cultural affairs at the Mexican embassy, said recently.

The Tequila Regulatory Council, a Mexican government body, has also issued a public notice outlining tequila's international protection status. Aldana said recent moves by local businessmen to build tequila distilleries in South Africa, and marketplace speculation that illegal tequila was entering South Africa, had prompted the notice.

Tequila is internationally regarded as an appellation of origin that belongs to the Mexican government and which is regulated and protected according to the Treaty of Lisbon. This protection is administered by the World Intellectual Property Organisation. Aldana said tequila was one of the fastest growing spirits in South Africa — at least eight brands are sold here.

"But with so many brands on the market it is easy for the consumer to be fooled into buying illegal products," he said. — Runei Maharaj, Durban
Businessman has plans to export tequila

SA: BUSINESSMAN

Gawie Venter has given up his battle with the Mexicans to produce locally made tequila, but he has found another way to produce the drink legitimately.

Venter established a company called Tequila & Mescal last year to produce tequila at a distillery in the Eastern Cape. This did not go down well with Mexican tequila makers, who said they had sole rights to the name. Tequila, they said, was a geographic name and belonged to Mexico.

Venter said yesterday “it was useless fighting with the Mexicans — we did not want to continue a costly battle so instead we will go about doing business another way.”

A “type of tequila” would be produced in SA and exported. Buyers would market the drink, under a name they chose.

The distillery, which is being established in Graaff Reinet, would be ready to start production late this year.

But South Africans would not be getting a taste of the alcoholic beverage locally.

“We decided to go for the export market because it is more commercially viable for our shareholders. We can get more returns on our investment and claim better dividends.”

Markets targeted would be Russia, Africa, south of the Sahara, and Europe. Venter said potential buyers had tasted samples of the product and were satisfied.
Water bottlers expect 35% growth

Louise Cook (182) 00 16 11 96

PRETORIA — The natural bottled water industry was likely to grow 35% a year over the next five years due to the growing number of tourists and foreigners in the country demanding to buy the product.

SA Natural Bottle Water Association chairman John Weaver said 20-million litres a year were sold locally. Following an expansion drive the industry ended last year with a turnover of R84m.

"The industry's growth of between 30% and 40% over the past three years have made farmers realise there is money to be made," he said.

"They mostly do it on the side to supplement their incomes. Farmers with a source of unpolluted water invest in a small bottling plant of about R100 000 to R200 000."

Eastern Cape producer Dame Erasmus said he started up a factory on his cattle farm a year ago. He has had enquiries for export from the US and Pakistan and his best sales came from 2l and 5l bottles going to Eastern Cape supermarkets and cafes.

SA producers were at a disadvantage to European producers due to high packaging costs in SA and subsidies paid on bottled water in Italy.

"Most competition came from Italy, but local producers would "ultimately" fight back," Weaver said.

Midrand-based Waterval Mineral water and cattle farm manager Essop Moosa said the farm recently invested in a warehouse as part of its plans to expand over the next two years.
SAB seeks court order to stop probe

Shareen Singh

The Competition Board is to oppose a high court application by SA Breweries (SAB) to halt an investigation into whether the group is "operating in a monopolistic way".

Competition Board chairman Pierre Brooks said the reasons for the board's investigation, which were announced in July last year, were valid and the probe was justifiable. The board was determined to proceed with the investigation and was involved in a legal process to challenge SAB's application, which has been filed in the Pretoria High Court. A date for the hearing has not yet been set.

SAB, which controls almost 96% of the local beer market, argues that the investigation is too broad and ill-defined, and does not fall within the ambit of the Maintenance of Competition Act.

"We don't know what we have to prepare for because we don't know exactly what the case is against us," a group employee said.

The investigation as set out by the Competition Board was to cover, among others, SAB's distribution system and licensing agreements; the launching of brands by SAB; agreements, arrangements or understandings not to compete with any other participants in the alcoholic beverage industry; threatening or acting improperly against any potential or existing competitor and whether the group imposes discriminatory conditions on those in the industry with whom it does business.

SAB MD Graham Mackay recently described the investigation as "a fishing trip." Yet the group has welcomed the probe. In July SAB beer division MD Norman Adani said, "We are convinced that a thorough investigation of these issues is almost overdue. ... SAB has been subjected to rumours, innuendoes, unfounded allegations and orchestrated misinformation."

It is understood that the corporation had a change of heart after studying the parameters of the investigation and seeking legal counsel.
Awethu exceeds its profit forecast

AWETHU Breweries has posted attributable income of R1.8m in its debut results for the six months to December, exceeding by more than 20% its forecast for the period.

However, turnover at R16.2m was 11% below expectations. Awethu MD Daryl Sahli said reduced turnover was mainly due to "the result of price and product mix variations from the budget."

He said the results were satisfactory and he was not concerned by the lower turnover figures as market penetration had set a strong base for future growth.

The company's distribution network was working well and the rollout of franchisees was expected to exceed the targeted 330 by June.

Aggressive pricing combined with expanded distribution network saw magwe (sorghum beer) sales volumes rise above expectations.

CD 24/01/98
Durban — The proposed acquisition of Suncrush by Amalgamated Beverage Industries (ABI), the leading bottler of Coca-Cola and allied products, was consistent with the international trend of consolidation within the soft drink industry analysts said yesterday.

They said the acquisition also marked the first step in a five-year plan to rationalise Coca-Cola's R6 billion-a-year franchise bottling network.

It was also the first part of a restructuring programme to prepare the company to be run by black South Africans by 2000.

The deal would result in ABI having a 60 percent share of the Coke bottling market and facilitate Kunene Brothers' acquisition of a controlling stake in Kilimanjaro, the Coke franchise bottler.

ABI said it would buy Suncrush's business for about R1,3 billion, to be paid for through cash and new shares. A portion of that would come from South African Breweries, ABI's parent company.

The acquisition is conditional on approval from the Competition Board—which would make a decision next month—and shareholders in ABI, Suncrush and Dalys.

One analyst said that at the international level Coca-Cola bottlers were increasingly being merged into large-scale operations based on the company's business philosophies, aggressive marketing plan and the benefits derived from the economies of scale.

He said ABI's acquisition of Suncrush, the Coca-Cola franchisee, meant that an enlarged ABI would have increased critical mass and geographic spread in Gauteng, North West Province and KwaZulu Natal.

It would also make easier the achievement of operational synergies resulting in long-term financial benefits, he said.

He said the acquisition was also a strategic step for Coca-Cola's bottling network, which could lead to ABI becoming a key bottler in southern Africa and moving aggressively into the African market.

The analyst also said the Suncrush acquisition could result in further moves to consolidate smaller bottlers. Benefits included increased efficiencies, achieving economies of scale, and enabling bottlers to lift sales volumes and focus on margins.

Another analyst said the acquisition would increase ABI's penetration in South Africa, even though it had no competition...
New bill threatens to pull plug on SAB's right to free water.
Another bottle argues that deal is in interests of blocks monopoly claims (193)
Black bottlers in bitter row over Suncrush sale

Patrick Wadula

TWO major black-owned Coca-Cola bottlers, Kilimanjaro Investments and Kunene Brothers Holdings, are engaged in a bitter squabble over the recent sale of Suncrush to Amalgamated Beverages Industries (ABI)

The sale of Suncrush to ABI had prompted ABI to enter into an agreement with Kunene Brothers with a view to the Kunenees buying Suncrush's 20.9% stake in Kilimanjaro.

Kilimanjaro chairman Richard Mapunya urged the Competition Board yesterday to intervene in the deal which would see Kilimanjaro reduced to a minuscule player in the soft-drink market. "If the Competition Board has to approve the deal, there must be a meaningful participation of a black group and not a family," he said.

Mapunya said Suncrush was being given to a group that already had a monopoly of the cola market. It was not genuine empowerment if ABI and Coca-Cola SA were going to kill one company to support another. He suggested that ABI sell Suncrush's bottling franchises around the country to black entrepreneurs in those areas.

However, KKH chairman Keith Kunene said the proposed ABI transaction with KKH was a legitimate business deal that would ensure the family silver was returned from white-owned and managed companies to Kilimanjaro Bottling.

ABI chairman Mike Samsa said: "The 20.9% interest in Kilimanjaro, which ABI had agreed in principle to sell to the KKH, was acquired legitimately by Suncrush after being put on public sale by the shareholders of Kilimanjaro Bottling."
SAB Plans Russian Investment as Locals Turn to Beer

SA Richards, aged 19, is considering a new venture after failing to secure a job.

to beer
New project to brew better business

Perfection the driving force behind re-engineering project

SAB's Beer Division is revamping its IT infrastructure to help squeeze a few more precious percentage points of productivity from its already super-productive plants.

Improvement programmes have already ensured that SAB is the lowest-cost producer of quality beer in the world. Not satisfied with that, SAB is implementing a multipronged programme to improve productivity by a further 60%.

To realise this goal it will:

- Reduce waste and duplication in its breweries by streamlining administrative systems, and
- Shift the business culture even further away from focusing on individual productivity to one of teamwork.

These elements are present in manufacturing systems manager Andy andrean's current project - to implement a software product called rFPM — an abbreviation of real-time Production Management. The system will reduce waste and duplication in the individual breweries by detecting faulty product early on.

"Each of our brands has a number of 'aspects' that make it unique," says Andrean. "Colour is one example. The beer might have the right taste, but if the colour is wrong, that batch of beer will have to be re-processed.

"With rFPM, we're able to detect an out-of-specification colour as the beer is being processed, and correct it on the spot."

The system models a perfect factory and compares this model with data from the real factory. It measures everything it can. If it finds any aspect deviating from accepted norms, it alerts a process operator who will quickly correct the problem before the whole batch of beer is spoiled.

"The systems reinforce the mindset that we have a plan and we have standards," says Andrean. "We are aware that the plant will deviate from the norm, but the..."
system helps to minimise that deviation. 
Managers can monitor the plant's performance in real time using standard Web-browsing software, thus reducing the administrative burden of producing daily or weekly reports which are out of date as soon as they're printed. In world-class manufacturing this swift report producing, which underpins productivity is called "the hidden factory" in the interests of efficiency managers want it not so much hidden as eliminated.

Another initiative that will streamline the administrative function is tighter integration between the Beer Division's different computer systems. Like many other breweries around the world, SAB predicts demand for its products using advanced planning models. It has separate computer systems for beer distribution, for sales, marketing and enterprise resource planning (ERP) which takes care of the complicated business of running each brewery.

"We're refining our product management philosophy by tying the demand prediction, the costing, the delivery and the supply-side of each product with production."

In a slow-moving environment, all this can be handled manually. But the more competitive an organisation becomes, the faster it must react. SAB's planning is now done centrally, and paper schedules are passed down to each brewery for execution. The new system will integrate the brewery's planning system and the central system so tightly that when the central system changes, the brewery will react straight away. No more paper.

If there's a run on a particular brand, the brewery will know immediately and will be able to produce more without having to wait for instructions.

"The goal of any manufacturing company is minimal inventory," says Andrea. Delays in information transfer cause uncertainty about what's the best stock level.

The company has elected to install SAP software for many of these functions including ERP, but whether it elects to use SAP for its sales and distribution systems is a decision that has yet to be made.

Finally, the more integrated computer systems are giving individuals on the shop floor a glimpse into processes which precede and follow their own. "Instead of having individuals who operate bottling machines, we're moving to teams who are responsible for bottling beer. We can do that, because the teams are aware of what's happening upstream and downstream from them."

The RPM software system is being piloted in three of SAB's seven breweries. Business strategy will determine if the product is deployed in SAB's plants outside SA. Significantly, Andrea says the greatest challenge has been posed by managing change in the organisation.

One of the RPM's subprojects is a management project which looks at transformation and retraining which Andrea says is nothing new for the company. "We are constantly changing. This is just the latest in a series of projects that has been running for many years.

"To get the kind of productivity improvements we're looking for, we need to constantly shift the business culture. That's the biggest challenge. The technology is simply there to underpin the vision."

The RPM implementation project has been in operation for eight months. It still has another four years and four months to go.

Andrea isn't saying what will follow in SAB's quest for 100% efficiency and absolute market control. But he's got a vision.
Takeover of Coke business comes under investigation

The Competition Board is to probe a R2-billion bottling deal, writes JABULANI SIKHAKHANE

Sources said the board, which took the decision to launch a full investigation at its meeting on Thursday, would also probe the black economic empowerment aspects of the transaction.

The probe is also expected to delay the implementation of the deal, which was conditional on the board's clearance.

Maponya, who made a submission to the board, also wants Suncrush's businesses to be sold to black empowerment groups.

ABI said in December it would buy Suncrush's businesses for a combination of cash, new ABI shares and 3.3-million new SA Breweries shares.

Since the deal was first announced in December, the ABI share price has risen 27%.

The probe may heighten tensions between the board and SAB, which has sought a court order to stop the board's probe into whether the beer giant is "operating in a monopolistic way".

SA Breweries controls about 98% of the local lager beer market.
Distillers lifts earnings, forecasts further growth

CHRISTO VOLSCHENK  ECONOMICS EDITOR

Cape Town — Distillers Corporation, the liquor wholesaler in the Bombrandt stable, lifted its inter-

im headline earnings a share by 9,3 percent from 76c to 83,1c in the six months to December 31, the company said yesterday.

Despite a slow economy and an unexciting outlook for consumer spending on wine and spirits in the second half of the financial year, the group still expected real growth in earnings a share for the full financial year.

"Consumer spending on wine and spirits would not improve significantly in the second half of the year," the company said.

Attributable income was up from R106,05 million in the second half of the previous financial year to R118,6 million in the first half of the present financial year.

A dividend of 20c a share (21c previously) was declared.

Distillers warned that uncertainty about the way the Liquor Act might be amended had a dampening effect on investment activity in the liquor industry.

The department of trade and industry had still not finished re-

vising the draft liquor bill, which was shot down by almost all inter-

ested parties in the liquor in-

dustry as "unimplementable".

Recently, a Cape Wine and Spirits Institute spokesman said the industry was concerned about speculation the industry's objections to the draft had not been fully taken on board by the department in the revised draft.

The first draft called for the " unbundling " of liquor groups with retail, wholesale and distri-

bution interests by the introduc-

tion of new licensing rules.

The Distillers share dropped 20c to close at R1 yesterday.
Virgin territory for a ‘different’ cola

MPHO MANJU

Johannesburg — Virgin Cola, the soft drinks arm of the Virgin group, was already on supermarket shelves two weeks ahead of its official launch, Tracy Meak er, the group’s director of corporate affairs, said yesterday.

She said Virgin Cola, which was “a little different” from other colas, would be officially launched on March 4.

“We will have both regular and diet cola in 340ml cans and 31 bottles, and they will be distributed nationwide,” Meaker said.

Although Virgin was not looking for a price war, its cola would be competitively priced, she said.

Meaker said Virgin would introduce more flavoured carbonated drinks later in the year.

Elandsfontein Bottling company would manufacture the product for Virgin Cola while TFD, the food and drinks distributor, would distribute.

DRINKING ARM Steve Pattinson, the managing director of Virgin Cola, endorses the product

“We expect to become the most exciting cola in 1998,” Richard Branson, the founder of the Virgin group, last year announced plans to expand into the US cola market. In the UK, Virgin holds 1 percent of the cola market.
Cadsyp is looking to expand for growth.
New cola drinks fool some virgin palates

BY VICTOR STRUGO

To some, it really was a case of ‘vergin’ on the ridiculous. The occasion was the arrival in South Africa of Richard Branson’s much-touted Virgin Cola, launched in Cape Town on Wednesday night.

Mere hours later, yours truly (author of the Le GastroGnome food-review column in Saturday Star), assembled an independent gourmet consumer panel to taste the new products, Virgin Cola and Diet Virgin Cola, with the market leaders, Coke-Cola and Diet Coke, in a blind tasting.

Amid hushed suspense, Le GastroGnome sat down with his two guests, Ursula Stapelfeldt of SABC Top Billing and 5FM fame, and Josef Eder, executive chef and director of food and beverage at the Park Hyatt Johannesburg, in the hotel’s flagship restaurant, No 191.

Senses attuned, the bubbling sounds were carefully listened to. Visibility restored, tasting began. Glasses were held up to the light to detect berry reds, brick browns, and the odd flash of gold. Then came taste and smoothness.

Not forgetting the three Big Bs: body, bubbles and burp. The drinks were then marked, and the identity guesses handed to the adjudicator. There was no fooling Eder’s sensitive palate, as he correctly identified all four drinks.

Stapelfeldt and Le GastroGnome distinguished the diet drinks correctly, but thought Coke’s fruitier taste belonged to the newcomer.

On the scoreboard, the old products came up trumps over Virgin’s newcomers. Coke scored 24 points against Virgin Cola’s 21, and Diet Coke came out with 22 against the lowly 11 of Diet Virgin Cola.

Ah well, perhaps new experiences require an acquired taste.
SAB shelves plan for R750m Eastern Cape plant

GRAHAMSTOWN — SA Breweries (SAB) has shelved plans for construction of a R750m brewery in Bynegor near Mdantsane in the Eastern Cape until "early in the new century."

"We look now to the Eastern Cape to have a growing market and we are spending R1.2bn on a new brewery, but construction will start only once SAB's medium-term national sales forecasts indicate the extra capacity to be provided by the new plant is required," said SAB's Karl Lippert, GM of SAB's Eastern Cape operations.

But Lippert said SAB planned to open the new plant in 2007, but Lippert said he "cannot and will not" comment on the new plant's construction date.

Former SAB southern region operations director Rob Childs, who now heads Portnet, announced in October the new plant would centralise the brewer's Eastern Cape operations, replacing the East London, Port Elizabeth and Butterworth facilities.

The Butterworth plant has already been closed with a loss of about 160 jobs. A further 190 jobs are expected to go when the Port Elizabeth plant closes — EBN
A new wine joint venture signals real change than support empowerment. MFB - MFB Joint Venture may beat

MALFADE

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A new wine joint venture signals real change than support empowerment. MFB - MFB Joint Venture may beat

MALFADE
10c/l fuel levy hike will boost revenue by R1.7bn

Samantha Sharpes

CAPE TOWN — The fuel levy has been increased by 10c/l, which is expected to boost government revenue by $1.7bn in the new financial year.

Finance Minister Trevor Manuel said the levy was one of the biggest components of retail fuel prices, being fixed at 76.6c/l in respect of leaded petrol, 70.6c/l for unleaded petrol and 66.1c/l for diesel.

However, in the context of the recent slide in international oil prices, the hike will not necessar-

ily translate into a commensurate increase in petrol prices.

It was more likely to provide a soft revenue source for the finance ministry.

Manuel said in his budget speech the fuel levy increase would come into effect from April 1, coinciding with the monthly fuel price adjustment, if any.

While the levy constituted 7.4% of total revenue, collection scribing to the national revenue account, the inact increase would bring the total to 8.1% of national revenue.

Manuel said this would add

last year to 0.6% to consumer price inflation, making it a good means of improving revenue.

The 1999/20 budget also includes a $900m allocation to the department of transport for national road maintenance, trans-
inating into a 46c/l share of the total fuel levy rate.

The allocation followed a cabinet document at the end of last year that the National Road Agency would in future receive appropri-
te funds for road construction and maintenance, converted to a dedicated assignment of part of the national fuel levy.

Government is to clamp down on evasion of value-added tax, particularly prevalent in the export of cigarettes to

neighbouring countries

Duties on luxury consumer goods reduced by 5%

Linda Enser

CAPE TOWN —- Ad valorem duties on a range of consumer goods were reduced from 15% to 10% in yesterday’s budget with immediate effect.

Goods including perfumes, beauty products and electronics, cameras and sound equipment would be cheaper and the tem-

tation to avoid paying tax by un-

dervaluing imported goods reduced by 5%.

The duty on computers and related equipment was cut by 1% to 5%. To counteract the effects of the original duty on luxury goods, duty was extended to goods such as cordless telephone sets, cellular phones, video cameras, cameras, boots and dishwashers.

The addition of new luxury items was kept to a minimum in line with a finding of the KwaZulu-Natal cabinet that to extend it excessively would result in ad val-

erum excise duties having to be administered alongside VAT.

The net effect of broadening the consumption tax base by adding to the list was offset by the lowering of rates on existing products. The overall effect would therefore be revenue-neutral.

Convicted tax offenders face public exposure

Samantha Sharpes

CAPE TOWN — Taxpayers found guilty of evasion will be publicly named in the future, the Finance Minister said.

Finance Minister Trevor Manuel warned that guilty parties would no longer be awarded the privilege of anonymity, with all those convicted of tax law offences to be publicly exposed as part of government’s drive to improve tax morality.

"It is only right that those who pay their dues should know whose tax defalcations they are paying for if it is account-

ably proposed that the tax laws should be amended to provide for the publication of the names of persons convicted of tax evasion in terms of those laws,” Manuel said.

In keeping with reforms in other countries and SAXA’s more open tax democracy, government law also intended examining the current secrecy provisions contained in various tax legis-

lation, Manuel said.

This would include an investigation into how those secrecy provisions could be amended to enhance tax morality and effective revenue collections, which remained the driving force behind tax reforms in SAXA, he said.

Improved tax collection and a broader tax base would not fix the fiscal situation, Manuel said, with government firmly committed to broadening the tax law.

The new fund has already been established in each revenue office under the new supervision by SAXA Revenue Services regional offices to undertake this task.

This project was a long-

term measure to increase the default rate, change the culture of nonpayment and at-

tain acceptable levels of tax compliance, Manuel said.

"Activities have included information-gathering, cross-checking tax information and businesses-to-business inspec-

tions and direct talks with up to 1 500 revenue service personnel at a time.

As at October 1 last year, about 30% of the entities evaluated for income tax purposes were unregistered.

Officials plan to clamp down on VAT evasion

Samantha Sharpes

CAPE TOWN — Government intends clamping down on “serious VAT evasion,” which the finance ministry said yesterday was taking place through the false declaration of exports into

neighbouring countries.

Finance Minister Trevor Manuel said in the budget speech that VAT evasion, particularly prevalent in the export of cigarettes and liquor to neigh-

bouring countries, cost the country $110m in lost revenue.

The severity of the problem had forced government to propose the exclusion of liquor and tobacco products from the current export incentive schemes, he said.

The proposed measures meant traders from neigh-

bouring countries would not be able to buy these products free of VAT in SAXA or obtain a refund of the tax at a border post.

The zero-rating in respect of such products will only apply in relation to exports where an SA vendor consigns or delivers goods to purchasers outside SAXA, Manuel said.

The proposals enjoyed the full support of the liquor and tobacco industries, with implementation to take place with immediate effect, and a Govern-

ment Gazette published to announce the neces-

sary changes in the scheme.

However, Manuel said if the proposals did not curb current evasion levels, additional measures could follow.

"Advisory notes in this regard were also posted to vendors with their returns,” he said.
Comparing Coke habits

It's official, Iceland is the world's biggest consumer of Coca-Cola. Its population knocks back 417 220 ml bottles a year per capita. That's about eight a week each.

"We don't look at markets as developed and underdeveloped in terms of GDP but in terms of per capita consumption," says Coca-Cola Greater Europe group president Neville Isdell in The Financial Times.

By that criterion, Europe's most underdeveloped countries include Italy, which drinks only 96 bottles/person/year.

Former Soviet Union countries Belarus and the Ukraine consume only about 20 bottles per capita, and Poles drink only about 45 bottles each.

By contrast, SA is among the world's top 10 Coke consumers — out of 200 countries. Divisional director of communications for Coca-Cola Southern Africa Sbu Mgadi says South Africans drank 164 220 ml bottles each in 1997. That's more than either the British, at 118 bottles each, or the Japanese at 150. Coca-Cola still has a big market in its country of origin. The average American drinks 376 220 ml bottles/year.

Mgadi says SA's Coca-Cola consumption increased 11.2% from 1996 to 1997. It's plenty of room for improvement, carbonated soft drinks account for only 5% of liquids consumed in SA.

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The World's Coke Drinkers

Finland, USA, Australia, Austria, Switzerland, SA, Egypt, Hungary, UK, and the Czech Republic drink the most Coca-Cola per person per year.

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Financial Mail - March 20, 1998
NAB employees want their pensions

By ZOLILE NQAYI

A GROUP of former employees of New Age Beverages (NAB), the liquidated distributor of Pepsi Cola in South Africa, is up in arms against the company in regard to Provident Fund benefits.

These employees accuse the company and Alexander Forbes, which administered the fund, of contriving to deny them their full benefits.

NAB was liquidated in the middle of last year.

According to Mndla Tshabalala, former shop steward at NAB, when workers were retrenched the fund paid but to workers only what they had contributed monthly through deductions from their salaries.

"The payments we received did not include any interest and the company (NAB) was also supposed to have contributed an amount equal to that which we were contributing to the fund," Tshabalala said.

The workers also accuse NAB of deducting monies from their salaries for a period of six months from February 1997 while the company was undergoing liquidation but failing to submit these to Alexander Forbes.

Alun Barlow of Alexander Forbes dismissed the workers' charges against Alexander Forbes and said the workers had were paid more than half of what was due to them and this included interest and NAB's contribution to the fund.

She said that what workers received from the fund included deductions which were made by NAB for the period March to May 1997.

"I understand that these workers are angry because it is impossible for them to contact their former employers. We are the only people that they can talk to and they are therefore directing their anger at us," Barlow told City Press.

Barlow said what the workers received from the provident fund last year was only an interim payment. She said the final payment would be made at end of this month or in April.

Liquidations are very formal and therefore are lengthy procedures. We had to wait for a letter for the final liquidation and we have recently received that," said Barlow.

She said letters have been sent to all employees informing them that they will be receiving the rest of their provident fund benefits.

Stux Masango, a former human resources manager at NAB and principal of the fund, said all former employees, even those in management, had been treated the same way. "Everyone, including the chief executive officer, Khela Mthembu, only received a portion of their benefits," Masango told City Press.

According to Masango, an agreement was reached with the union that Alexander Forbes should pay out a portion of the fund as the Receiver of Revenue was likely to delay in issuing a directive for the payment of the benefits. The delay in the payments was likely to affect workers in the low earnings group who were still unemployed, he said.
Coca-Cola SA thirsty to meet growth target

RAVIN MAHARAJ

Durban — Coca-Cola Southern Africa (CCSA) was posed to meet its growth target of 14 percent in 1998 and a minimum of 12 percent in 1999 on the appointment of senior managers in South Africa and abroad. Doug Ivester, the chief executive officer and chairman of the Coca-Cola Company, said yesterday.

The Coca-Cola Company announced the appointment of Charlie Frenette, the president of CCSA, as the new global chief marketing officer.

Don Knauss, who was the senior vice-president and general manager of marketing for the US division of Coca-Cola subsidiary The Minute Maid Company, will become CCSA's new president.

Four southern Africans, three of them black, have also been appointed at senior management level. These appointments were consistent with the company's commitment "to develop a world-class cadre of business leaders in South Africa", Ivester said.

He said the positions would become effective on April 1.

Rute Moyo, who is the Johannesburg-based senior operations manager of Botswana, Namibia, Lesotho, Mozambique and Angola, will become the deputy divisional region manager.

Rush Lebuto, the operations manager in KwaZulu Natal, will become deputy region manager for the ABIncorporation territories.

Paul Poure will become the deputy region manager of Kuhlmano-PenBev-Coca Cola Sabco and TJ Holdings territories, while Nathan Kalambu will become the deputy region manager of Zambia, Zimbabwe and Malawi.

Frenette said the appointments represented the company's commitment to leading the company into a double-digit growth future over the next five years.

It was also part of the company's worldwide General Management Talent Initiative. South Africa was increasingly becoming the global training ground for the company's best talent.

Frenette, who has been the president of CCSA for the past two years, has driven the company's renewed commitment to South Africa, catapulting the country to Coke's tenth largest market.

In 1997, CCSA's volume grew 11.2 percent, raising South Africa's consumption per head to 164,220ml cans.

Recent investments in Mozambique, Zimbabwe and Angola promised to unlock the huge growth potential of the southern African soft drinks market, Frenette said.
SAB's dominoes about to fall

Ann Crotty

Johannesburg — Plans for the disposal by South African Breweries (SAB) of its controlling stakes in Conshu, Da Gama and Lion Match are expected to be announced within the next few weeks.

Analysts said yesterday that these disposals would eventually be followed by the sale of Amrel and the unbundling of Edgars, Plate Glass and even Southern Sun.

The share prices of Lion Match, Conshu and Da Gama rose sharply on the release of cautionary announcements this week referring to proposals being considered by controlling shareholder SAB.

On Wednesday this week Conshu shot up to 315c from 201c, Da Gama ended at 390c from 300c, and Lion Match rose to 900c from 800c. The major move in the Lion Match share price occurred more than a week earlier when it increased from 685c to 715c and then to 900c.

Trading in Da Gama also reflected an interesting pattern. The share price dropped from 310c to 260c in the first few weeks of March, then on March 15 it hit a 52c turnaround, moving back to 300c, and from there to its current 390c.

Aflol shareholders who sold earlier this year at as low as 600c will be feeling put out by the fact that investors who bought from them are now looking at an offer price of R17,50.

Market sources have speculated that the Aflol deal would be pitched at around R17,50 a share and have suggested the higher price reflects the last-minute entry of another interested party.

"Even R17.50 was a remarkably generous price for this company," said one analyst, who referred to Aflol's dismal earnings record in recent years.

The price at which the Aflol deal has been struck has encouraged bullish estimates for the valuation of the three proposals currently on the drawing board.

None is particularly attractive in terms of profit generation, but some analysts reckon SAB will hold out rather than sell too low.

Others feel they may be worried about a repeat of the OK scenario where a delayed sale resulted in SAB getting a price of just R1.

At the top end, Lion Match has about R900 million in cash, but nothing substantial in terms of operational assets. At the bottom end is Da Gama, which has little to offer.

Lion Match, which is 76,5% owned by SAB, reported its net asset value (NAV) at 674,2c a share at the end of March 1997. The share price has since eased back to 655c.

This level looks more realistic in relation to the likely current NAV, but the Aflol deal has encouraged analysts to punt on an even more attractive premium for control, with talk about a price in excess of 900c.

Conshu, of which SAB holds 67% of the shares, is South Africa's largest shoe manufacturer, and has had a dismal time in recent years but turned in encouraging results for the six months to September 30 1997.

At March 31 1997 the group's NAV was 486c a share. This and the encouraging interim figures suggests some upside in the current share price.

Da Gama, once the most profitable and fastest-growing textile company in the country, was acquired at 700c a share in 1988.

The purchase marked a change in fortune for the group and the industry. Its NAV at March 31 1997 was 542c a share, but analysts reckon a deal will be struck at considerably below this level.

The financial:

The sale of Amrel is complicated by its substantial debentures' book. But shares in Edgars and Plate Glass could be distributed to SAB shareholders. Then SAB could focus on what it does best — make and distribute beer and beverages.

First disposals to be followed by Amrel sale, and unbundling of Edgars and Plate Glass

Business Watch, Page 2
State keeps hardline liquor bill

Cape Town — The department of trade and industry would push ahead with its controversial plan for a three-tier licensing system in the liquor industry despite industry-wide opposition, Alastair Ruiters, the department's chief director responsible for drafting the new liquor bill, said in parliament on Friday.

The system would force big players like South African Breweries, Distillers and National Sorghum Breweries, to restrict their distribution and retail activities and open the door for foreign investors and black empowerment groups to enter the industry.

Ruiters said regulations in the new liquor bill would specify a cut-off date for all groups in the industry to shed businesses for which they were not licensed.

"Big players would be given a short period to unbundle," he said.

The department had received "numerous inquiries from businesses in America, Britain and Canada about investment in the local liquor industry."

An industry source said Anheuser-Busch, the world's biggest beer producer, could be the first to jump at opportunities opened up by the new bill.

Industry sources said yesterday that Alec Erwin, the minister of trade and industry, still had to decide whether the new licensing system would be implemented in "a rigid or forgiving way."

A rigid three-tier system would prohibit producers, wholesalers and retailers from being active outside their sub-sectors, while a forgiving system would allow "some cross-border activities," the source said.

The industry would try to convince Erwin to opt for a forgiving system when it met him again in the next week, he said.

"A rigid system would be impractical. For instance, it would prohibit a wine estate such as Backsberg from delivering a crate of wine to a restaurant in town. A wholesaler would have to collect and deliver the case," Ruiters told parliament the department was putting the final touches to a liquor bill that did not differ much from the highly criticized draft bill published last year.

The bill would be handed to the Cabinet within weeks and tabled in parliament before June 30.

The administrative machinery was already being built in the provinces to ensure the speedy implementation of the new dispensation, he said.

The bill provided for six types of licences while the draft only provided for three types.

"There would be producers, wholesalers (distributors), on-consumption retailers, off-consumption retailers, special event licences and a licence which allowed both on- and off-consumption," Ruiters said.

The bill would decriminalise transgressions and the police would not enforce compliance.

"We would employ an inspectorate to enforce compliance and punish transgressors," he said.

"Easy in-easy out would be the best way to describe the new approach. It would be easy to get into the industry but transgressors would also be kicked out quickly. One warning and you would be out of the industry."
Milestone as Coke sells billion drinks a day

By Shadrack Mashalaba

GIANT soft drink producer Coca-Cola says there are considerable opportunities for sustained, profitable growth of its operations.

The company says it firmly believes that the strength of its brands, its unparalleled distribution system, global presence, strong financial condition and the skills of its staff will give it the edge to capitalise on growth opportunities.

In its 1997 annual report for the year which ended December 31, the group describes the previous year as a good one for the company. Its operating income topped R25.25 billion — representing an all-time high.

Net income was R20.705 billion and was also an all-time record and up 18 percent over 1996. Earnings per share grew by 19 percent, following similar increases in each of the last two years.

Milestone

Chairman and chief executive officer Douglas Ivester says the company has achieved a milestone as it is now selling a billion drinks a day.

"We are already working on our next billion servings a day and we don't expect to take 112 years to get there," says the company's report.

"As we mark this milestone, and as we look back at another year of record sales, profits and healthy returns on directors' investment, two key thoughts stand out: the many pioneers who brought us to this point, and the steps we are taking to go after the next billion," Ivester says.

Formed 112 years ago, Coca-Cola South Africa is the 10th largest market in the world.

Across the Southern Africa region, the company says, strong marketing campaigns and media efforts have spurred sales, with solid growth for soft drinks such as Coca-Cola, Sprite, Fanta and Powerade.

In Latin America, which Coke calls "one of our mature markets," the company generated strong growth, with Mexico accounting for 39 percent. Churu is now one of the company's top 10 volume markets in the Middle and Far East.

"By mid-1998 27 Coca-Cola production facilities will be up and running. The group's mission is to maximise share-owner value over time," says the report.
Liquor stores body ‘not worried’ by rivals

Cape Town — The South African Liquor Stores Association (Salsa), the voice of 550 retail liquor store owners, said it was not concerned about the prospect that national supermarket chains would soon be competing head on with them for the sale of spirits, beer and wine.

Len Pfister, executive director of Salsa, said he did not expect the new dispensation to threaten bottelstore owners “because supermarkets would have to operate from separate premises to control sale of liquor to minors and intoxicated customers.

“In our view, the new dispensation would restrict the sale of liquor by supermarkets, rather than give them wider powers,” Pfister said.

The existing Liquor Act limits supermarkets to the sale of natural wine. A new liquor bill, to be handed to Cabinet for approval within weeks, would put supermarkets in direct competition with bottlestores by allowing them to sell the same liquor under the same conditions.

Bottlestore owners in shopping centres housing one or more supermarkets said this week that the new dispensation would put them out of business. They feared that national supermarket chains with superior financial muscle would enter into price wars.

“Salsa opposed the sale of liquor with other products in supermarkets, but had no objection to supermarkets selling all types of liquor from separate premises,” said Pfister.

The new liquor bill provided for six types of licences. Every company in the industry would only be allowed to own a single licence. The licences were for producers, wholesalers, retailers, special events licences, and licences which allowed both on- and off-consumption.

Pfister said Salsa was concerned by the last-minute inclusion in the bill of the sixth type of licence, which allowed both on- and off-consumption to accommodate shebeens and taverns.
New Bill Leaves Indusry With a Three-tier Hangover

Companies

The Liqueur Bill increases competition from imports and higher excise duty
Beer will show health of SAB's crown
Global brewers thirsty for a deep draught of SAB

RUMOURS were rife this week that at least two global brewers wanted to buy as much as 25% of SA Breweries.

It is believed that US brewer Anheuser Busch and UK-listed Diageo, formed through the $33-billion merger of Guinness and Grand Metropolitan a year ago, are interested in buying a significant minority stake in SAB, the world’s fourth-largest brewer.

It is believed that there have been no formal discussions to restructure or collapse Bevcon, which holds 29% of SAB and whose major shareholders are Liberty Life, Anglo and Johnnie.

However, it is well known that while both Liberty and Johnnie have benefited from SAB’s contribution, they do not view SAB as a long-term strategic investment.

Market sources said this week there were strong rumours that the two had expressed an interest in selling, and that certain shareholders were open to the suggestion.

“Anheuser has been eying the SA market for years and would not want to come in directly and take on SAB on its home turf. For SAB, the Budweiser brand would augment its premium range,” one analyst said.

For the foreign investor, SAB offers an entry into the local and African market, but also a strong springboard into international developing markets, particularly in Eastern Europe and China, where SAB has been successful.

Anheuser, like many US brewers, has not been aggressive in its international expansion and derives most of its revenues from the US. But now the US market has reached maturity and it needs to diversify.

SAB is the fourth-largest brewer in the world. It is one of the only foreign brewers in eastern Europe and China to have experienced a level of success.

SAB’s results, which will be released this week, could show a 30% increase in earnings from its international beer operations. An analyst said Anheuser had tried its luck in China, “but it has been a disaster.”

SAB has for some time had a relationship with Guinness, brewing Guinness stout under licence. When Guinness tied up with SAB some years ago, it chose to enter SA in conjunction with SAB rather than in competition with it. The relationship over the years may have prompted investigation into further investment.

At the time of the Guinness/Grand-Met merger, Diageo said the two companies’ strengths lay in developing markets and they would focus on pushing “aggressively into markets like Latin America and Asia which are growing much faster than the static drinks markets of Europe and North America.”

Diageo brands include Johnnie Walker whisky, Burger King and Guinness.

An analyst pointed out that SAB’s real strength is in distribution rather than brands. Although its brands dominate in Africa, they are not internationally recognisable like Anheuser’s Budweiser, for example, SAB may want to use these brands in some of the countries it enters, and there may be demand in China for an international brand.

SAB is in the throes of a number of disposals in order to focus on its beverage interests. One analyst suggests that SAB could look at issuing shares in specie to shareholders instead of selling its companies to other parties.

Lion Match, Conshu and Da Gama have been earmarked for disposal, and analysts say that other disposals (of Anrel and its strategic interest in Distillers and Stellenbosch Farmers’ Winery) could follow quite swiftly. Edgars’ dismal results (its earnings fell 28% in the year to March), could see SAB try and sell it sooner than anticipated.

See Page 4
Coca-Cola this week launched a new Africa strategy which it estimates will add R100-billion to the continent’s economy by the year 2003.

The Africa strategy requires a multibillion rand investment programme, now being finalised by the Atlanta-based multinational. SA will receive a significant proportion of this capital outlay.

The strategy is in addition to the R1.25-billion investment in infrastructure announced last year to boost Coke’s presence in SA townships.

The announcement of Coke’s Africa strategy coincides with the appointment of Don Knauss to head the 10-country southern African operation, run out of Johannesburg. Knauss takes over from Charlie Fennette, who has been promoted to chief marketing officer worldwide at Coke’s Atlanta head office.

Coke’s Africa strategy has been formulated over the past two years after the group conducted an economic impact study, which is ongoing.

“Our future capital investment will be extrapolated from the study, which shows that Coca-Cola, its bottlers and distributors add R13.5-billion to the SA economy at present,” says Sibu Mgadi, communications director for Coke SA.

“If we are to sustain and grow our contribution we need to invest substantial amounts in our operations,” Mgadi says. The investment impact in SA this year is forecast to amount to R561-million, growing with inflation of 6% a year for the following five years.

For sub-Saharan Africa the 1998 figure is R4-billion, rising gradually with inflation to reach R878-billion by 2003.

Mgadi stresses that the current estimate for sub-Saharan Africa is based on SA infrastructure levels. However, since most other African countries are still underdeveloped, they would require far greater capital outlays than is expected for SA.

“We believe we can double our business here over five years. Our investment—in capacity, people and marketing—follows that belief,” says Knauss, who joins Coke SA after two years as head of Coke subsidiary Minute Maid.

Knauss’s ambitious target requires sales growth of 15% a year until 2003.

Over the past two years Coke has achieved significant volume growth. SA sales were up by 11.2% last year, after a modest growth of 3% in 1996. For the southern African region as a whole, growth in 1997 was 11.3% and 5% in 1996.

Sales volume in 1998 is estimated at 400-million cases, with SA accounting for 300-million. This ranks SA as the 10th largest country in the Coke hierarchy.

In the last two years the company invested R1.25-billion in infrastructure in SA and spent almost $150-million in three countries in southern Africa—Zimbabwe (80-million), Mozambique (50-million) and Angola (35-million).

In 1997 sub-Saharan Africa accounted for 5% (745-million cases) of the group’s global sales.
Beverages will add sparkle to SAB's results

Ann Croity

Johannesburg. This week's release of SAB's results for the year to March 31 is expected to reveal an earnings increase of about 10 percent to about 68c a share, but the effect of the results is likely to be overshadowed by moves by management to cut back the group's activities to focus on beer and beverages.

The beer and beverage interests will again provide the sparkle in the earnings growth, with Amalgamated Beverage Industries reporting the strongest percentage increase in the group. In financial 1997 the beer division enjoyed the benefits of two Easter holidays. In financial 1998 there was no Easter which, combined with an expected sluggish volume increase in beer demand, is expected to keep a lid on contribution from the local beer interests.

At the halfway stage the beer division reported a 12 percent increase in earnings on a beer volume increase of only 0.5 percent. Offshore operations reported a 33 percent increase in contribution. This contribution is likely to be boosted by the comparative weakening of the rand.

If recently sold Afco is treated as a discontinued operation for the full-year, as OK was for the interims, the bottom line will appear stronger. Certainly the absence of OK will enhance SAB's earnings.
Beverage division boosts SAB results

Shareen Singh

SA BREWERIES' (SAB's) beverage division's solid performance added 83% to the group's headline earnings which advanced 15% to R2,3bn in the year to March, despite low volume growth in the beer division.

Results released yesterday showed beer volume grew only 1% in view of the 1.5% rise in private consumption expenditure in an overall sluggish economy, the group said the results were satisfactory. Subdued consumer spending expected for the first half of this financial year might be overturned by a decline in inflation and interest rates and the demutualisation of Sanlam and Old Mutual.

Attributable earnings dropped to R1,2bn from R1,9bn as the group set aside R1,1bn for the disposal of non-core assets, including R600m for the disposal of OK Bazaars to Shoprite Holdings last year.

A dividend of 257c a share was declared bringing the year's total to 330c, 15% higher than the previous year.

Analysts said the results were in line with their expectations of a 10% rise in headline earnings to 655,7c a share. They were optimistic of prospects for this year, saying there would be improved growth in beer volumes and soft drinks. Offshore earnings would again contribute substantially to the group's coffers.

MD Graham McKay said SAB would continue building its core businesses both in SA and overseas. It started disposing of non-core assets last year including the OK Group, Afzol and CFD.

Continued on Page 2

SAB (187)

Continued from Page 1

its footwear and clothing division. SAB's diversified interests were not star performers. However, hotel group Southern Sun stayed off stiff competition, pushing up its headline earnings 16% Amrel, Da Gama, Consah Holdings and Lion Match are trading under cautionary and analysts said the group might sell its interests in these companies PG Glass and Edgars, which suffered a tough year, could be sold in time, they said. SAB said it planned to focus attention this year on restoring Edgars to profitability.

Mckay said the group's southern African interests were sold and some of its eastern and central European interests were performing well while others were facing tougher conditions.

The group would spend R4,4bn in capital expenditure, of which R3,7bn would be invested in southern Africa.

Mckay said he would not rule out the possibility of an acquisition in a first world country. The group denied it was in talks with Guinness as market talk suggested.
SAB relaxed about liquor legislation

(Johannesburg — The government's plans to restructure the liquor industry would not be as draconian as initially feared, Graham Mackay, the chief executive of South African Breweries (SAB), said yesterday.

Mackay said at the release of SAB's financial 1986 results that after extensive interaction with the government and interested parties, he was confident the legislation would be constructive and "would allow us to develop the efficiency of our distribution system."

Mackay said he believed the liquor bill would provide SAB with opportunities rather than threats.

Players and analysts have been expecting the liquor bill to focus on a three-tier licensing system throughout the industry. The system would force groups like SAB, Distillers Corporation and National Sorghum Breweries to cut back on their distribution and retail activities.)
Beer and beverages buoy sluggish SAB

Johannesburg — A strong showing from SAB's beer and beverage interests made up for sluggish performances in its diversified interests.

This enabled the group to report a 10 percent increase in headline earnings to 655.7c a share for the 12 months to March 31, 1998, from 595.1c. A final dividend of 25c a share was declared.

The company's management said yesterday it was undertaking a comprehensive strategic review of SAB. The review would cover all concerns and related financing requirements.

Graham Mackay, the chief executive, played down market speculation of approach from a leading foreign brewery interested in acquiring a stake in SAB. However, analysts said the comprehensive strategic review could include such a move.

Earnings from group operations in the review period were up 15 percent to R2.3 billion from R2 billion, but the group has set aside R1.1 billion against discontinuing operations. The setting aside of R1.1 billion resulted in a 38 percent decline in attributable earnings to R1.2 billion from R1.9 billion.

About R600 million of the R1.1 billion relates to OK Bazaars, which was sold during the first half. The remaining R500 million is a provision for costs from the disposal of other non-core interests by SAB.

During financial 1997 SAB also disposed of its stake in Afcol and wholly owned clothing and footwear division. It is now in the process of disposing of its interests in Conshu, Da Gama, Lion Match and Amrel.

The R1.1 billion does not affect headline earnings, but analysts said yesterday it did hit short-term investor sentiment. Towards the share, which shed 70c before the figures were released and closed 90c lower at R192.20.

The segmental analysis shows the extent to which beer and beverage interests dominate group earnings from operations. Earnings from the domestic beer division were up 14 percent to R1.3 billion and accounted for 57.4 percent of the total R2.3 billion. This increase was achieved on a 1 percent increase in beer volume.

STRATEGIC PAUSE Graham Mackay, the chief executive of SAB, at yesterday's results briefing

PHOTO: JOHN WOODCOCK

Foreign Investment and Business Watch, Page 2
FOREIGN INVESTMENT

History brews behind SAB ferment

ANN CROFT

The possibility that a foreign group could succeed in getting hold of a 26 percent stake in South African Breweries (SAB) is a strong indication of how much things have changed in this country over the past five years.

Details remain sketchy. SAB's top executives were cagey when quizzed about a foreign buyer at yesterday's results presentation. But they certainly left room for speculation.

Individuals who appear to be key to a takeover have indicated that, at the right price, a foreign buyer is a distinct possibility. Leading JSE analysts agree that the sale of a substantial stake in the 102-year-old South African asset could be on the cards.

Indeed, they argue that such a move would have beneficial spillovers by unlocking considerable value for some of SAB's major shareholders.

The sale of a group that has tracked much of the industrial development of South Africa for over a century would mark one of the most dramatic developments in corporate South Africa in decades.

In May 1997, South African Breweries was registered in London. According to SAB's own recorded history, this move was the outcome of bold initiatives by a syndicate of entrepreneurs who believed, "With initial capital of $350 million the fledgling company took its first confident step into greatness." SAB says.

Most observers point out that it was all great fun. The diversification into mass market consumer goods, which picked up considerable pace in the late 1980s and early 1990s, was viewed with the benefit of hindsight, and looked flawed. This strategy is now being unwound at some cost.

The greatness of the group rests in the fact that not only did it grow but, in more recent decades, turn and again and again it managed to subvert the strictures of apartheid government to become ever larger, ever more efficient and ever more profitable.

In 1995, when the National Party government introduced punitive and highly discriminatory excise duties to protect wine farmers, SAB, Ohlous and Cameliers merged to establish a more resilient and viable entity. The enlarged SAB was also encouraged to diversify into wines and spirits.

In 1986, the prohibition on the consumption of beer by blacks was lifted. For SAB, the full benefits of this action were curtailed by government interference in support of the interests of wine and spirits groups. Thus, the import ban and the exchange restrictions fuelled SAB's policy management. It was restricted in avenues for investing the massive cash flow generated by its increasingly profitable beer operations. So it closed the limited, locally available consumer-related assets.

One such transaction was the renewal of 65 percent of Edgar's in 1983. Funded by the issue of 30 million SAB shares. At the time SAB shares were trading at around 60c, putting a value of about $250 million on the share deal.

Until three years ago Edgar's generated sparkling results for the beer group. Then Edgar's' management let slip the strategic advantage it had, and previously enjoyed in the market place. Significantly, at today's price 50 million SAB shares would be worth R4.7 billion, while 65 percent of Edgar's equity at today's price is worth R3.2 billion.

For SAB shareholders, the sad thing is that Edgar's was probably one of SAB's more successful non-beverage acquisitions. The purchase of Da Gama in the late 1980s seemed to mark the downturn in that industry.

For years, Afcol, Amrel, OK Banners and Southern Sun merely drained the resources. Management expertise, time and shareholder's monies — built up by the beer assets. And because of these disappointing performances, no matter how fast non-beer assets were acquired, the earnings would never match that of beer — fulfilling one of the stated objectives behind the diversification strategy.

SAB also provided the stage for a number of high-drama performances by key actors in corporate South Africa. The assault on Edgar's certainly stirred up an environment in which corporate acquisitions were generally made by reorganising with the big usp — investor pressure. Very soon after came a deal that effectively shifted Old Mutual out of any significant role in SAB ownership. The daring plan — it nearly didn't work — resulted in SAB control restyling in the hands of a triumvirate: Liberti, Johamic and Anglo Bevcon was formed to house their combined 25 percent stake.

And, to ensure that nobody would do to them what they had done to Old Mutual, they tied up Bevcon in what seems to be a hammer-proof joint control agreement. The key to unlocking it is an offer price 55 percent above the ruling share price.

The supposedly interested foreign party is reportedly looking at a stake of about 25 percent and a say in certain defined areas of operation. This could not be comfortably achieved without Bevcon on board.

Who is likely to be on the list of interested parties? Anhuser Busch, Dageos (the merged Guinness and Grand Met) and Heineken.

At this stage analysts seem to favor Anhuser Busch — it has developed credible justification to support a R15 billion to R15 billion investment for a minority stake in the fifth largest brewery in the world.

Much of the justification hinges on SAB's dominance in Africa and its ability to generate attractive profits in emerging markets. These are areas in which Anheuser Busch has its own has so far been unsuccessful. For this reason it has taken minority stakes, with varying degrees of success, in groups outside the US. For SAB, a tie-up with the US giant would help develop its international interests.

Five groups are expected to dominate the global market in the next five to 10 years. Such a tie-up may be essential to ensure SAB remains on that shortlist.

And for South African investors, the fact is that if SAB can be sold to foreigners, surely everything is up for grabs at the right price.
SAB was right to return to its beer barrels

Despite poor growth in consumer spending, SA Breweries came up to market expectations, writes MARCIA KLEIN

ST (ST) 17/3/98

A BREWERIES’ results for the year to March reinforce the wisdom of its decision to focus on core beer and beverage businesses, which contributed 47% of group turnover and 72% of profits.

The group reported 10% higher headline earnings of R657m a share, in line with analysts’ expectations.

And in line with the cautionary announcements issued by Conshu, Lion Match and Da Gama, and more recently Anrel, SAB said this was that the balance of smaller non-core subsidiaries would be disposed of shortly. The future of Edgars, Plate Glass, Southern Sun and SAB’s strategic liquor investments remains unclear.

SAB has already sold its interests in OK Bazaars, Acol and a wholly owned clothing and footwear division. SAB set aside R600-million against discontinuance of the OK and a further R500-million on disposal of non-core businesses.

The group’s results were achieved in a year in which real private consumption spending grew a mere 1% and beer volumes grew only 1%.

Group beverage sales of 60-million hectolitres included lager beer production of 43-million hectolitres, with the rest being accounted for by carbonated soft drinks and sorghum.

Despite low beer volumes, a strong performance from international beer interests (in beer output and earnings) and the excellent results of Coke and Schweppes bottler ABI saw beverage interests’ profits grow by an average figure of 20%.

Group turnover excluding discontinued operations grew 12% to R32.4-billion (R28.8-billion), but operating profit was only 6% higher at R3.9-billion from R3.7-billion previously on the back of competitive trading conditions and downtrading by consumers.

Lower financing costs and tax saw headline earnings grow 15% to R2.3-billion. Headline earnings increased 15% to R2.3-billion, but were 10% higher on a fully diluted basis.

Despite overcapacity in the hotel industry, Southern Sun maintained occupancies above 70%, outperforming the industry. It increased headline earnings by 16%.

Management said the group’s other diversified interests in SA “did not fare particularly well”. Edgars earnings, which dropped 28%, were described as “disappointing”, but SAB indicated that much effort would be devoted to restoring Edgars to its position as a value-adding component of the group.

Analysts believe this could take some time, particularly considering the significant losses in subsidiary Jet.

SAB’s share of the SA beer division’s earnings were R1.3-billion, up 8% from the previous year’s R1.2-billion. SAB International, which houses the international beer interests, turned in a sterling performance, contributing R337-million to SAB’s bottom line, up 37% from the previous year’s R246-million.

Complementary beverages also performed well, with earnings up 26% at R251-million (R199-million). Plate Glass earnings were R165-million (R142-million). Its share of Edgars’ lower earnings was R145-million, down from R207-million in the previous year, while its share of Plate Glass earnings was R173-million (R200-million). Belron, the international auto-glass repair and replacement business, is the leading player in its field.

SAB expects further real growth in earnings and dividends in the coming year. Although it is expecting a single-digit first half, management indicated that favourable trends in inflation and interest rates could induce a recovery in private consumption expenditure later in the year. SAB directors have reportedly downplayed the possibility of an international brewer taking a stake of up to 25% in SAB. Anheuser-Busch and Diageo are said to be the frontrunners.
SAB was right to return to its beer barrels

Despite poor growth in consumer spending, SA Breweries came up to market expectations, writes MARCIA KLEIN

SAB's share of the SA beer division's earnings were R1.3-billion, up 8% from the previous year's R1.2-billion. SAB International, which houses the international beer interests, turned in a sterling performance, contributing R357-million to SAB's bottom line, up 37% from the previous year's R246-million.

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SAB to start Kenyan production in August

NAIROBI — SAB Breweries (SAB) will begin beer production in Kenya at the end of the third quarter of this year, company officials said yesterday.

The $40m brewery situated in Thika, 40 kms from Nairobi, will begin production with an initial 500,000hl a year, but that could easily expand to 800,000hl, said Geoff Ings, project manager of SAB in Kenya.

"We plan to start production around August, September, at the end of the third quarter of this year," Ings said.

The SA brewer has a 51% controlling stake in the new company, Castle Brewing Kenya, while 34% is held by a consortium of Kenyan investors and 15% by Dutch company FMO. 

Their entry into the Kenyan market is seen as part of the wider expansion of SAB in East Africa.

In 1995, they acquired a 46% stake in Tanzania Breweries and 1997, bought a 40% stake in Nile Breweries in Uganda.

SAB has also invested in breweries in Ethiopia and Eritrea.

Analysts say that it will be an uphill task for the world's fourth largest brewer. At present their leading Nairobi lager brand is limited mostly to the capital and accounts for less than 1% of Kenyan beer consumption.

They say SAB will have to build a distribution network across the country as well as shed an image that it is an upmarket product to become an effective player in the market.

SAB's penetration into the Kenyan market has been cautious.

Company officials say they want to take it slowly and estimate it will take them about five years to be considered a major player in Kenya.

"Right now, we're not even a player," said marketing director David Twycross.

Beer consumption in Kenya at present is an estimated 2 million hectolitres a year but SAB says the market has been up to 4 million hectolitres in previous years. — Reuters.
Final draft of Liquor Bill unveiled

Cape Town — The final draft of the controversial Liquor Bill made concessions to wine farms but would result in unbundling by large corporations, mainly to black empowerment groups, Alec Erwin, the trade and industry minister, said yesterday.

Unveiling the final draft of the bill approved by Cabinet yesterday, Erwin thanked the liquor industry for its “very constructive” contribution.

“We are not going to please everybody, but I am pleased to say that in our interaction with the industry there seems to be a high degree of acceptance that this now is a workable and far better body of legislation than what we had before,” he said.

The bill still separates manufacturers, wholesalers and retailers of liquor, but allows for four categories of retailers to cater for wine farms or small-scale brewers who sell their own wine for consumption on or off their premises, and for special events.

Erwin admitted the new regulations could result in the sale of certain assets by large corporations such as SAB.

“[But it is premature to speculate on that because the industry must make a range of choices. We have had constructive discussions with all the major suppliers around empowerment initiatives and where they could assist them enter the industry.”

In a concession to large manufacturers, licences for manufacturing and wholesaling would be issued at a national level, while retail licences would still be dealt with provincially.

Large supermarkets would continue to be restricted to wine sales, while Sunday liquor sales would be allowed subject to local authority conditions.

The laws would be enforced by a new unified inspectorate in the department of trade and industry. It would cover gambling, lotteries, consumer affairs, competition policy and liquor.

□ Business Watch, Page 2
LIQUOR BILL

SAB is still sitting pretty on its distribution machine

Ann Creotty

Earlier this week, Alec Erwin, the trade and industry minister, set the scene for the beer industry when he noted that the draft liquor bill "has been thoroughly amended to respond to submissions made to government and as a result of widespread consultation with the liquor industry". A short while later Erwin demonstrated just how thoroughly the draft bill was amended. He stated that in terms of the revised draft legislation "manufacturers will be enabled to sell liquor to registered wholesalers and retailers only".

The final draft of the bill has still to be tabled, but as this remark indicates the draft legislation is a long way from prohibiting South African Breweries, as a liquor manufacturer, from distributing beer. SAB executives are meeting the government today to discuss the bill, and have been asked to hold off on comments to the media until after this meeting.

But indications are that comments by Graham Mackay, the chief executive, to the effect that the proposed legislation would require no dramatic change in the group's method of distribution and no change in the status of its depots were spot-on. At a later stage, when the detailed regulations are put into place, SAB's holdings in SFW and Distillers Corporation will probably be up for grabs.

Executives at SAB seemed remarkably calm when discussing the draft bill's implications over the past 12 months. Given that the essence of the bill was believed to be aimed at the heart of SAB's powerhouse - the efficient manner in which it combines its manufacturing and distribution operations to secure a firm hold in the market - thus reflecting impressive restraint, a lack of understanding of what the group was up against, or a belief that it had sufficient political muscle to ensure the final product would be watered down.

In May Mackay said, "I don't believe that government action in the restructuring of the liquor industry will be as draconian as once thought. As a result of extensive interaction with government and other parties, we believe that what will emerge will be constructive and will allow us to develop the efficiency of our distribution system."

This week's press conference, held to publish details of the revised liquor bill, confirmed that the beer giant's relaxed stance was appropriate. Full details will not be available for some time, but initial indications are that there is little in the bill that threatens SAB's position.

The group most threatened by the draft legislation are the many individuals who sell liquor to the public without a licence. The bill appears to be aimed at tightening up on the registration side of these outlets and includes penalties for those who supply liquor to such operators.

Given that it is probably easier to do business with legal outlets, this is likely to be positive for SAB. And given that about 70 percent of beer consumed in this country is sourced from an unlicensed - and therefore non-taxpaying - outlet, any success in this area will be a boost for the Recoverer of Revenue.

Da Gama Textile Company Limited

(incorporated in the Republic of South Africa)

(Registration number 68/15445/96)

(As Gama)*

Offer to Da Gama shareholders - salient dates

Further to the announcement dated 20 May 1998, The Business Bank is authorised to announce that the acquisition by Daum, or its nominees, of a controlling interest in Da Gama for a cash consideration of 380 cents per share, has become unconditional. Consequently, Daum wishes to extend the related minority offer (the "minority offer") in accordance with the following salient dates and times:

Daum & Cie. AG

(Door)

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Daum & Cie. AG

(Door)
The issue of high monthly telephone bills is a concern for many people in New Zealand. It is estimated that 80% of households in the country are affected by high phone bills, with the average cost being $120 per month. This is a significant burden on families, especially those on low incomes.

The government has recently introduced a bill to address this issue. The bill grants the Telecommunications Commission the power to regulate prices and to set a maximum price for fixed-line services. The Commission has already set a maximum price of $50 per month for basic services.

However, the bill has faced opposition from the telecom industry, who argue that it would lead to a decrease in the quality of service and innovation. The industry is also concerned about the impact on their profits.

The bill has been referred to a select committee for further consideration. It is expected to be debated in the House in the coming months.
SAB boss says new laws stifle business

Nicola Jenvey

DURBAN — The draft Liquor Policy and Liquor Bill are the latest additions to a long line of pending and recently enacted legislation which will stifle the ability of business to create jobs and wealth, says SA Breweries group MD Graham Mackay.

He said in his annual report there was "a disturbing pattern" of national legislation — including the Labour Relations Act, the Basic Conditions of Employment Act, the Skills Development Bill, the Employment Equity Bill and the Competition Bill — and the cumulative effect of this legislation would be to stifle business.

Under the draft legislation, the costly and inefficient mechanisms proposed would not meet the original intentions of the Liquor Policy and Liquor Bill.

Mackay said "fortunately" the government had recently displayed a willingness to confer with business to find a solution that ensured sustainable empowerment, market accessibility and efficiency.

"No matter how noble the intentions of these bills, the effects will be intrusive bureaucracy, added cost, inflexibility and thus uncompetitiveness," Mackay said.

He urged, against the background of poor service standards and routinely under-delivered state programmes, government "arrest this corrosion" by emphasising performance standards and delivery ahead of political considerations.

The solid performance from the beverage division of SA Breweries added 85% to group headline earnings, which advanced 15% to R2.3bn in the year to March, despite low volume growth in the beer division.

Attributable earnings dropped to R1.2bn from R1.9bn as the group set aside R1.1bn for the disposal of non-core assets, including R600m for the disposal of OK Bazaars to Shoprite Holdings last year.

The 257c final dividend boosted the total to 330c — an increase of 15% from the previous year.

Determination

Mackay said SA Breweries had approved a record R4.4bn capital expenditure programme, as well as a gaming industry commitment of about R3.5bn.

This meant that the group would invest more than R7bn in southern Africa over the next few years, "underlining SA Breweries's determination to prosecute further substantial growth opportunities".

Mackay believed that as the group concentrated on core beverage businesses, its positioning for real earnings growth was increasingly apparent.

Consumer spending in SA remained subdued, but demobilisation would ease household debt and so release incremental consumer spending later in the year.
Dear Old Mutual

By now Policyholder

You should have received this letter.

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CITY PRESS
Township hit by sensational drink

By DAN HILAMINI

KUSUMOS township near Carletonville has been hit by a new craze - a sensational brew that has allegedly claimed lives but is still a favourite at a bar. The concoction is famously known as "puwawe" (nearly a dozen) or "puwawe". Some consumers of this controversial home brew claim it is "good" while others say it has contributed to their ill health and the deaths of their beloved mates.

A "puwawe" victim, Mx X, said she was saved by a local doctor who treated her. She said her circumstances at Ryland Mason Hospital in Carletonville had been transferred to Chris Hani Baragwanath where she spent six weeks.

Mx X said more than 16 of her close friends were using the drink, including her well-known Khukhusing is an, who died after drinking a litre of the brew. Her one was saved just time owing to his experience. Mx X, who was still recovering from liver damage, was told by a friend that a "huwe" - two litres of "puwawe" - cost R4 - is good to knock one out.

She said the drink suppressed appetite, and after prolonged use of the stuff, one is bound to lose weight.

Mx X said she had seen her friends become dehydrated by the stuff, having bread, beans, sugar, milk, a lot of salt and water.

Others claim that the real killer in "puwawe" was the root of battery acid, salt, a lot of yeast, brown sugar and horse-shoe pipe tobacco for extra kick.

They also claimed that at some shebeens, the owners would not sell the brew below

If you have received this letter.

Inside the letter is information about Old Mutual's intention to demutualise and become a shareholder-owned company listed on the stock exchange.

The letter also contains a form, which you should complete and return to us without delay, using the postage-free envelope provided.

Your prompt reply is really important, because it helps us to make sure that eligible members have the chance to vote, and to receive free shares should demutualisation be approved.

Please reply now.

If you are an Old Mutual policyholder and have not received this important letter, please call our toll-free number 0800 609 000, Mondays to Fridays from 7 am to 8 pm, and Saturdays from 8 am to 1 pm.

Please have your ID number and policy details on hand when you call.
Maluti Foods joins forces to produce wine, brandy

MALUTI Foods and Beverages is involved in a project in the Northern Cape, together with the Industrial Development Corporation (IDC) and KWV, to produce raw materials for fruit juices, wine and brandy.

Maluti head MK Malefane said his group had managed to acquire more than 1,000ha of land provided by the Northern Cape government for the cultivation of vineyards.

The IDC would participate in the project, based in Douglas, while KWV would provide the technical assistance.

Malefane said a trust enabling farm workers and communities to participate in equity ownership directly would also be set up for those residing around the project.

He said a similar trust called the Maluti Groenkloof Trust was created in the Western Cape to enable local participation in the wine production.

Malefane said that his group would soon set up an empowerment scheme at a national level that would target liquor traders from the previously disadvantaged communities.

"We have been approached by a major producer of cognac in France which is prepared to supply Maluti with the raw materials, in bulk, for the blending of new cognac brands in SA for the local and export market," he said.

Malefane said the group was involved in talks with a foreign partner for a possible joint venture in the production of wine.

The group was looking for strategic foreign and local partners to participate in various ventures in the wine and brandy industries.

Malefane, who recently visited the Middle East, said there was potential for SA to export wine, sparris and fruit juice to that region.
Bursting the bubble of bottler’s books

Melody Petersen

The Coca-Cola money machine has whirled along for years, producing extraordinary profits for investors. What helped set it in motion was management's decision in the late 1980s to remove the capital-intensive bottling factories from the books and place them in a separate company.

The maneuver has proved so successful that archival PepsiCo, a perennial also-ran, recently announced that it, too, would consider spinning off its bottling unit.

But a growing chorus of financial analysts and accountants are trying to strip the gears of Coca-Cola. They say Coca-Cola and its bottling company, Coca-Cola Enterprises, are one business and should consolidate their financial statements, an argument not lost on the US accounting rule makers.

The Securities and Exchange Commission (SEC) could require Coca-Cola to consolidate. SEC officials said they look at corporate relationships and stock ownership in determining control, but could not comment on Coca-Cola's accounting in particular.

In select cases, they have forced companies to consolidate their financial statements after finding that one company clearly controlled many parts of another's business.

Without a doubt, the fates of Coca-Cola and its bottler are inextricably linked. Coca-Cola recorded $18.9 billion in worldwide sales last year, compared with $13.9 billion for Coca-Cola Enterprises, which accounts for much of domestic US Coca-Cola sales.

But the global giant has a market value of $50 billion, while Coca-Cola Enterprises has a market value of $13 billion. This divergence reflects a decade of superior returns for investors in Coca-Cola and a heavy debt burden at Coca-Cola Enterprises.

Critics of the accounting practices say Coca-Cola can bolster its bottom line through sales to the bottler. Coca-Cola sells billions of dollars of soft-drink concentrate each year to Coca-Cola Enterprises. It has also sold entire operations to the bottler. Such sales could not generate profits if the accounting books were consolidated.

Coca-Cola stands behind its accounting, saying Randi Donaldson, a company spokesman, said the company was "in accordance" with all accounting rules. Federal securities regulators were informed of the accounting system in 1996, when Coca-Cola Enterprises became a separate company, and they did not object.

The two companies are independent, he said, pointing out that Coca-Cola had a minority stake, now 44 percent, in the bottler. He also said that because Coca-Cola did not control the bottler, it did not have the option of consolidating financial statements.

"It is an old, worn-out point of view, totally without merit," said Laura Asman, a spokesman for Coca-Cola Enterprises, "and our company's performance for our share owners speaks for itself."

Meyer and Dwight Olesen, a doctoral student at the University of Portsmouth in the UK, have written papers criticizing Coca-Cola's accounting.

They compare the approach with one used by companies in the Depression, when a parent company and related entities would sell items to one another to inflate revenues and raise the parent's stock price. Those abuses led to changes in accounting rules, intended to eliminate profit on sales between closely tied companies.

"One can't transact business with itself," said Meyer, an investment analyst with Merrill Capital Management.

"It is not real. If you consolidate, then everything collapses." Meyer and Olesen say the board of Coca-Cola Enterprises is controlled by "people with strong ties to Coca-Cola."

To Coca-Cola's credit, the makeup of the board has changed recently. Until late last year, Douglas Ivester, then Coca-Cola's president, was chairman of the bottler. He stepped down after being promoted to chairman and chief executive of Coca-Cola. Neville Bold, a senior vice-president of Coca-Cola, also stepped down. But the board includes two former Coca-Cola executives and Joseph Gladson Jr, Coca-Cola's general counsel.

There are others with a stake in Coca-Cola. Howard Buffett, the son of Warren Buffett and a director of Berkshire Hathaway, Coca-Cola's largest stockholder; and two directors of SunTrust Banks, Coca-Cola's second-largest stockholder. That accounts for six of the board's 13 members. Another director is a consultant who has contracts with Coca-Cola and the bottler.

New York Times Service

Coca-Cola is one of the world's most widely recognized companies. Business Report is compiling an index of South Africa's global companies. For details of how to enter your company contact Theresa Lee at PricewaterhouseCoopers on (011) 498 4671
New beer index could emblazon SA’s tipsypliers
Sorghum price war dampens Awethu

Johannesburg — A price war in the sorghum market had knocked Awethu Breweries behind its forecasts for the year to June 30, its first year as a listed company, but it managed to lift earnings 50 percent from the pro forma figures, the company said yesterday.

In May, Awethu said it had "come under sustained attack from its largest competitor" and profit would not match forecasts. Rather than enter into a price war, it said it would increase its number of franchise outlets.

It had forecast 397 outlets by the year end but ended the year with 685.

Awethu said it had matched earnings forecasts in the last quarter. But the expansion of the franchise network put a strain on the balance sheet, which looks far less healthy than it did 12 months previously.

Long-term liabilities rose from R3.3 million to R7.2 million, though only R4.3 million of that bore interest. Cash fell from R3.3 million to R1.3 million. The company is still liquid, though, with a current ratio of 2.7 times.

Sorghum brought in 43 percent of profit, magui 33 percent, food products 21 percent and other income 3 percent. About 40 percent of sales were achieved through the franchise network.

Attributable income grew 90 percent to R3.5 million on turnover 24 percent higher at R37.8 million.

Forecasts were much higher at R4.2 million and R42.3 million. The company ascribed the higher margins to "the efficiencies of integration and tight cost control measures." Earnings a share rose 75 percent to 7.9c.

Awethu shares were unchanged at 80c yesterday. They have lost 57 percent since their February peak of R1.05.
Distillers achieves 4% rise in earnings

MARC HASENFUS

Cape Town — Distillers Corporation, the Rembrandt-owned spirits and fine wine producer, achieved a 4 percent increase in earnings to R175,6 million in the year to June as trading conditions got tighter in the second half, the company said yesterday.

A Distillers spokesman said the company had managed a slight increase in its trading margins from 13,9 percent to 14,2 percent by virtue of improved profitability of products sold on international markets. This offset increases in raw material prices and the exceptional increase in excise duties.

"International demand for our trademarks continued to improve, and exports increased 32,5 percent to R188 million."

The spokesman said exports were contributing increasingly to Distillers' total turnover, which topped R1,9 billion in the period under review.

Turning to the domestic market, the spokesman said successful marketing of trade-

marks and value added through the supply of quality products saw a continued improvement in the company's local market share in all product categories.

Looking ahead, he expected unfavourable trading conditions to continue.

"But our domestic and international investment programme is focused on ensuring earnings growth over the long term," the spokesman said.

Distillers closed 40c higher at R5,50 on the JSE yesterday. The share is well off its annual high of R12.
New liquor law
'aims at effective control of industry'

CHARLES PHARDLIE
PUBLICITY BUREAU

Opposition to the Liquor Bill's proposed three-tier structure of regulating the liquor industry was by people who sought to maintain the status of lack of competition and socio-economic problems, said a trade and industry department official.

In an address to a National Assembly subcommittee, trade and industry deputy director-general Adjay Sookial said the objections denied the uniqueness of liquor as a "legal, although potentially harmful substance" and sought to dilute or remove any attempts to address liquor policy issues.

"Ultimately, they deny the socio-economic problems faced by our people as a result of past legacies and work towards denying them the basic right to improve their socio-economic, developmental and human conditions which is the object of the bill," said Mr Sookial.

The Liquor Bill's three-tier system of regulation divides the industry into three categories - manufacturing, wholesalers and retailers.

Mr Sookial said the three-tier system was the "most logical structure" because industry players would be effectively regulated to comply with their respective categories.

It also prevented the ability of players to exert undue influence across categories.
ANC ‘used steamroller tactics’ on liquor bill

LYNDA LINDEN
PARLIAMENTARY CORRESPONDENT

Cape Town — The ANC was yesterday accused of steamrollering the controversial Liquor Bill through the national assembly.

“This is legislation by exhaustion,” said David Graaff, a National Party member of the portfolio committee on trade and industry.

He was speaking after Enver Danels, the chief state law adviser, had said the Constitutional Court could rule the Liquor Bill to be unconstitutional.

Hennie Bester, the Western Cape trade and industry minister, last week told the committee he had been advised the bill was unconstitutional as it impinged on provincial powers.

Danels said the bill, if passed and found by the court to be constitutional, would not deprive the provinces of the right to legislate on liquor issues.

Graaff and Colm Eglin, of the Democratic Party, said they needed time to consider Danels’s memorandum on the bill, but Rob Davies, the chairman, and other ANC members said they accepted Danels’s opinion and would go ahead with the bill.

The committee spent the rest of the day considering amendments to the bill.

Davies said they had tightened up the provision banning the “dop” system, where the supply of liquor forms part of farmworkers’ wages, and prohibited the granting of a liquor licence to any premises near a garage.

The committee also lengthened the lifespan of registrations under the bill to 10 years from the eight to 15 years previously set down. The liquor industry had argued that setting any time limit on registration could inhibit investment.

The conditions retailers have to meet when registering had also been eased slightly to make it easier for new entrants and to encourage currently illegal operators to register. For example, they will no longer have to publish details of their application in the provincial gazette.

It rejected an appeal by Woolworths to amend the bill so that it could continue to import wine from Marks & Spencer, with which it has an exclusivity arrangement, under the new three-tier structure of the industry.

Woolworths had submitted that bringing a third party into its arrangement with Marks & Spencer would be unproductive.
Companies & Markets

SA BREWERIES (182) n.m 29.1998

MANY WAYS TO BREAK UP A SIX-PACK

It could start with another bloody battle

Liberty Life moved quickly to pour cold water on media reports last Friday that the financial services group had put the “for sale” signs on its stake in SA Breweries. But the prospect of such a sale raises a number of interesting permutations.

One is the possible remake of the 1983 battle for the control of SAB. In that bloody corporate battle, the trio of Liberty, Johnnic and Anglo American Corp crafted a plan which cut Old Mutual out of any significant position in the affairs of SAB.

Though the trio emerged with de facto control of SAB, the battle resulted in SAB having to shed its hotel interests, which were sold to a management team led by Sol Kerzner.

Now the prospect of Bevcon, through which the three groups own a 28.7% stake in SAB, coming under the hammer opens the door for a hotly contested bid for control of the beverage, retail and industrial group.

Liberty Life executive chairman Donald Gordon told an investors’ conference in London last Thursday (September 17) that given Liberty’s determination to focus more on financial services, the SAB investment could no longer be considered a strategic one.

Subsequently, Liberty CE Roy Andersen explained that the SAB stake was not for sale. “We are happy with our investment in SAB and its future prospects,” he said.

The current market prices, and SAB’s rating relative to other brewing companies (see chart), must be a deterrent for any buyer.

But if Liberty were to sell its stake, it would make practical sense for any possible buyer to make a bid for the whole of Bevcon.

“It would be the most efficient way,” Andersen said, adding that in deciding to accept any offer, Liberty’s priority would be to achieve maximum value for its policyholders and shareholders.

In addition, it would take into account the interests of SAB shareholders and the interests of SA.

A full bid for Bevcon would almost be guaranteed success because Johnnic, Liberty’s other partner in control of Bevcon, has already indicated its intention to sell its Bevcon shares.

Johnnic has said it would sell its direct and indirect SAB stakes and use the proceeds to fund the refocusing of the industrial holdings group into media, entertainment and information technology industries.

Being the minority partner in the triumvirate, Anglo American would almost certainly join Johnnic and Liberty in selling its Bevcon/SAB stake.

Among brewing groups being mentioned as possible bidders for the more than 30% stake in SAB (if one combines 100% of Bevcon and Johnnic’s direct shareholding in SAB) are US-based Anheuser-Busch, which is the world’s largest brewer in production volumes, and Heineken, the second-largest.

For Anheuser-Busch, SAB’s attraction lies in its businesses in eastern Europe, where the US brewer has been battling to gain a foothold. That market has already been carved up between Heineken, SAB and privately owned Belgian brewer Interbrew.

In Poland, Europe’s sixth-largest beer market, SAB controls two brewers which have a 21% share of the 18.8m hl market, compared to Heineken’s 37%.

Anheuser-Busch’s efforts to buy Czech brewer Budějovický Budvar Narodní Podnik were stymied by the Czech government. The Czech brewer uses the same “Budweiser” brand name as the US company.

But if Heineken were to buy Bevcon, the Dutch brewer would most likely be forced by competition authorities in most of the eastern European countries to sell some of the breweries to avoid gaining a dominating position.

Besides other brewing companies, there is also the possibility of SAB management arranging for the Bevcon stake in SAB to be sold to institutional investors both locally and overseas.

Such an outcome would suit SAB management, given their proposed plans to place more focus on SAB’s core beverage businesses, locally and internationally.
The controversial Liquor Bill, passed by the National Assembly on Wednesday, could spell disaster for the wine route and the wine industry in general, producers said this week.

Producers are calling for an urgent meeting with the Department of Trade and Industry next week in the hope of amending sections of the Bill, which is expected to be signed into law before the end of the year.

The Bill might also end up in the Constitutional Court, judging by comments made during this week's parliamentary hearings by Western Cape Trade and Industry MEC Henne Bester, who pointed out that liquor licensing was exclusively a provincial matter.

Wine producers said the Bill in its present form prohibited the largest wine producers from selling direct to the public. This would apply to many of the estates on the wine route and, if approved, could damage tourism and lead to job losses.

'We feel the Bill hasn't been clearly thought out,' said the chairman of the Pearl Vintners producer's association, Jeff Grier. 'It's critical that wineries are allowed to sell directly to the public because that's an important part of Western Cape tourism and the economy.'

The problem would hopefully be resolved during next week's talks with the department, according to the executive director of the Cape Wine and Spirit Institute, Ruan Kruger.

He said the Bill had not specified a cut-off point for manufacturing companies most affected.

'We're convinced that (the oversight) wasn't done on purpose and we'll easily be able to sort it out,' Kruger said.

Producers also raised concern about a 'technical flaw' in the Bill's liquor licensing system which meant some of the industry's biggest wine companies would no longer be able to manufacture their product.

Some retailers welcomed the Bill's aim at empowerment.

'The whole idea behind the Bill is to create jobs, but nobody is sure whether it'll actually do that,' said Cape Town wine trader Vaughan Johnson.

'The idea to free up the industry should be welcomed but the Bill might just end up increasing liquor prices.'
Taxing times for shebeen owners

By Pamela Dube
Political Reporter

MORE than 250 000 shebeen owners countrywide are unlicensed and therefore not paying tax, the National Council of Provinces was told yesterday.

With the ratification of the Liquor Bill, which was passed by the National Assembly last week, shebeens will be legalised and regulated, the NOCP committee on economic and foreign affairs was told.

The Bill will also ensure that 250 000 people running shebeens in the black townships are brought within the tax bracket and pay their dues to the Government.

According to Mr Ajay Sooklal of the Department of Trade and Industry, the Bill provides better regulatory mechanism for the liquor industry which has an annual income of R10 billion.

In addition to regulating the manufacturing, distribution and sale of liquor, the proposed legislation attempts to facilitate the entry and empowerment of new people into the industry.

However, the Bill has not had a smooth passage through Parliament. The industry has accused the department of attempting to over-regulate those in business.

Church groupings and other civil organs also argue that the Government is creating immoral laws and social demigration.

Speaking in Parliament last week before the adoption of the Bill, Trade and Industry Minister Alec Erwin argued that while consciously addressing the negative socio-economic consequences of liquor abuse, the Bill also intended finding a "balance between the promotion and improvement of life and the promotion of economic development."

The NOCP is expected to ratify the Bill by this week, before it is taken back to the National Assembly for enactment.
District Core

OVERFLOWING WITH SPIRIT

- ACTIVITIES: Produces and markets wines and spirits
- CONTROL: Rembrandt-KKW Investment 60%, SAB, 30%

<table>
<thead>
<tr>
<th>Year to June 30</th>
<th>'95</th>
<th>'96</th>
<th>'97</th>
<th>'98</th>
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<tbody>
<tr>
<td>Debt/equity ratio</td>
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<td>576</td>
</tr>
</tbody>
</table>

Liquid is not the road to riches it once was. Most retailers are no more than marginally profitable Distillers' 50% holding in Western Province Cellars produced dividends of only R0.36m Distillers' 8.1% annual growth in earnings since 1992 reflects equally tough conditions at producer level.

In total, the liquor industry experienced a no-growth year as economic pressures and Excise duties took their toll. Distillers fared well, increasing its brandy, white spirits and wine market shares.

Deteriorating conditions caused turnover growth to slow to 6.9% in the second half of financial 1998 compared to 9.6% during the first six months. Operating margin, pre-depreciation, remained steady at 13.5%.

As a major brandy producer, Distillers faces maturation lead times of three to five years. Strong growth necessitated heavy investment in maturation stocks and equipment. Financial manager Wm Berman notes this was the main reason for a 22% year increase in inventory levels since 1994. This reversed the strong net cash flow patterns of earlier years. Total net cash outflow of R417m over the past two years moved the company into a net R275m borrowed position during the second half of financial 1998.

Berman sees a slowing in the inventory build-up this year, particularly with sales volumes declining. A return to positive net cash flows is vital. Failing this, year-end net borrowings indicate a 150% increase in interest payments at current rates. Other things being equal, the negative impact on earnings would be about 11%.

It's not going to be an easy year at a price of 4 and a dividend yield of 13.5% speak for themselves.

Stafford Thomas
AFRICAN BEER WARS

GUINNESS SQUARES
UP TO SAB

Guinness Breweries has positioned itself for a head-on confrontation with South African Breweries in Tanzania in a bid to gain market dominance.

Tanzania Breweries, in which SAB has a 46% shareholding, holds sway in the local market. But Guinness’s parent company, the branded food and drinks group, Diageo, has served notice it wants a bigger slice of the action.

Guinness and SAB are already locked in a battle for control of Uganda’s beer market, where Kenya Breweries, in which Guinness has a 46% stake, turned the tables on SAB, gaining the lead in beer sales. Previously, SAB had a dominant share of Uganda’s market through its 40% stake.

in Nile Breweries (FM Focus, October 9)

In Diageo’s review of trading activities for the year ended June 30 1998, the directors report Guinness increasing its Tanzanian sales of the Guinness Foreign Extra Stout (FES) brand by 55%.

Guinness and Kenya Breweries will “step up” their activities in Tanzania with the opening later this year of a new US$30m brewery in Moshi, near Kilimanjaro. The brewery has annual capacity of 450 000 hectolitres.

“Once the new brewery starts to produce FES locally, the assault on the Tanzanian beer market will continue in earnest,” Diageo directors say.

They describe Tanzania as one of the three fastest growing markets for Guinness. The other two are the US, where sales of Guinness rose 28% during financial 1998, and Chile, where Guinness introduced its product in April 1997.

FMT 30/10/98

Abdi Arif Shikhane
Beer war brews as SAB challenges in Kenya

MATTHEW BIGG

Nairobi — A new African war is brewing, but not about borders or ethnic animosity. This time it's about beer.

Kenya Breweries (KBL) dominates Kenya's lucrative beer market with its flagship Tusker brand. It also controls around 60 percent of the east African market.

Enter SA Breweries (SAB) and Castle beer. The southern giant opened a plant near Nairobi in October and now threatens to encroach on KBL's home turf.

"The perception is correct. We are fighting," said KBL group managing director Michael Karanja.

Two factors intensify the competition — a mysterious battle of the billboards and a decision by Kenya Breweries to launch its beers in South Africa.

Something curious has been sabotaging advertisements for beer.

Both companies are quick to deny responsibility for a recent spate of attacks on KBL and Castle billboards in Nairobi, buying newspaper space to highlight that they are being victimised.

And both companies have moved to seize the moral high ground, pointing out that they alone have refrained from accusing the other of doing the damage.

"Truth and Reconciliation. Let the facts be known," KBL said in a full-page advert in the East African Standard that pointed to events at the southern end of the continent.

Below were a series of pictures of defaced KBL hoardings and the words: "Persistent instigations in the press regarding damaged and defaced beer billboards compels us to respond."

"Defaced but not demotivated," countered Castle above a similar picture of a damaged Castle advert.

A deeper point of conflict is the Kenyan brewery's attempt to sell Tusker in South Africa.

Karanja accused SAB of deliberately blocking its entry into the South African market by registering a brand that features Tusker's logo. He said his company would go to court.

"They must be reasonable. We don't use those tactics to try and stop them. If we wanted to, we would have registered Castle (in Kenya)," he said.

Allen Melinnes, Castle Kenya's sales and distribution manager, denied Castle engaged in unfair competition, arguing that Kenya Breweries had registered around 100 names on its turf in an apparent attempt to block other brewer.

SAB controls 69 percent of South Africa's domestic beer market and dominates the African industry.

SAB has been market leader in the Tanzanian market since 1983 when it bought the state-owned brewer. It now expects rapid expansion in Kenya, having opened a plant in Thika as Castle Brewing Kenya Ltd. in partnership with local businessmen.

The Thika plant can produce up to 30 percent of the 2.2 million hectolitres consumed annually in Kenya, said Melinnes.

Castle's distribution and marketing are aimed at the Nairobi area, which accounts for 60 percent of the Kenyan market.

"If you take over a yearly volume (in Kenya), we have perhaps only got about 2 percent," said Melinnes. "But if you just take our volume for last month only on a monthly basis, we have perhaps got between 5 and 7 percent."

"Any business would like to have as much of the cake as possible, and fortunately the market is big enough for two breweresses to enjoy a decent slice of the cake," he said.

KBL says it has 97 percent of the Kenyan market and 50 percent of Uganda. In Tanzania, KBL controls 89 percent, a figure it hopes will rise now that it has opened a plant in the northern town of Moshie earlier this year.

Bright yellow billboards are a vital weapon in the war.

Tusker's ads — captioned "my country, my beer" — are a naked appeal to patriotism, while Castle's ads feature an ice-cold can, tipped temptingly to one side.

Lack of disposable income stops many Kenyans from touching the demon drink. Only 10 percent quaff beer while another 10 percent drink cheaper home-brew such as "chang'aa.

The irony for KBL and SAB is that the majority of the population are innocent bystanders to the beer war. Most Kenyans are teetotallers.

— Reuters
SAB keeps expanding despite speculation

By DON ROBERTSON

DESPITE speculation that foreign brewers are eyeing SA Breweries, the group has its eyes firmly on the ball as it continues to expand internationally and introduce new products to the local market.

This week, the company expanded its African interests with the purchase of Lonrho Africa's brewery operations in Zambia and Malawi. In the past three months it has launched six new beers on the SA market.

The Lonrho purchase, at an estimated cost of $4.8-million, will consolidate the group's interests in the area as it takes on Kenya Breweries.

SAB's future as a locally owned company, however, appears to be in the balance. Anglo, Liberty Life and Johnnic have indicated that they are ready to sell their shares in Bevcon, which in turn has a controlling stake of around 30% in SAB. Possible buyers are Holland's Heineken and the world's largest brewer, Anheuser Busch of the US.

In spite of these developments, SAB is intent on gaining an even bigger share of the local market with the introduction of additional premium beers.

First of the new brews were three beers produced by the "experimental" Fransien Street brewery, part of the Chamor brewery on the West Rand. Fransien Street is a micro-brewery, able to produce smaller quantities of up to 500 litres at a time and is suitable for experimental production.

Three months ago, SAB introduced a Winter Ale, an alcoholic ginger beer, and a wheat beer which were sold, in draught form, through a combined three-tap dispenser. The Winter beer did not survive as the weather warmed and was replaced by the world-famous India Pale Ale.

More recently, a test batch of a malt-based beer, Kingswood Superior Amber Malt, was released at selected bars in Durban and Pretoria.

An SAB spokesman said the price is about 30% more than for traditional beers and because of a higher alcohol content of 7%, it is sold in 340ml bottles.

The only nationally launched beer is Dakota Ice.

Spokesman David Williams says SAB aims to offer as many tastes as possible to the beer drinker.
SA BREWERIES

BEER SCORES HIGHEST AGAIN

Offshore operations in focus

Ho hum. It's the same old story. SAB's core beer operations save the day and its noncore interests lag behind. As the fifth-largest brewer in the world by volume but up 10% headline EPS growth yet again, the one thing to prevent investors nodding off, safe in the knowledge that the same will happen next year, is SAB's plan for international expansion.

It is well-known that the group is examining the option of a primary listing overseas, most likely in London, which will require the disposal of as many noncore assets as possible.

Voices within SAB are calling for a separate listing of hotel and gaming operations. "But you know, a company is not a democracy," says MD Graham Mackay, so SAB should keep its leisure interests. It is not an uncommon pairing — UK brewer Bass also has hotel interests. As for Edgars, management says it would be sold if a buyer stepped forward, otherwise next interim earnings could see some improvement through a loss. However, consumer spending, is on the block but it's a bad time to sell.

Despite the disclaimer, the group adds that previous disposals and acquisitions mean results aren't strictly comparable. SAB has shorn off only about 5% of its earnings. In turn, it realises about R1bn on the sale of Lion Match, De Gama, Afcol and Arntel. However, reduced earnings from Edgars and PGSi cut margins from 10.9% to 9.5%. In contrast, AB's contribution was up by R15m with Suncrush, a maturing that is expected to return strong returns in the next three to four years.

But performance still boils down to beer volumes were up 17%, 9% from acquisitions. After winning market share from wine and spirits, and a warm winter and Easter, local beer volumes were up 4% and profits up 18%, indicating further cost and efficiency improvements. The second half, where SAB earns 70% of profits, won't enjoy the same growth.

"SAB can take market share locally from wine and spirits, but falling consumer spending is shifting away from liquor and it's difficult to grow volumes with a lager market share of 99%," says ING Bank analyst Stuart Thompson.

The London listing ("possible listing"); says SAB could raise the capital required to fuel SAB's foreign operations, which are expected to take the responsibility for future profit growth. In contrast to other world-class brewers, foreign exchange regulations prevent SAB funnelling the gushing cash flow from its local beer brewing operations according to its economic imperatives. "There's not much more we can do in SA," says Mackay, "and as a brewer of our size and somewhat global competitiveness, we need the firepower, the cash and the brands to compete among the top three or four brewers in the world and there are deals we need to do to facilitate that."

So SAB lacks the necessary cash flow — does it have the brands and firepower? "To some extent, but not enough," says Mackay.

Analysts say the group also needs to make a large foreign acquisition to have a stream of cash on hand. Offshore the group has a wide portfolio of markets in its international operations, "mainly in fragmented and underserved markets where they can achieve high market share," says Thompson. "Africa (analyst estimate 12% of beer profits) brings quick returns, but low per capita income markets mean demand will flatten fairly fast. European markets (analysts estimate 7% of beer profits) require big investment and are more competitive but enjoy sophisticated consumption levels," says Mackay.

On a 15,3 forward p e SAB is inexpensive compared with its international peers, particularly emerging market brewers hitted by distressed markets. However, most analysts call the share fully priced. The group's low-risk earnings base keeps it a Blue chip, but it hasn't delivered vastly exciting earnings growth. Nevertheless, this year SAB exposes itself to the international arena, the best site for prime time viewing.
MORE BRAND NAMES TO BE RELEASED

Bootleg booze still on sale

THE LACK OF regulation in the liquor industry means you can't be sure what you are drinking—except that if you buy cheap you can expect nasty. Health Writer JUDITH SOGAL reports.

THOUSANDS of bottles of cut-price alcohol are still in bottle stores around the country today, despite police action to take them off the shelves because of health risks.

"Bootleg" brands of cane, vodka and brandy containing the industrial solvent methanol were discovered last night in a raid on a series of police raids on bottle stores.

Police said a number of business people were being questioned by police today over the sale of" bootleg" brands.

"Samples bought at the Jumbo Liquor Market in Belville showed methanol concentrations far in excess of legal limits," said the Liquor Industry Combines' Investigation Taskforce.

It is the third time police have arrested people for selling" bootleg" brands in the last six months.

"We are warning the public to be careful," said a police spokesperson.

A "bootleg" brand is one that is not fit for human consumption.

Police are also warning the public to be careful when buying" bootleg" brands.

"The public should be aware that these brands are not fit for human consumption," said a police spokesperson.

"We are also warning the public not to buy these brands," said a police spokesperson.

"We are also warning the public not to use these brands," said a police spokesperson.

"We are also warning the public not to sell these brands," said a police spokesperson.

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"We are also warning the public not to buy these brands," said a police spokesperson.
UK brewer completes takeover of Mitchells

Marc Hasenfuss
CAPE EDITOR

Cape Town — Scottish & Newcastle Breweries, Britain’s biggest brewer, yesterday completed a takeover of Mitchells, a South African micro-brewer, for an undisclosed sum.

Scottish and Newcastle started its association with Mitchells Breweries in 1994 when a 22 percent stake was secured. The stake was increased to 74.5 percent last year.

Mitchells operates breweries in the Cape Town Waterfront, Kyalami and Johannesburg and markets the Bosuns and Forsters brands.

Peregrine Solly, the managing director of Scottish and Newcastle’s South African operations, said the strong relationship with Mitchells over the past four years meant it was a natural stop for the UK brewing giant to take over the remaining shareholding.

“While we are operating in a niche market and against formidable monopoly opposition, we believe that, with the growing interest in premium natural beers, we can continue to develop our market share,” Solly said.

Solly said Scottish and Newcastle aimed to develop and expand Mitchells’ brands of traditional, natural draught ales.

“In addition, we wanted the infrastructure to bring our international brands, McEwan’s Lager, McEwan’s Export, John Smith’s Yorkshire Bitter and Newcastle Brown Ale, on to the South African market as part of a worldwide drive,” he said.

Solly stressed that Lex Mitchell, who developed Mitchells’ Bosuns and Forsters brands, would remain on the board and would continue to oversee the hands-on approach to the brewing activities. “The last thing we want is for Mitchells to lose its identity.”
Scams cost millions

THE government has lost millions of rand through schemes to avoid paying "sin taxes" on alcohol, a joint government-industry task team said yesterday while investigating the latest scam — "cutting" alcohol with industrial solvents.

The team, known as the Liquor Industry Combined Investigative Taskforce (Licit), was set up two years ago to combat this fraud and corruption.

"Mixing industrial solvents into alcohol is just their latest trick," said investigator Ernest Roberts. "It is the most serious because lives are at risk, but actually we were set up to protect the fiscus, not the public's health."

Seven brands of cut-price spirits have been removed from bottle store shelves around the country after chemical analysis found they contained more than 50 times the legal limit of methanol, an industrial solvent that is toxic in large doses.

One of the brands — Magerfontein Gold Brandy — contained 30ml of methanol, an amount that can be fatal.

Roberts and his team believe there are two syndicates operating in the city. One uses methanol, which looks and tastes similar to ethanol (alcohol), the other acetone, which is added to some cheap whisky brands.

"The Department of Agriculture is still testing more samples," said Roberts — Staff Writer.
SAB joins exodus to greener fields

Johannesburg – South African Breweries (SAB) said yesterday it would transfer its primary listing from the JSE to the London Stock Exchange in an attempt to get cheaper access to capital to fund further significant international growth opportunities. SAB is the fourth largest brewer in the world.

SAB’s announcement follows fast on the heels of Anglo American’s announcement that it would be restructuring its local and international interests and transferring its primary listing to London.

With SAB’s move, six of the top 10 companies on the JSE will now have their primary listing in London.

The SAB share price closed 202c firmer at R81 yesterday following the release of the news. At R81, the group has a market capitalisation of around R83 billion, which places it fourth in terms of size on the JSE. Anglo, the largest, Richemont, AngloGold, Briton and Minocor all have primary listings outside South Africa.

At its present market capitalisation, SAB would rank at around 70 on the FTSE-100. Graham Mackay, SAB’s group managing director, said that during the almost year-long process of investigating a London listing, the group’s notional ranking moved from the low 40s into the 80s.

Ahead of the transfer of the listing, proposals are being considered for the possible disposal of SAB’s interests in Edgars and Conshu.

If it is not possible to dispose of these interests before the listing, SAB intends to distribute all of its shares in Conshu and a substantial proportion of its shares in Edgars to its shareholders by way of a dividend in specie. Significantly, if discussions to dispose of SAB’s 68 percent stake in Plate Glass and Shatterproof Industries (PGSI) are not successful, SAB intends to retain this stake in the medium term.

Mackay said that SAB would seek opportunities to maximise the value of PGSI’s various businesses, particularly its international automotive repair and replacement glass operations, prior to an eventual disposal.

Mackay added that he believed the investment community in the UK would accept the logic of including PGSI under these circumstances.

Commenting on the transfer of the listing, Mackay said: “The new structure will allow us to build on our international beverage operations and accelerate international expansion, while continuing to invest in and strengthen our existing operations in South Africa.”

The London listing is expected to take place during March next year. It is envisaged that the first non-executive chairman will be Meyer Kahn.

TAKING THE PLUNGE Graham Mackay, SAB’s group managing director, announces the move to London.
On the move: South African Breweries is to list on the London Stock Exchange next year, but analysts predict the company may be too for a rude awakening as market conditions overseas are much more hostile than in South Africa.

SAB: No more a home brew

The government had little choice in bidding farewell to another South African giant, writes Donna Block.

In the days before South African Breweries (SAB) announced it was moving its primary listing to London, managing director Graham Mackay and top company officials presented their case to Deputy Prime Minister Thabo Mbeki and a select group of Cabinet ministers, including Minister of Finance Trevor Manuel and Minister of Trade and Industry Alec Erwin.

According to government sources and SAB officials, while Mbeki and company gave a nod not to wish SAB, support for the move among the politicians present was far from unanimous.

Although no one said who specifically objected to the second Johannesburg giant moving offshore, it is understood that the mood was that to try and become part of a perception in some African National Congress circles that the country's big corporations want to abandon the post-Mandela South Africa.

Mackay, reflecting on the government's decision to allow SAB to list in London, would only say: "They're being remarkably mum about it." But the reality is that the government really had little choice in the matter.

SAB's reasons were not only compelling from a market perspective, they were also vital. Mackay said not only would the move result in money flowing back to South Africa, but it would also allow the company to be more competitive.

"Although it is true that the government's decision to list SAB in London was influenced by the need to raise money, it is also part of a broader strategy to increase South Africa's global presence," Mackay said.

Makew said in addition to the needs of彦 corporations with global networks, SAB and the government were looking for a "new template" for the company.

"Although I don't think it is a fait accompli, there are a lot of people in the organization who see an alterative future to those who have," said one senior ANC member.

Mike Schuster, an economist at PPC Fidelity Bank, described SAB as a "monopoly brewer" for people who want the country's best beers to remain in South Africa.

He said the sound reasons behind the move, however, are not just financial. SAB's lost overseas and in South Africa, and as such, the company is the third largest brewer in the world.

"SAB's decision to move offshore is certainly not a surprise," Schuster said. "The company has been struggling in recent years, and the move will allow it to access new markets and to meet the challenges of a global industry."
MANUFACTURING - BEVERAGES

1999
Castle Brewing fails to lift Kenyan injunction

James Macharia

NAIROBI — SA Breweries (SAB) has failed in its attempt to lift an injunction brought against its subsidiary, Castle Brewing Kenya, preventing it from selling Ranger Special Lager.

The injunction was brought by East Africa Breweries, which said Castle Brewing had infringed its patented processing formula.

East Africa Breweries claims it is the first brewery in the world to produce beer using unmalted barley.

Castle Brewing, however, has said it carried out independent research prior to the launch of its product.

Judge Richard Kikula of the Nairobi High Court dismissed Castle Brewing’s argument that its brewing plant in Kenya could be forced to wind up if the injunction was not lifted.

He said Ranger, which was launched 10 days prior to the injunction, was still in its infancy and would not have such repercussions on the firm. Castle Brewing launched the disputed lager on December 11.

— To close down is far-fetched because even if pushed out of the (brand) market this is not all that Castle Brewing in Kenya does. Ranger is just an infant and this cannot possibly cause the demise of the mother,” the judge said.

The injunction against Castle Brewing was initially granted after East Africa Breweries, formerly Kenyan Breweries, sued Castle Brewing alleging infringement of its patented beer processing formula used to make its Citen Lager brand.

East Africa Breweries alleges that Castle Brewing infringed a patent by brewing Ranger using a formula researched and created by East Africa Breweries.

On the issue of monetary losses, the judge said on Thursday, “Castle is not likely to suffer any further monetary losses in the marketing campaign. Expenses so far incurred are recorded and are quantifiable, which (East Africa Breweries) may be called upon to make good if they lose the case,” he said.

The judge said the company produced various other products and its temporary stoppage in producing the lager would not necessarily force the firm to close its operations in the country.

He said a judge should not be invited to speculate on probability of success by merely being asked to look at the grounds on which the appeal was based, because these could be altered and amended before trial.

The judge said the orders sought could have been granted only if East Africa Breweries had delayed in prosecuting the case or if the injunction would result in substantial losses that could not be fully compensated for through other means.
SAB gets ready to take on the world

COMPANIES & MARKETS

Analysts say the group's focus on beverages and beer gives it a chance to become an acquirer on the global market.

Nichola Jones
SAB forced to reinstate 52 workers

Cape Town — SAB was required to reinstate and pay several months' backpay to 52 workers it had sacked in December 1997 following a strike when wage talks broke down earlier that year, the labour court ruled last week.

The workers, all members of the Food and Allied Workers' Union, went on strike in August when wage talks deadlocked.

The company then launched a labour court action to interdict and restrain the workers from engaging in alleged misconduct and breaching strike rules.

The strike was settled the following month and the workers returned to work, but after a disciplinary hearing 18 were suspended and 34 later dismissed.

The union and SAB agreed to private arbitration. David Woolfrey, the arbiter, found the dismissals were unfair. Instead of dismissal, he ruled, the company should have issued the workers with final written warnings.

He reinstated them retroactively but imposed suspensions without pay for three and four months, respectively.

SAB took the matter on review to the labour court, on the grounds that Woolfrey did not have the power to impose the sanction of disciplinary suspension without pay and that the sanction would be in breach of the provisions of the Basic Conditions of Employment Act.

Judge D Mlambo said the imposition of suspension without pay as a disciplinary penalty was for an employee who had committed some form of disciplinary breach.

An employer was entitled to take action against an employee who misconducted, he said. Once the employer had decided that instead of terminating the contract of employment it would simply suspend it for a period, it was not acting unlawfully.

Mlambo said he found nothing impeachable in Woolfrey's award and SAB's application was dismissed with costs.
SA Breweries relaunches its controversial Kenyan lager

James Macharia (182)

NAIROBI — SA Breweries subsidiary Castle Brewing Kenya has relaunched its controversial Ranger Special Lager in Kenya, reformulating it to avoid violating a restraining order issued in December.

Castle Brewing Kenya MD Roger Smith says the new product includes unmalted barley, which should not transgress the court order secured against it by rival East Africa Breweries in October.

East Africa Breweries won a temporary injunction barring Castle Brewing from manufacturing the beer, saying it infringed its patented brewing formula which uses unmalted barley.

East Africa Breweries claims to be the first company worldwide to use 100% unmalted barley when making its Citizen Beer. The company says it launched the formula to reduce the high customs duty paid on imported malt.

In December, Kenya’s High Court ordered Castle Brewing Kenya to stop producing and marketing its new lager until East Africa Breweries’ patent suit had been heard in court.

A date for the hearing of the patent infringement suit against Castle Brewing is still to be set.
Bills sent back to Parliament

Step in the face for Zuma, Ndloko and Emwini as Mandela Sports lobococo, broadcasting and liquor legislation back to drawing board.
Beverages: Strong local operation weakens rationale for global deal

Coca-Cola and Cadswiemeppes talks exclude SA

Johannesburg — The brief announcement that the global agreement between Coca-Cola and Cadswiemeppes (Cadswiemeppes) did not cover the operations in South Africa gave little indication of what is likely to be a long-drawn-out, complex and heated dispute between the various local parties affected by the deal.

None of the parties — namely Cadswiemeppes, Coca-Cola and Amalgamated Beverage Industries (ABI) — is talking, other than to refer to the publication of a second annunciation earlier this week.

It stated that the local company and its UK parent, Cadswiemeppes plc, were “reviewing the strategic position of Cadswiemeppes’ carbonated soft drinks business in South Africa within the context of the global agreement.”

The reasons for the exclusion of South Africa are understood to be the presence of minority shareholders in Cadswiemeppes, the inevitable involvement of the Competition Board and the fact that the local operation is strong, weakening the rationale for a global deal. An additional complicating factor is that Cadswiemeppes has a 15 percent stake in ABI, the country’s most powerful Coca-Cola bottler and distributor.

But analysts believe that Coca-Cola is keen to get its hands on Cadswiemeppes’ local carbonated business and the only reason a deal has not been done is because Coca-Cola is not prepared to pay a sufficiently attractive price. That is, a price that reflects that Cadswiemeppes has about 15 percent of the local carbonated soft drinks market, compared with the average elsewhere of about 2 to 3 percent.

One of the main reasons for the strength of the local position is the acquisition some years ago of Lemon Twist. Another reason is that Cadswiemeppes uses the so-called Coca-Cola system to distribute its products. In most other countries Cadswiemeppes uses independent bottlers and distributors.

According to one analyst, Coca-Cola believes it should not have to pay market value for the carbonated business because it helped create much of that value through its distribution system. In addition, because Cadswiemeppes is already using the system, the additional benefits to Coca-Cola would not be as great.

There are two glaring difficulties with Coca-Cola’s line of argument: one is that Cadswiemeppes has paid a fee for the use of the system and the other is that the system is actually not run by Coca-Cola itself but by independent bottlers such as ABI.

Coca-Cola’s role in the so-called Coca-Cola system is to provide concentrate, do some marketing and then sit back and police the manner in which the bottler operates. Cadswiemeppes’ role in the system is similar but because it only has 15 percent of the market compared with Coca-Cola’s approximate 89 percent, it cannot use such a heavy hand to police the operations.

In an industry that is all about perception, Coca-Cola’s position and power is daunting. Few realized that the multibillion-rand African expansion programme that was launched last year was in fact to be funded overwhelmingly by the independent bottling companies, with Coca-Cola itself contributing just a small portion of the funds.

If the Coca-Cola glitz is removed, then the Cadswiemeppes deal boils down to two concentrate producers negotiating a deal. It is, of course, impossible to remove the glitz and it would be unfair to Coca-Cola to do so.

Although Cadswiemeppes has paid fees to its bottlers and distributors, some analysts say it has piggy-backed the Coca-Cola system as it does not invest anything proportionately close to Coca-Cola’s investment in market development.

One of Cadswiemeppes’ strongest arguments is certain to be the need to protect the interests of minority shareholders.
LATEST FIX FOR JOBS CRISIS
Drink more Coca-Cola?

A recent study on the economic impact of the “Coca-Cola system” claims the multinational softdrink company is not merely a thirst-quencher but “has a strong multiplier effect on job creation in transitional capitalist economies and political environments”

The study — commissioned by Coca-Cola — claims that for every job created by the system, 10 more were supported through backward and forward linkages.

The system encompasses the core (the local office, its bottlers and canners) and a larger network revolving around that core, including suppliers, distributors, wholesalers and retailers. Hence the employment network ranges “from plant managers to street hawkers.”

The beneficiaries of the job-creation spin-offs cut across all races and skill levels — 63% are black South Africans, 16% whites, 14% Coloureds and 7% Asians. And within the workforce whose jobs are directly or indirectly supported by the Coca-Cola system, 24% are highly skilled, 43% medium-skilled and 33% low-skilled.

The survey says the Coca-Cola system’s total contribution to SA’s GDP was R9.8bn in 1998, and direct expenditures were R5.6bn — implying a value-added multiplier of 1.75.

And you thought it was just a soft drink.

Selle Nobula
In Europe, small beer funds are in millions of billions. The table below shows the breakdown of investments across different categories.

<table>
<thead>
<tr>
<th>Category</th>
<th>Investment (in billions)</th>
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<tr>
<td>Technology</td>
<td>3.5</td>
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<tr>
<td>Healthcare</td>
<td>2.1</td>
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<tr>
<td>Renewable Energy</td>
<td>1.8</td>
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<td>Consumer Goods</td>
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<tr>
<td>Manufacturing</td>
<td>0.5</td>
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<tr>
<td>Construction</td>
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The total investment in the first quarter of 2023 was $10.5 billion.
not much fizz at the coming-out as London's cautious analysts ponder the city's limited growth prospects.

Breweries

Subdued British Listing for SA

Michael Denny
RICH MAN
Graham Mackay
R7-million p/a

CAROL PATON

SOUTH African Breweries has for the first time disclosed the earnings of its top executives — revealing that chief executive officer Graham Mackay stands to earn a staggering R7-millions this year, 218 times more than the lowest earner on the shopfloor. Mackay will earn a basic salary of R450 000 (about $62 000), receive a car allowance of R44 000 (about $6 000) and will stand to earn up to R250 000 (about $35 000) through a performance bonus. On the other hand, Abraham Marimba — a weekly paid worker at SAB’s Witbank brewery who earns slightly more than the minimum wage — will get R33 280 for the year.

POOR MAN
Abraham Marimba
R33 280 p/a

Victor Nuzza, Fawo’s national negotiator for SAB, said workers would be horrified by the information. ‘‘Although operating profits have increased by 24 percent during the past two years, worker anxiety over job security had risen. Last year 600 jobs were lost at SAB as the company began to rationalise itself along the lines of other world-class brewers. More retrenchments are certain to follow this year.”

“We are definitely going to do something about this. We cannot live with this wage gap and its effect on the economy will improve the rich are getting richer and the poor are getting poorer,” said Nuzza.

Part of the reason for the disparity is that Mackay’s salary has been substantially increased this year. As a result of a 10 percent salary increase, many workers who were looking forward to higher salaries will have to wait another year. Some workers have even become so disillusioned that they are giving up on the idea of a raise. In addition, many workers have also been hit by inflation, which has increased prices and left many workers unable to meet their basic needs.

Highs and lows of pay at leading company

Skills is not an argument that washes with trade unionists, who since 194 just formed a basis for the closing of the ‘‘apartheid wage gap’’.

Last year SAB announced that it would be closing the wage gap with the minimum wage. However, many workers feel that this is not enough and that more needs to be done to help those who are struggling to make ends meet.

‘‘We have always said that we need to look at closing the wage gap and how we can reduce the burden on our workers. Money could be used by SAB for training employees to get better jobs. In this way, SAB has a lot to account for to the South African people. It is here where they have the power to make sure that their employees get fair pay and that they are not exploited by the company,’’ said Slabbert. ‘‘Companies will always argue that this is the price of a director’s salary. In my experience, the price of a director’s salary is disproportionate, not only with workers but also with other managers.’’

Marimba is an unskilled worker who has to organize crowds of beer drinkers into orderly queues. When retrenched, Marimba looks around, this year, it is the people like him, who perform simple tasks, who will be in the firing line. However, he believes people should be paid according to their skill and natural instincts of knowledge and experience should be paid more. "If you pay one person R1-million it is just too much."
The world's biggest brewers

SAB considers a move to the top tier.
In an effort to diversify their market exposure, companies are increasingly looking to international exchanges like the London Stock Exchange. This move is driven by the belief that investing in a global market can spread risk and offer potential upside.

"Investors should consider emerging markets as a strategic asset class," said analysts. "They offer the potential for higher returns, especially in a low-interest-rate environment."
Companies & Markets

SA BREWERIES

FOR BRITISH TASTE IT COULD DO WITH MORE SALT

Knotty problem of valuing a rand share in sterling terms

Not so long ago, currency risk and emerging-market stigma didn’t enter the same universe as SA Breweries. But since its London Stock Exchange listing, they are becoming planets obscuring the group’s sun.

These risks, rather than SAB’s profits or size, are fine-tuning its share price. SAB CEO Graham MacKay says the market has overdone SAB’s emerging-market exposure. Still, that vulnerability crouches at the front of UK analysts’ minds. Several brokers, not involved in the listing, call the share overpriced at present levels.

To parcel the share’s emerging-market and currency risk into the equation, HSBC and Kleinwort Benson have turned to the currency and bond markets. “These markets have been valuing the SA market for years, whereas the UK market has been valuing SAB’s share for a few days,” says Dresdner Kleinwort Benson analysts Edly Hargreaves and Robert Cumming. This introduces a variety of arcane figurations into the valuation.

For example, Kleinwort has compared the SA 10-year long bond (offering 14.5% returns) with the UK 10-year bond (4.6%). After crunching concepts like differential yields and implied total returns, Kleinwort concludes that the rand will be worth 38% of its present value against the sterling in 10 years’ time (Ouch!). That means SAB’s 16.7p must be divided by 38% (or 0.38) to include its emerging-market risk, placing it on a 43p.

“It is a struggle to justify taking the share at these prices,” says HSBC analyst Charles Winston. “Assuming long-term earnings growth of 8% in US dollars, most valuation tools suggest fair value at well below 500p. This is particularly so if you examine SAB’s EVA money spent on acquisitions like Sun crush, offshore breweries and capex over the last several years have all left SAB overinvested.”

ABN AMRO estimates that annual returns on international beer capex spent since 1995 are only 7.1%, with cumulative returns at 20%. That puts SAB in economic loss — a technical term meaning the returns on the cash invested are less than the average cost of capital.

Winston expects a strong performance from ABI and better consumption spend-
Port makers may take EU deal to WTO
New world wine producers to meet in Montevideo

John Dludlu, Wyndham Hartley, Stephen Lauder and Reuters, Sapa-AFP

AS GENERAL euphoria greeted the SA-European Union deal yesterday, local port producers signalled their intent to put the brakes on with an approach to the World Trade Organisation (WTO).

Karel Nel, chairman of the SA Port Producers' Association, said his organisation would team up with fellow non-European port producers to challenge the EU's restrictive naming practices in the wine and spirits sector. New world wine producers are to meet in Montevideo, Uruguay. Sources believe a joint approach to the WTO on the issue of port and sherry denominations could be on the agenda.

SA's government and the EU welcomed the deal.

While Nel said he understood government's rationale in accepting the deal, some of his members were unhappy with it. Last week Nel, who said the association's 27 members represented 90% of SA's port producers, wrote to Trade and Industry Minister Alec Erwin, praising his hardline stance in talks with the EU.

Responding to the possibility that the port industry could lose this label after the 12-year transition period, Nel said the international challenge would seek to ensure that all foreign wine producers were treated alike. That none was forced to abandon its trade marks.

A spokesperson for KWV welcomed the prospect preferential access to the EU. Erwin, President Nelson Mandela and opposition parties have welcomed the conclusion of the negotiations. However, Erwin conceded in Parliament yesterday that the new wording on port and sherry, a compromise on the Davos package, could see use of the terms lost in the domestic market in 12 years. The Davos package allowed SA to use the names for 12 years, when names would be jointly agreed between SA and the EU. The new deal is that after 12 years "new denominations that shall be used in SA will be jointly agreed". This has been interpreted as conferring a veto right to the EU on names after the transitional period.

Erwin and Land and Agriculture Minister Derek Hanekom mulled, however, that the door on the wine labels was still "ajar". Erwin said the EU had intended to slam the door on port and sherry and that SA's concessions kept hopes alive that the use of port and sherry in the domestic market might still be preserved.

Hanekom stressed that the port and sherry market for SA producers was largely domestic, with R800m of an R880m market going in exports.

EU ambassador to SA Michael Lauder said the EU leaders' unanimous endorsement of the agreement was an "irrevocable commitment" to the deal. He defended the changes, saying they were in the spirit of the Davos package. The deal, expected to come into force next year, would reinforce the EU's dominant position as a direct investment and trading partner with SA.

Erwin said the main beneficiary of the deal was agriculture, but SA's industrialists would also benefit substantially from duty-free access to European markets within three years.

When the agreement comes into force, there will be duty-free access to EU markets of 32-million litres of SA's wines and allowances for duty-free quotas of agricultural products to grow 3% a year.

A Spanish diplomatic source said King Juan Carlos's state visit to SA in February had "helped establish a more sympathetic climate" towards the EU agreement.

The deal will remove tariff barriers on 90% of trade between the two in 12 years.

Rob Davies, chairman of parliament's trade and industry committee, said SA should not be over-euphoric as the tearing down of trade barriers would also pose challenges to business.
LAND OF -ISMS

“Brazil still suffers from a malaise of
-isms — nationalism, sestism and populism (the art of
distributing wealth before it is produced)” Veteran Brazilian
politician Roberto Campos in Financial Times interview

SA BREWERIES

UK MAG SAYS ITS
TIME TO SELL

SA Breweries is in the firing
line from UK analysts
Companies & Markets March
26) as well as the
financial media.

The latest bullet has been fired by the
Investors Chronicle which, in
its issue of March 25, advises share-
holders to sell. It
points out that
though the share
has performed
well since its list-
ing at 428p — its
current price is
around 530p or
5.350c — its major
bear point is that Bevon
wants to sell its 26.7% stake
Bevon has agreed not to dis-
cuss a sale until April 30. That’s
just around the corner

Also worrying is that no-one
seems interested in taking over
SAB. This means that, in terms
of its strategy to help consolid-
ate the worldwide brewing
industry, SAB will probably be-
come an acquirer. That
means raising more funds on
the LSE — more likely to de-
press than raise the share
price.

Another negative is the weak
rand. If, as ana-
lysts expect, the
rand falls against
the dollar by 8% over the next 12
months, then
SAB’s rand earn-
ings must grow by
8% for dollar earn-
ings to remain flat.

The positives are its strong as-
sets, but the In-
estors Chronicle
concludes “It faces serious
currency risks and its biggest
shareholder Bevon wants out.
Other investors should follow
its lead.”

DEMOCRATIC PARTY

FINDING A HOME FOR THE DEFECTORS

The DP’s slick, razzle-dazzle election campaign launch in
Durban this weekend briefly fell off its well-oiled wheels with
the walkout of a delegation protesting at having an ANC defector
fostered on them as a candidate.

The delegation of more than a dozen black DP supporters came
from the Northern Province, one of the regions where leader
Tony Leon says the party stands a big chance of making substantial
inroads into the ANC support base. They walked out of the
function, attended by about 1,500 DP supporters, because they
claimed they had had no say in the selection of Ezekiel Mphahlele
to the DP’s National Assembly candidates’ list.

Mphahlele, one angry woman complained, had been a member
of the ANC until only three days previously “Now we are con-

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UPSETTING THE BEER CART

The end of the beer distribution agreement between
Guinness SA and SA Breweries on April 30 could pave the way
for the creation of a more formidable competitor in the SA
market, of which SAB has 98%.

Guinness will decide within
the next three weeks on its
next course of action. Its deci-
cision could set off a tram of
events that would change SA’s
top beer landscape.

One possibility is that the
Irish brewer walks away from
the SA market, in which case
it would add to the long list of
local and international brew-
ers that have tried, and failed,
to enter here.

But it could tie up once again
with Namibia Breweries, the
only brewer to have success-
fully attacked the 25m h l SA
beer market.

Scared by the cost of building
infrastructure similar to SAB’s,
international brewers like
Guinness and Dutch brewer
Heineken have sought al-
liances with SAB.

But not Namibia Brew-
ers. It has tenaciously
held on to its independ-
ence and clawed
away from SAB’s 33% share of the pre-
mium sector of the market,
estimated to be 750,000 h l a
year. Amstel, brewed by SAB
under licence from Heineken,
leads in the premium segment.

The main benefit for Guin-
ness would be Namibia Brew-
eries’ distribution set-up be-
Breweries distributed Guin-
ness’ Foreign Extra Stout
(FES) brand in SA. FES didn’t
succeed here despite being a
star performer in east and west
Africa. Guinness then joined
forces with SAB and switched
brands from FES to Guinness
and Kilkenny.

Guinness SA MD Eamon
Murphy says the end of the
SAB pact follows the failure to
find a solution to the high cost
of importing Guinness and
Kilkenny from Ireland.

These brands sell at premi-
 ums of 100% and
300% on Castle, SAB’s leader
with a 50% SA market share.

Murphy says SAB and Guin-
ness considered creating a
joint venture com-
pany that would have invested in
the technology
necessary to brew
Guinness and
Kilkenny in SA. But
then they would have
to sell 100,000 h l a
year.

“We are nowhere
near that figure and at
current sales volumes, it
would have taken the joint
venture about seven years
to make money on its invest-
ment,” explains Murphy.

Guinness is looking at other
options, including importing
Guinness and Kilkenny brands
from countries besides Ireland.

Jabulani Sihlapha

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FM FOCUS

Edited by Caroline Southey

GUINNESS

FM 21 4/99

UPSETTING THE BEER CART

(18A)

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24 FINANCIAL MAIL APRIL 2 1999
Brewery feud inflamed by
SA’s new tipple

ROBERT OYAN

Nairobi — The launch here last week of Hansa Pilsner by SAB’s Castle Brewing Kenya was likely to worsen the abrasive relations between the South African company and East African Breweries, its only rival in East Africa.

Castle Brewing, a SAB subsidiary, had a rough time in Kenya since it stormed the regional market by opening a plant in Thika, about 80km northeast of Nairobi, in September 1998.

There have been accusations and counter-accusations of unfair business practices, including the defacing and demolition of billboards and irregular advertising by East African Breweries.

East African Breweries has two Pilsner brandnames, Pilsner Lager and Pilsner Ice.

Industry sources say East African Breweries may take Castle Brewing to court, claiming it has stolen its brand.

Launching Pilsner at a Nairobi hotel, Roger Smith, Castle Brewing’s managing director, said: “The Hansa launch marks an important step in strengthening Castle’s position in the Kenyan beer industry.”

He said since Castle Brewing’s launch last year, the company had sold over a million 25-bottle crates of beer despite fierce competition and a sluggish Kenyan economy.

The Hansa Pilsner brand was first brewed in Swakopmund, Namibia, where the Heuschender family established the Hansa Brauerei in 1832. Hansa Pilsner was launched in South Africa by SAB in 1973. SAB later acquired the right to use the brand name in exchange for part equity in Namibia Breweries.

When Castle Brewing launched Ranger, its third brand after Castle Lager and Castle Milk Stout, last December; East African Breweries cried foul, claiming the South African firm had stolen its formula.

East African Breweries later went to court, and Castle Brewing was restrained from making and selling Ranger. However, it has since continued to manufacture and sell the brand.

Last year East African Breweries tried to get its own back by exporting its Tusker range of beers to South Africa. But a trade dispute ensued because SAB contended that East African Breweries would infringe a Tusker trademark already registered by SABmark International of South Africa, which holds all trademarks licensed by SAB.

The matter has not yet been resolved, so East African Breweries is restrained from selling its Tusker brands in South Africa.

East African Breweries has argued the same trade restrictions should be imposed on SAB in Kenya, accusing South Africa of protectionism while Kenya has fully liberalised its economy.

Although East African Breweries produces over 90 percent of the beer consumed in Kenya, SAB, through its 51 percent shareholding in Castle Brewing, hopes to grab 30 percent of the market in the next two years — Independent Foreign Service
Guinness SA gets new drinking partner

MARC HASENFUSSE
CAPE EDITOR

Cape Town — Guinness, the Irish brewing company, yesterday struck an agreement with Namibian Breweries to distribute and sell Guinness and Kilkenny beer and draught in South Africa.

The agreement, effective on May 1, follows the ending of Guinness’s distribution arrangement with SAB, which controls 86 percent of the local beer market.

Diederich Schutte, a stockbroker at PSG Online, said the agreement was another tactic in the scramble by the Irish brewer and SAB for African markets.

Schutte said the distribution would have a minimal effect on South Africa in the short term, adding that the deal formed part of Guinness’s longer-term strategy to challenge SAB’s dominance in Africa.

Eamon Murphy, the managing director of Guinness South Africa, said Guinness and Kilkenny had grown rapidly in the local market and showed tremendous potential.

“Our agreement with Namibian Breweries will ensure this growth will be maintained and, most importantly, that the product will continue to be available to loyal customers,” Murphy said.

Although Guinness was “not making a lot of money” in South Africa’s premium beer sector, Murphy said the company’s distribution agreement with Namibian Breweries showed commitment to staying in the country.

“We believe that there’s a very good chance of Guinness being commercially successful in South Africa with a distribution partner like Namibian Breweries,” he said.

He said Namibian Breweries was a rapidly growing southern African brewer with a proven distribution record.

“We operate in very similar sectors, and it makes sense for us to tap into this existing infrastructure.”

Murphy declined to estimate the collective market share that Guinness-Namibian Breweries would hold in the local market.

Bernd Masche, the managing director of Namibian Breweries, said that over the past three years the company had achieved continued growth in its South African beer business, particularly the premium sector of the market.
Board stops investigation into SAB and KWV

Pretoria - The Competition Board had withdrawn its notice of investigation into SAB's business practices, Wouter Meyer, the director of the board, said yesterday.

A notice of investigation into the affairs of KWV, the investment group, had also been withdrawn.

The withdrawal of the SAB and KWV notices of investigation and six other investigations were published in the Government Gazette on Friday.

Meyer said the majority of the notice withdrawals were related to the new Competition Act. Many of the alleged offending practices, including abuse of dominance, could be better dealt with through the new act.

The Government Gazette notice said the board decided to terminate a number of investigations announced in terms of the Maintenance and Promotion of Competition Act, because in some cases the need for an investigation had fallen away and circumstances had changed in others.

The board launched the SAB investigation to determine whether SAB had a monopoly in the alcoholic beverage industry and whether any agreements it had in the industry constituted restrictive practices.

SAB subsequently challenged the board's notice of its investigation on the grounds that it exceeded the board's rights and power in terms of the act.

Lourens Jonker, the chairman of KWV, said last year the board investigation into the liquor industry and the affairs of KWV had been put on hold until the new Liquor Act was passed.

Jonker said at the time the new Liquor Act would probably contain guidelines and prescriptions regarding competition which could affect the outcome of the investigation.
REPORTING STANDARDS  Criticism of brewer a wake-up call for local firms

UK slams SAB accounting method

Ann Croitty

Johannesburg – SAB’s reporting standards when it was a JSE-listed entity have been slammed by a leading UK accounting expert in a recent issue of Accountancy International, an auditing journal.

The extensive and severe criticism has disturbing implications for the standard of corporate reporting in South Africa, given that SAB has frequently won awards and accolades from the local accounting profession for the quality of its reporting.

For SAB shareholders, this poor quality of reporting is a thing of the past. In future its annual reports will be published in accordance with the much more demanding UK standards.

The brew giant recently gave the local investment community some insight into improvements that can be expected from these standards. The information memorandum published in preparation for the transfer of its primary listing to the London Stock Exchange contained a substantial amount of useful and significant information previously unknown to shareholders.

The document enabled the investment community to undertake a much more efficient analysis of the group. As a JSE-listed company, SAB stated that its accounting philosophy was “dedicated to achieving full and responsible reporting through comprehensive reporting and explanation of its financial results.”

It also endorses the conceptual framework of the rigorous standards set down by the International Accounting Standards Committee, a fact which presumably provided comfort for international as well as local investors.

Most South African experts seem to feel the group was close to achieving its lofty objectives.

In its annual excellence in annual reporting competition, Ernst & Young placed SAB second in both 1997 and 1998.

The UK article notes that SAB’s practice of eliminating goodwill against reserves used to be followed by nearly all UK companies, although it has now been outlawed by Financial Reporting Standards 10 and is contrary to IAS 22.

“This policy means that the company avoids an amortisation charge. In doing so it boosts reported earnings as well as the apparent return on equity – which benefits both from the higher earnings and from the reduced shareholders’ funds figure.”

The article points out that, since 1989, UK companies have been required to disclose the cumulative amount of goodwill eliminated from the balance sheet.

“This is significant because it reveals the capital actually employed in the business and allows an estimation of what the earnings might be had they been reduced by a goodwill amortisation charge.”

This information is not provided in the SAB annual report. Its absence has serious implications for the directors’ claim in the 1997 annual report that SAB had delivered a seven-year average return on group equity of 25 percent compared with the long-term objective of 24 percent.

“When the capital actually employed in the business is taken into account, it is clear this target has not been met in either 1998 or 1997.”

It also appears that much of the R1.5 billion spent by SAB on international acquisitions has been written off as goodwill. IAS 23 sanctions SAB’s approach but requires disclosure of the nature and amount of provisions for restructuring and other plant closure expenses arising as a result of the acquisition and recognised as at the date of the acquisition,” the article says.

SAB has not made such disclosure, and the article states this lack of transparency does not help in assessing the quality of the international beer division’s earnings, which have been surging ahead.

Attention is also drawn to the usual treatment of the losses at OK Bazaars, which were incurred after the decision to sell but before control was actually passed to the acquirer.

The message for the local investment community is that it can look forward to a real world-class report from London-listed SAB for financial 1999. Meanwhile, there are many reasons we should not baulk at being treated with the disdain that is dished out to emerging markets.
SAB Heads Race For Spanish Brewer

Local monopolies mean bid for Cruzcampo appears to hold trump cards
TOXIC LIQUOR still on sale

CAPE TIMES SPECIAL INVESTIGATION

CONSUMERS have been warned by the liquor industry to avoid certain brands of liquor due to the presence of toxic substances. The Cape Times investigation has revealed that several brands of liquor contain toxic substances, including methanol and other poisons.

The investigation was sparked by reports of illness and death among consumers who consumed these products. The inquiry was conducted by the Consumer Affairs Department and the results were alarming.

The investigation found that several brands of liquor were contaminated with toxic substances, including methanol, which is a highly toxic chemical that can cause severe health problems and even death.

The report also highlighted the lack of regulation and oversight in the liquor industry, which has led to the continued sale of toxic products.

The government has been urged to take immediate action to ensure the safety of consumers and to crack down on the sale of toxic liquor.

The investigation has also uncovered a lack of cooperation and transparency from some liquor companies, who have been reluctant to disclose the presence of toxic substances.

The report has called for a thorough review of the liquor industry, with a focus on improving regulation and ensuring the safety of consumers.

The government has been urged to take swift action to address the issue and to ensure the safety of consumers.

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Beer and rand buoy
SAB’s first UK results

Johannesburg — Strong beer sales supported South African Brewers' first results as a London-listed company yesterday, although the effect of currency depreciation saw earnings fall in dollar terms but rise in rands.

Group earnings a share of the world's fourth-largest brewer (before exceptional items) rose 16 percent to 315,9c in rands but dropped 5 percent to 54c in dollar terms for the year to March 31.

Analysts lauded the group for its better-than-expected growth and margin improvements in its beer operations, Grant Swane- poel, an analyst at Standard Equities, said the results exceeded expectations.

Volumes in the beer division rose 9 percent to 48 million hectolitres, with 2.2 percent volume growth in South Africa.

South African operations contributed 70 percent to group earnings, and the rand slipped 22 percent against the dollar over the period.

SAB moved its primary listing to London in March this year and entered the FTSE index of top 100 shares. Peter Armitage, an analyst at Merrill Lynch, said it would be quite a while before the company would be viewed as a non-South African group by some European investors.

The group yesterday warned of continued difficult trading as emerging markets struggle to recover, but was positive for its full year to next March.

The company reported a 23 percent increase in turnover in rand terms to R36 billion, which equates to a 5 percent rise in dollar terms. In rand terms, operating profit before exceptional items rose 25 percent, a 3 percent increase in dollar terms.

Exceptional items comprised mainly the impairment of Russian assets, which the group wrote down by 211 million.

SAB is discussing the disposal of its non-core plate glass business, Plate Glass Shatterprufe Industries.

It has been speculated that SAB is a front runner in an estimated R4 billion bid to acquire Cruzcampo, a brewer that controls 25 percent of the Spanish beer market, as part of its move into western Europe.

Malcolm Wyman, the group corporate finance and development director, said: "I'll be surprised if we don't have about 50 percent of earnings from beyond South Africa over the next few years."
CAPE TIMES JOLTS AUTHORITIES

Stores selling toxic liquor will be charged

A DAY after this newspaper repeated its exposé of stores selling poisonous liquor, the Liquor Board and Agriculture Ministry have appealed for it to be taken from shelves.

FATIMA SCHROEDER and MISCHA DE BRUIN report.

In response to a Cape Times report yesterday, the Liquor Board said it will take action against any liquor store selling contaminated brands.

In a six-month police investigation, 19 brands of liquor were found to be contaminated with methanol exceeding the legal limit — about 2000 mg per litre of pure alcohol — and statements were taken from hundreds of outlets around the country.

Three police docks were handed to the Director of Public Prosecutions, Frank Kahn, SC, on Tuesday and the public is waiting for him to decide whether the bottling plants, Bebida Distillers, Magerfontein Trading and Van Nyatha Liquor Distributors will be charged.

Yesterday, the Liquor Board requested that bottle stores take the brands off shelves.

"The possibility exists that some of the other bottles of the same brands are contaminated and the consumer wouldn’t know which to buy. This puts both the consumer and the bottle store owners at risk. Therefore we appeal to bottle store owners not to sell the listed brands,” said administrative head of the Liquor Board, Hergard Wagener.

He stressed that “urgent steps” would be taken against any store selling contaminated liquor.

Chairperson of the Liquor Board, Cedric Everson, said the board will be holding a hearing next month to determine whether the licences of the three manufacturing plants will be withdrawn.

Meanwhile, the Ministry of Agriculture said in a statement yesterday that it would implement procedures to control the market.

"Effective implementation of certificate from the manufacturer to prove that the liquor was now clean.

"All the brands were sent back to the Department of Agriculture, and only after the company received a clean certificate for the department, was Prestige Brandy returned to the shelves," he said.

Former owner of Prestige VO brand's bottlers, Mike Pallet, said the brand may have been confused with another "Prestige was never on the list with high amounts of methanol. If you ask me, it has been mixed up with another brand."

MD of Midmar Liquors, George Naidoo, said he would remove the bottles from shelves if they are found to be contaminated.

"We are meeting representatives of the department again this afternoon, just to be sure."

"If there still appears to be anything wrong with it, I’m prepared to take these products out of the shops," he said.

One of the managers of Drop Inn Discount Liquors, who declined to be named, said he would also remove the brands.

"I have to discuss this with the managing director. But we are going to remove these brands from the shelves, without doubt," the manager said.

Darren Swersky, marketing manager of Picardi Rebe, had none of the listed brands in stock, but expressed dismay at the state of the liquor industry.

"We have been very concerned about what is happening."

"Unfortunately, one of the side effects of the new government is a lack of monitoring," Swersky said.

Colin Robinson, MD of Ultra Wholesale Liquors, said he removed the products immediately after he had seen the Cape Times report.

"We took all the suspected products of the shelves today. We only had Arctic cinnamon liqueur and Paparrazo Schnapps in stock," he said.
Weak rand takes kick out of SAB beer profits

Reporting in dollar terms is putting pressure on the SA brewery to buy in Europe, writes MARCIA KLEIN

The 22% devaluation of the rand against the dollar in the year to March, and the effect it had on South African Breweries plc's dollar denominated earnings, reinforces international investors' concerns about the currency risk of SA companies. It could also force the group to make a major Western European investment to increase its percentage of hard currency earnings.

But analysts say although there are rumour about a major Western European acquisition about, this may not be the right strategy for SAB. The company's strength lies in developing markets, where there is exponential growth not found in Western Europe, says one analyst.

He says SAB, which derives 70% of earnings from SA, may feel pressured to make a hard currency investment, but it could look away from Western Europe to reduce its reliance on the SA rand. "Most European beer markets are mature and showing no growth, and they are also internationally branded markets. SAB would be entering a market environment with limited experience."

But SAB is a world leader in developing beer markets, and one could argue that this is where it should make a major acquisition, he says.

This week SAB's group CEO Graham Mackay played down the talk, but said SAB was seeking larger investments in developed or emerging markets. He did add, however, that SAB's strategy in emerging markets had been highly successful.

This would not be the case in Western Europe, Mackay said. SAB had a history of success in sophisticated markets such as the Canary Islands, the US and in some markets in Europe such as Hungary.

Mackay said the currency issue would only be a problem if there were to be a real deprecation, and "one cannot expect the rand to deprecate in real terms constantly". But as one analyst said, "if SAB wants to go out and compete in the big world, it must do so in dollars."

This week SAB produced its first set of earnings as a Lon-don company. Earnings were up 16% in rand terms as turnover increased 24% to R6.6-billion and operating profit rose 25% to R4.5-billion. However, in dollars, its chosen reporting currency, earnings fell 5% to $448m on a 5% rise in turnover to $6.2-billion and 3% rise in operating profit to $786-million.

Directors reported an impressive 9% rise in beer volumes. Volumes in SA were up 2% against a declining liquor market, with SAB picking up two percentage points market share, largely from wines and spirits. The SA beer division reported a 15% rise in operating profit on 9% higher turnover of R9.4-billion.

SAB International showed strong volume growth and operating profit. The 19% rise in beer volumes (organic volume growth was 11%), compared with a 3% growth in European volumes and the 2.2% growth in SA, indicates just how strong growth in developing countries is.

Strong growth was also reported in SAB's other beverage interests, where the synergies between Coca-Cola bottlers Adi and newly acquired Sun-crush are starting to be felt in Southern Sun, occupancies of 70% were well above industry averages and the strong earnings growth was boosted by the opening of new casinos.

SAB made an impairment provision of R177-million against its investment in Russia. SAB expects a $10-million trading loss and two years of tough conditions, but Mackay said he was optimistic about the Russian beer market in the long term.

While SAB dominates the beer market in SA, has 60% of the market in other beverages and a significant share in hotels, it is also a global player. SAB International operates in 19 countries on three continents, brewing 30 lager beers and 26 sorghum beers.

It has over 90% market share in Botswana, Mozambique, Swaziland, Zambia and Zimbabwe, as well as 69% in the Canal Islands, 36% in Poland and 35% in Hungary.

Its strategy is to become the leading brewer in every market it enters.
THREE PLANTS INVESTIGATED

Govt to serve up weekly list of bad booze brands

THE DEPARTMENT OF AGRICULTURE is to distribute a list of liquor products that it will urge the public to avoid, pending the laying of charges against offenders. FATIMA SCHROEDER reports.

W HILE the liquor industry remains in a state of turmoil, the Department of Agriculture has agreed to the weekly publication of the names of liquor brands found to be contaminated with illegal doses of the industrial solvent methanol.

Last week, after a six-month investigation, a police team submitted three dockets to Billy Downer, the chairperson of the national Society of State Advocates, containing details of the alleged manufacture of the illegal brands.

Consumers are now waiting to see if the three local bottling plants allegedly involved — Bebida Distillers, Magersfontein Trading and Van Nynade Liquor Distributors — will be charged.

Last Thursday the Cape Times published a list of 19 brand names which contained high percentages of methanol when they were tested in December last year. Yesterday the department released an updated version of the list.

"The department is placing all incorrect products under order and thus prohibiting the sale thereof None of these products is exported," the department said in a statement to the Cape Times.

The latest list of contaminated brands and their retail codes, based on tests conducted in May, includes:

- Oakville VO brandy (A237)
- Regent gin (A237)
- Barbados blended rum (A237)
- Blue Martin cane (A237)
- Windermere cane (A237)
- Rustnoff vodka (A237)
- Bravoska vodka (A391)
- Arctic cynamon liqueur (A611)
- Arctic cream soda liqueur (A611)
- Paparazzi banana spirit aperitif (A358)
- Richwood VO brandy (A571)
- Fouplaas XO brandy (A669)
- Preston’s London dry gin (A296)
- Royal Cape VO brandy (A611)
- Kasparov vodka (A623)
- The House of Parliament gin (A237)

The department’s statement continued: "An inspection in May revealed that some products are contaminated (some of these differ from brand names previously found). In the stores where these products have been found, they have been embargoed while second tests are being conducted to verify the results. The outcome of these tests will be known very soon and a public announcement will follow."

An inspector at the Department of Agriculture, Raan Van Zyl, yesterday told the Cape Times that the department is monitoring the market by taking samples on a daily basis.

He confirmed that a list of illegal brands will be released weekly.

Another department official, Eben Rademeyer, said he feels "confident that the brands on the new list were contaminated."

"If I am wrong I must be prepared to take the consequences thereof. I am taking a risk by saying this, but I am confident that I can tell people that these brands are not good," he said.

The maximum legal amount of methanol is about 2000mg a litre of pure alcohol. Methanol, if consumed in large quantities, can cause headaches, tiredness, nausea, blindness, convulsions, circulatory collapse, respiratory failure and sometimes death.

Methanol is usually added so that its manufacturer can avoid paying duties and taxes on pure alcohol, which amounts to about R25 a litre. Methanol, unlike ethanol, is not liable for taxation.

The managing director of Diamond’s Discount Liquor Stores, Michael Sternberg, said he is glad to see the industry being monitored.

"I’m delighted that the department is starting to monitor, with a greater level of strictness, the quality of products, and that they care for the safety of the public," he said.
Economy & Business

MANAGEMENT RESCUE

FROM NEW DELHI, WITH LOVE — AND A BIT OF BUSINESS SENSE

NSB discovers, at last, how to turn beer into profit

Just when you thought National Sorghum Breweries (NSB) should register as a charity, it’s gone and made some profits. Management isn’t saying just how much, at this stage, but word is that the company is firmly in the black in the year to December 1998 and it is forecasting attributable profits of Rs30m for 1999.

That’s something, considering the group has produced recurring losses and sliding sales over the past five years, and has been forced to live off the generosity of its shareholders and bankers — due to some of the worst management abuse yet dished up to an SA company.

NSB’s change in fortune appears to have begun with the arrival of nine executives from United Breweries (UB), India’s largest brewer, following its purchase of a 30% stake in the company for Rs70m in mid-1996. Championsing the change was Colonel SPS Khurana — “The Colonel” (retired) — under the direction of NSB MD Swinder Gandhi.

Gandhi’s first act at NSB was to reach for the scissors: he stopped production of the loss-making clear beer marketed as Vivio, closed three of the 14 sorghum brewhouses and started selling off noncore assets. By the end of the first year the number of employees had been reduced from 2 600 to 1 200 and costs had been slashed by Rs62m.

But Gandhi realised more had to be done to cut costs and improve efficiencies. Shortly after the departure of executive chairman Professor Mohale Mahanyele in July 1997, after a damning report from Deloitte & Touche (FM Focus June 13 1997), Gandhi called in management consultants Proudfoot.

The NSB that Proudfoot first encountered was in bad shape. “In all my 20 years of international consulting, I had never seen a company that had such a poor history,” recalls Proudfoot project director Tom Cook. “With the new management trying to change so much so quickly, I doubted whether the company could make such a drastic turnaround in the time they wished.”

At the time, NSB’s production of beer/employee/month amounted to 14 000l, compared to the industry standard of 40 000l. NSB’s forecasting accuracy was at a meagre 27%, which meant that the average shebeen supplied by NSB either had too much, or too little, sorghum beer: 73% of the time.

Sorghum beer is a peculiar product: it has a shelf life of only four days, after which it turns sour and can’t be consumed. Two of these days are taken up with packaging and the third leaves a window of just two days for the distributors to get the product down the customer’s throat. In SA the ready-made sorghum beer market is dominated by NSB and TBJ, an SAB subsidiary. But it’s a market under threat on both sides.

The consumer’s order of preference is clear beer (such as Castle or Windhoek), ready-made sorghum beer, and home brew (powder sorghum). The

ALUMINIUM

WEAK DEMAND FOILS LIGHT METAL

World aluminium supplies will exceed demand for at least another year, and the “expectations of weak demand will force metal prices below fundamentally justifiable levels”, says leading metals analyst Julian Garran, of London-based consultancy CRU International.

Garran says recent price gains for primary aluminium have been driven by “better expectations than stock levels would recommend.”

The excess of metal supplies in the third and fourth quarters of this year will be 200 000t to 250 000t, and could rise to 300 000t in the first quarter of 2000, he says.

Garran addressed a conference in Beijing recently on prospects for the Asian aluminium market. The participants included representatives of most Asian aluminium producer countries.

Growth in demand for aluminium will be absorbed by new capacity coming on stream and by restarts of idle capacity until midway through 2001, when prices will take off, he says. He also blames commodity trading programmes for triggering fund sell-offs when expectations of an even deeper price slide gripped the market.

Garran predicts GDP will be flat in southeast Asia this year, -1.6% in Japan and 7.5% in China. The crisis in Brazil,
rcher customer will tend to choose clear beer, the poorer customer will brew his own. In business jargon demand for beer categories is a function of disposable income.

In reality, this means that, when pay day comes around, demand for sorghum beer drops and people buy clear beer. Demand is also determined by events, such as sport celebrations, the weather, and so on, making it difficult to reliably read the customer.

Over the short term, success in sorghum beer brewing depends on your product quality, market radar, how quickly you can get the product out and how flexible production runs are. In the long run, the brewer must cut prices and try to take market share from home brew, which is roughly three times the size of the ready-made sorghum market.

Proudfoot and an NSB task force followed the A-Z of steps for improving the level of organisational efficiency. They started with pilot projects in August 1997. The target of “Project Phambili” (which means, moving forward) was to achieve a further R58m in cost reductions and improved efficiencies.

The first thing was to install proper checkpoints at each stage of the production process at the 11 breweries. What controls there were tended to be financial, in other words they told you there was a problem, but didn’t say where the problem was or how long it had been going on. The new controls said where the problem was and the moment it happened.

“We turned the entire operation into a fishbowl,” says Proudfoot SA project manager John Mullany. “When there were problems, people could identify them and correct them immediately.” Employees were also better trained and encouraged to make suggestions on improvements to the process. “What we did was introduce a mechanism, where they would audit themselves on a continuing basis, and that meant productivity continued even after we left.”

Proudfoot also introduced a computer-based market forecasting model. This was updated on a daily basis and production was adjusted accordingly, reducing wastage and saving costs.

In the back office, debtors control, credit limits, contracts, fleet and cash management were all scrutinised and the changes rolled out to all the operations during 1997 and 1998.

The steps paid off. Project Phambili succeeded in cutting costs by a further R61m.

NSB is now producing sorghum beer at a rate of 30 000 hl a head, from its old rate of 14 000 hl, and is forecasting accuracy of 91% from the 27% of the past. This makes NSB one of Proudfoot SA’s flagship projects, with a 4.7% return on project costs.

The turnaround is also a great triumph for responsible shareholder United Breweries which has had to shore up the losses “I should say we have covered about 80% of the distance,” says The Colonel of the progress. “We still have to further rationalise capacity and improve market penetration.” If they achieve productivity levels of 40 000 hl a head, then, he believes, they will have done their job.

The Colonel is bullish about the sorghum beer market and NSB’s position in it. In December, the company sold its clear beer operation to SAB (FM Focus May 28), in order to focus exclusively on this market. The Colonel believes that with further cost cutting they will be able to make inroads into the home brew market as well. The new long-life (6 months) sorghum beer product also makes exports possible.

NSB should be helped in the next few years by a couple of factors. The past losses mean the group is sitting with assessed tax losses of R250m-R300m. NSB executive vice-president finance Rajan Ranganathan says the balance sheet is recovering.

“When UB first came in we invested R70m, that brought debt down to R170m.” he says, “With the sale of clear beer, that came down to R100m. Now we are profitable, we are reducing that by another R30m, to R70m.”

It’s due to come down by a further R30m shortly, with the injection of further funds from UB or a local black empowerment group.

With the turnaround at the company, there is now fighting, and listing, from NSB management. They expect to start paying dividends from 2001 and are looking to make a listing at the latest in 2001, depending on results in 2000. Stuart Robertson

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**NSB’s Attributable Profit/Loss**

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<th>Year to June</th>
<th>Year to December</th>
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**Cutting the price ... rough future for SA and world producers**

US and 2.8% for the rest of the world will offset the decline and generate world GDP growth of 1.6% this year.

That would translate into growth in aluminium consumption of 750 000 t. But substantial idle capacity in the West — Garman estimates it at 1.5 Mt, controlled mostly by the US-based Alcoa group — will restart as the economic recovery fires demand. New capacity of 547 000 t in 1999 and 497 000 t in 2000 is also expected.

The production cuts we’re seeing in oil and nickel aren’t going to occur in aluminium,” he maintains.

John Malan, Beijing

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GUINNESS

THE DROUGHT IS OVER

Guinness toppers despair no more. Your favourite black and creamy draught beer is on its way to your nearest watering hole.

For several weeks taps at pubs around SA have been running dry because of a shortage of Guinness and Kilkenny brands imported from Ireland.

The shortage arose because Guinness SA switched its beer distribution agreements from South African Breweries to Namibia Breweries.

Guinness SA ended its distribution arrangement with SAB on April 30 after the two parties failed to find an amicable solution to the high cost of importing Guinness and Kilkenny from Ireland. Efforts to put together a joint venture to brew the brands locally collapsed because of cost considerations.

Guinness then linked up with the Namibian brewer but this was not soon enough to enable Guinness SA, which does not have an import licence, to place orders in time with the Irish brewer. The lead time for the fulfilment of orders is about 9 weeks.

"It didn't help that sales of Guinness and Kilkenny in May and June were above forecast. Almost all outlets were out of stock last week. As of now, ships have docked in Cape Town, Port Elizabeth and Durban. Guinness and Kilkenny will be available this week," said Guinness SA MD, Eamon Murphy.

Jabulani Shikaleng

EM 25.11.99
These companies must brew longer

Consolidation is brewing among beer producers as market leaders seek global brands, writes John Willman of the Financial Times

Getting frothy

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<th>Brand/Brewer</th>
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Top worldwide beer markets

- USA
- Germany
- China

Top worldwide brands

- Pilsner
- Lager
- Stout

KUBERNER DAVO Sources: IMPACT DATABASE, FINANCIAL TIMES

Outside Belgium it has acquired brewers in eastern Europe, Russia, South America, and China. In 1995, it bought up the global league table to sixth place by buying Labatt, number two in Canada. Many of these have been the largest growing part of the market.

In the former communist countries, this usually involves buying breweries outright, merging them, and increasing production equipment and fear that makes beer different from detergents or electronic products.

Not are there unwanted benefits from cross-border mergers and acquisitions, says SAB's Mackay.

"Beer is bulky and perishable, which means that makes beer different from detergents or electronic products.

But the approach adopted by Interbrew, the privately owned Belgian concern that makes Stella Artois, Leffe and a range of specialist beers such as the ultra-prestige Trappist beers untraced by brewers.

There was a similar process in the US 20 years ago with consolidation happening so rapidly.

Even brewers focused on brand building need local brewing capacity, he says, "It isn't cost-effective to rely on imports, so mergers and acquisitions are driven by the need to acquire production platforms in key markets.

Opportunities to grow by snapping up smaller brewers in emerging markets are rapidly diminishing, he says. The industry needs to consolidate, with no growth in the western European markets for a long time and most of the opportunities in eastern Europe wrapped up.

There are two possible ways in which they next phase can develop. One is for the top half-dozen global brewers to form a network of the second-tier groups that remain largely national, such as the two Brazilian brewers, Carasol of Colombia, or UK brewers such as Bass and Whitbread. A holy premium would have to be paid, which might make it hard for smaller brewers to find a partner.

The other is through mergers between some of the biggest brewing groups, where SAB and Carlsberg have already started forming partnerships with the smaller ones in Germany, Spain, Italy, and Greece.

Heineken, the world's second-largest brewer, is buying local brewers and promoting global brands such as its own popular lager and bitter. It has established strong positions in most of Europe's main beer-drinking markets, including France, Italy, and Greece.

Most of the top 20 brewers still rely on their home markets for the bulk of their sales. SAB, with sales of 19% of the global market, has the largest market on a global basis.

Most of the top 20 brewers still rely on their home markets for the bulk of their sales, according to a financial times analysis. SAB, with sales of 19% of the global market, has the largest market on a global basis.

Philipp Morris

The writing may have to go on a little longer.
Coca-Cola mopping up the market

Nicola Jenvey

DURBAN — The proposed sale of Cadbury Schweppes SA's (Cadsweip's) soft drink brands to Coca-Cola would raise Coca-Cola's control of the SA soft drink market to about 93%

Market sources have put a price tag of nearly R1bn on Cadsweip after indications the confectionary and soft-drinks company is in talks to sell its soft-drink brands to Coca-Cola.

Coca-Cola bottlers in southern Africa already package and distribute Cadsweip brands, which include Dr Pepper and Seven-Up.

Cadsweip said at the weekend it was in talks to sell its Schweppes brands to Coca-Cola after the two companies scaled down their proposed international beverage deal in an effort to appease regulators.

Competition Board chairman David Lewis said yesterday the two groups had a 30-year deal under which Coca-Cola made and distributed Cadsweip products. This marriage, also binding on Cadsweip plc in the UK, meant they did not compete and the Competition Board was unlikely to block the deal.

Most analysts agreed, saying competition law aimed to prevent abuse rather than monopolistic dominance.

Cadsweip MD Dave Jackson said the deal would pump cash into the group. Cadsweip and its parent company were "considering how best to utilise the funds". Bound by cautionary regulations, no further details on the purchase agreement were forthcoming.

More significantly, analysts raised questions about the future of Amalgamated Beverage Industries (ABI), in which Cadsweip has a 14% stake. This holding could be sold for another R1bn, giving ABI cash to buy out the 45% minority stake — at R10 a share — and delist the group. Selling ABI would also provide Coca-Cola with a bottling plant that dominates 60% of the market.

Efforts by Cadsweip plc to sell its soft-drinks brands to Coca-Cola under an agreement reached last December have been blocked in some countries. The agreement covered trademark ownership for all Cadsweip's major soft-drinks outside the US, France and SA.
Valvita to sue Carte Blanche

Nicola Jenvey

DURBAN — Mineral water producer and bottler Valvita is to sue the M-Net magazine programme Carte Blanche for an undetermined amount after a broadcast two weeks ago indicating that SA mineral water contains harmful bacteria.

Valvita chairman Henne le Roux said yesterday the group was assessing the damage caused by the programme and would inform Carte Blanche of the financial implications once these were known.

Valvita attorneys Cliff Dekker Fuller Moore have sent a letter to the magazine programme holding it liable for damages “suffered as a result of (the) libelous violation of (Valvita’s) rights and the defamation of (Valvita) and its products.”

Valvita claims that during the programme several incorrect statements were made about its products as well as the mineral water industry. Its product, Valvita Still Mineral Water, was presented “in an extremely detrimental and misleading” manner, while Carte Blanche ignored vital facts which “resulted in a distorted and harmful image of the products.”

The letter reminded Carte Blanche that it was notified ahead of screening that “a misleading and incomplete presentation of the products would cause damages for which Valvita would hold it responsible.”

Le Roux said Valvita, as a founder member of the SA Natural Bottled Water Association, met standards taken from Europe and Britain.

He said its products had been tested regularly by the SA Bureau of Standards since 1989.

Le Roux said the bacteria counts quoted on the programme were not obtained via “acceptable procedures” for testing natural bottled water and were thus irrelevant.

“We doubt any of the top natural bottled waters in the world would have passed (those) tests. The programme now has South Africans pouring gallons of drinkable mineral water down the drain,” he said.

Carte Blanche, executive producer George Mazarakis said yesterday he was unaware of the impending civil action and expected that if the programme was being sued, he would be informed by the company, not by the media. He said he stood by the story, aired on July 11, but would not comment further.

Meanwhile, upmarket food group Woolworths submitted samples of its water for microbiological pre-testing after the programme was screened. It has assured customers that these tests confirmed the water “continues to be pure, safe and free from any microbiological contamination.”
Erwin says SA needs a national liquor system to aid competition

Jonny Steinberg

WERE the liquor bill to be ruled unconstitutional the liquor industry would be left without a national regulatory system and may descend into "chaos" Trade and Industry Minister Alec Erwin has told the Constitutional Court.

In February, then President Nelson Mandela refused to sign the bill and instead sent it to the court to test its constitutionality. Mandela said he was uncertain whether the bill encroached on exclusive provincial powers.

The Western Cape's business promotion and tourism MEC, Hennie Bester, who is opposing the bill, told the court in an affidavit that the bill violated provincial authority to issue liquor licences and to regulate liquor retailers.

Responding to Bester, Erwin argued that the bill was designed to address matters that "self-evidently called for national legislation", such as the structure of the industry, the need to make the liquor industry more accessible to the historically disadvantaged and the fact that 90% of liquor retail trade was informal and uncontrolled.

Among the measures envisaged by the bill was a three-tier registration system for manufacturers, wholesalers and retailers which aimed to "limit the excessive vertical integration in the liquor industry which creates uncompetitive practices," Erwin said.

Erwin argued that the structure of manufacturing and wholesaling in the liquor industry required a national rather than a provincial regulatory framework.

"Taking SA Breweries as an example, it will be unduly burdensome to require it to approach regulatory authorities in all nine provinces in order to be able to operate business operations in each of those provinces. The position would be even more complicated if the different provinces applied different requirements," Erwin said.

Bester replied that Erwin's prognosis of confusion and fragmentation was "a gloomy and unrealistic vision."

He said Erwin had failed to show that the bill's encroachment on provincial powers was necessary to maintain SA's economic unity or to essential national standards, as required by the constitution.
Change of mind over brewery leaves bitter taste

Nicola Jervis

DURBAN—Port Elizabeth snatched the R750m new brewery project away from East London yesterday, leaving the rival Eastern Cape city with the bitter feeling that SAB Breweries (SAB) "led us up the garden path".

SAB said yesterday it would construct a new brewery next to the existing Perseverance depot 10km outside Port Elizabeth to replace the century-old establishment in the city centre. The 230-million-litre capacity plant was "well positioned to service the Eastern Cape, as well as the anticipated future requirements of the southern Cape".

However, East London city fathers and the local chamber of business were "disappointed" given that last May Rob Chalms, former SAB operations director of the beer division's southern region, announced officially that the plant would be built in the city.

Craig Sam, director of development planning in the East London city council, said local business and the city council wanted to see the reasons given by SAB for choosing Port Elizabeth over East London, particularly as the city had met SAB's criteria.

Key to Chalms' announcement was the central positioning of East London. The city also has a high water quality, while the council has the ability to fund the necessary infrastructure.

East London deputy mayor Des Halliday said SAB's change of heart makes it increasingly difficult for East London to market itself as a potential investment centre. He was also furious that SAB contacted him only on Tuesday night with the news about Port Elizabeth.

SAB spokesman David Williams said SAB had recognised the need for a new Eastern Cape brewery with East London as the prime contender.

However, strong volume growths from the southern Cape placed Port Elizabeth as the more central location.
The decision represents brewer's largest capital investment in South Africa since the late 1980s

SAB to invest R750m in PE plant

ANN CROTTY

Johannesburg - South African Breweries' plan to build a R750 million brewery in Port Elizabeth represents the group's largest investment in domestic beer production capacity since the late 1980s and the first major capital investment since it moved its primary listing to London.

Analysts said yesterday that the decision to go ahead with the investment, which was first mentioned in 1997 at a possible East London site, was a significant vote of confidence in the country's economic growth prospects. "SAB has access to first-class economic data. Two years ago this data persuaded them that it was not appropriate to undertake an investment in additional capacity; the data is now telling them a different and more encouraging story," said a leading analyst.

Work has already begun on the new brewery, which will have a capacity of 2.3 million hectolitres, and is expected to be completed by the end of 2009.

The existing brewery in Port Elizabeth, which has a capacity of 0.9 million hectolitres, will be closed when the new brewery begins production. This means the net additional capacity from Port Elizabeth will be 1.4 million hectolitres.

The investment is additional to SAB's current annual capital expenditure on local beer interests of almost R600 million.

About R220 million of this will be invested to increase capacity at the Alirode brewery in Johannesburg from 7.8 million hectolitres to 6.1 million hectolitres.

Ahead of the new investment, the South African beer division of SAB has seven breweries with a total capacity of 29.7 million hectolitres.

Norman Adam, the managing director of Beer South Africa, said yesterday "We are excited by the prospect of a new brewery which now matches the standards and capability of SAB's other six breweries in South Africa and which is as advanced a brewery as any in the world."

The decision to build the brewery in Port Elizabeth rather than East London reflected the increasing demand in the southern Cape. The new brewery will service the Eastern Cape and future needs of the southern Cape.

Business Watch, Page 2
SAB plans new brewery for PE

By Shadrack Mashalaba

The depressed region of the Eastern Cape received a major boost yesterday when one of the world's largest brewers, South African Breweries (SAB), announced that work on a new R750 million brewery in Port Elizabeth had already started.

A team of international brewery design specialists and management have been appointed to the project, but selected and competent local companies, particularly those that focus on black empowerment, will be heavily involved in all aspects of construction.

Local content is expected to exceed 65 percent.

According to SAB, the capital investment is an addition to the company's current annual capital expenditure on its beer interests in South Africa of almost R600 million.

SAB communications manager David Williams said the new plant at Perseverance just outside Port Elizabeth would replace the existing 100-year-old brewery at Stroudale and would be completed by the end of next year.

Williams said once the new plant came into operation, the old one would be closed.

SAB currently has seven plants which are located in Port Elizabeth, Chambor, Prospecton, Alrode, Rosslyn, Pietersburg and Newlands. It will have a production capacity of 230 million litres a year. The decision to build a new brewery was taken back in 1997.

Williams said the new plant would supply the whole Eastern Cape region as well as the South and Western Cape.

"The SAB will always look at its options when opportunities arise. We are in a process of acquiring other breweries worldwide," he said.

While a number of non-core assets have been disposed of by the brewing group, Williams said, there were still a number of such assets that they owned.

"Our vision is to concentrate on beer and other beverage products," said Williams.
SAB’s R750m plant a boost for investment

Beer group aims to be able to produce more than 30-million hectolitres a year by December 2000, writes DON ROBERTSON

SAB BREWERIES’ new R750-million brewery in Port Elizabeth is part of a R1-billion-a-year expansion programme planned by the group over the next two years. A significant portion of this will go towards boosting the economically battered Eastern Cape.

The investment is one of SAB’s largest in the past 10 years. The new brewery, with a capacity of 2.3-million hectolitres a year, will replace the existing 100-year-old facility that produces only 0.9-million hectolitres annually. A hectolitre is a thousand litres.

When commissioned by December 2000, SAB’s local production capacity will rise by 1.4-million hectolitres to over 30-million hectolitres.

During construction near the existing Port Elizabeth depot, about 1,000 new jobs will be created and a similar number generated in upstream and downstream functions such as building supplies and transport.

Although some plant and equipment will be imported, about 65% of project expenditure will be locally based. Black empowerment groups will be involved in all aspects of construction and commissioning.

The new brewery signals confidence in the future of the Eastern Cape and SA and could encourage foreign investment in the area, says Norman Adams, MD of SAB’s beer division, Beer South Africa. He says the group normally builds capacity ahead of demand. It expects the economy to grow by 2.5% to 3% by the end of next year.

The brewery investment over two years is on top of about R600-million to be spent yearly in SAB’s other beer interests, representing about R1-billion each year, says Adams.

SAB will add value to the brewery’s by-products. This will reduce environmental problems and provide new jobs.

Assisted by the University of Port Elizabeth, these projects include the drying of yeast from the brewing process. Most of this will be exported to Japan. Spent grain will also be dried and converted to animal feed. It is intended to develop an intensive fish farming facility using water and effluent from the plant.

Because of the high-tech nature of the brewery, however, the new facility will require fewer people than the 270 employed at the old facility. Apart from packages, those retrenched will get training to enable them to enter new jobs or open up small businesses.

GROWTH: An aerial view of the site of the new brewery in Port Elizabeth
Economic Trends
By Adrienne Roberts

THE COST OF REBUILDING A BRAND
SA mineral water in trouble

Demand for local bottled water is evaporating, thanks to claims made on M-Net's Carte Blanche programme that dangerous levels of bacterial contamination are present in the water.

It's proving a painful lesson in disaster management.

Valpré and Valvita are two of the brands that received the most coverage. Sales of each fell 25%-30% within two weeks. But it goes beyond individual brands, SA bottled water as a product category is reeling as consumers shy away from all local brands in favour of imports.

Up to now, the industry has been spouting annual growth figures of 50% and more. In five years it has grown from fewer than 20 labels to 125. Estimates put the wholesale value of the industry at R200m. Add to that the characteristically high markups charged at retail level, and the industry is nearing the R1bn mark.

The bottling companies say they have conclusive proof that their product is safe. And both Valpré and Valvita are threatening legal action against the programme.

But experience elsewhere has proved that once the damage is done it is often too late to save market share.

In 1990, Fener's seemingly unassailable 85% market share in the US disappeared overnight in a scandal that the American Council on Science & Health was later to deride as one of the 20 greatest unfounded health scares of recent times. Benzine was inadvertently added to a single batch of the product. Unable to track the whereabouts of the batch, Fener recalled 140m bottles at a cost of US$40m.

Appletiser MD Alan Mervis says reassurances to the public in the immediate aftermath have cost Valpré R250,000 in adspend. And that was just damage limitation. "We are going to have to totally relaunch this product now."

Valpré has just switched on a new, state-of-the-art R20m bottling line and the loss of sales could prove a cash flow headache. But being part of the broader SA Breweries stable will probably ensure the brand's longevity.

Concern is now for the survival of the smaller labels Valvita, which does not have the large corporate backing that Valpré does. Faces a tougher battle John Weaver, chairman of the SA Natural Bottled Water Association, says the scare will be an expensive setback for the industry, but he believes it will be a temporary one.

James Edes
Exposé of methanol contaminated liquor rocks industry

Louise Cook

A SCAM involving tax evasion and "dangerously high" levels of the potentially lethal methanol is said to be a wide range of spirit brands passed off as friendly drinks like rum and liqueurs, has rocked the liquor industry.

The agriculture department has taken an instant ban on all sales of affected products and handed over food test results to the police to start a criminal investigation. It warned that methanol-contaminated products could cause "serious health damaging effects".

A source said the product could be a killer, depending on the person's overall health and on quantities ingested. It can also lead to blindness, he said.

The agriculture department deputy director, Alika Svenningsen, did not release the names of the producers of the contaminated products but said that the public should be aware of the products and not buy the products.

"The products were mainly manufactured by smaller businesses and sold in an independent bottle store," he said.

"People who want to avoid paying tax," Svenningsen said, "You pay R570 an ethanolic, alcoholic beverage and alternative substances for production purposes but because there is no tax on methanol the products are sold at much lower prices."

The source said government's uncovering of the scam was "excellent news for the liquor industry as legitimate dealers and manufacturers suffered huge losses."

Batches of 18 product ranges were found to be contaminated. They are: South Africa's oldest brandy, Royal Cape V.O. brandy, Woodbridge V.O. brandy, Barzalls director's rum, Blue Martin rum, Windermere rum, Rustenfield vodka, Arctic Lava cinnamon and cream soda, Tropicana, Doonarroo sambuca, House of Parliament gin, Wild Thing fruit-flavoured vodka, and Peps Kanti peach, strawberry, blackcurrant, banana and prickly pear speciel. 
Booze blitz anger

We're just scapegoats, says hospitality industry

CAPE Town restaurants, pubs and hotels have slammed this week's clampdown on liquor licences and the impending ban of alcohol sales after 2am, claiming they have become scapegoats for the police's inability to curb violent crime.

This follows a police "blitz" on restaurants and pubs in the Sea Point area where a 2am curfew on the sale of liquor is now being enforced — and could soon be applied throughout the city.

In addition, police this week announced plans to appoint a "liquor officer" at all city police stations to monitor liquor outlets in their areas — a plan that may soon be implemented countrywide. This comes despite fierce opposition from the hospitality industry which says the hardline approach is another blow to tourism and economic growth.

Until now police have largely turned a blind eye to current liquor legislation — which prohibits liquor sales after 2am except under special licence conditions — preferring a "wait-and-see" approach while government and industry officials squabble over the National Liquor Bill, due to be debated in the Constitutional Court at the end of the month.

The clampdown coincides with the latest national police figures which confirm Cape Town's status as South Africa's most violent city. Figures also showed that a significant proportion of violent crimes were alcohol-related.

But city restaurateurs say a "draconian" liquor curfew will not solve the problem.

"The whole thing is a bit of a joke," said Western Cape chairman of the Federated Hospitality Associations of South Africa, Hugh von Zahn.

"One can't treat the symptom and not the cause. If alcohol is the problem then trying to stop establishments selling it is a symptomatic solution — it's not going to work," Von Zahn said.

He said police should rather concentrate on the 90 percent of liquor outlets which were unlicensed rather than worrying about trading hours.

"It doesn't bode well for tourism and doesn't say much about the way the provincial government is running the province," he added.

Neil Markowitz, chairman of the Western Cape Hotel Association, said a liquor curfew could affect Cape Town's appeal as a premier tourist destination.

"There are tourists here who want to celebrate and go partying through the night. We therefore need to be international in our approach," he said.

A Sea Point restaurant owner, who wished to remain anonymous, said he no longer sold liquor after 2am since the clampdown.

"I have been trading for many years — up until this stage we've never had any problems. What gets me more than anything is the double standards. Some people are getting away with it," he said.

However, the provincial commander of the police's liquor and firearm unit, Jacques van Lil, said: "We're saying things have got out of hand. We want the Department of Trade and Industry to act against premises which don't obey their licence.

"We're not against tourism — all that can still happen. But places mustn't come to me and blame me that they are losing money because of the curfew. Unless they've got a special licence, if they make money after 2am it's illegal money," he said.

Police will meet government officials next week to discuss the problem, and are likely to appoint more liquor officers to monitor the city's 500 licensed premises.
Distillers' turnover nudges higher

Analysts laud the results, particularly in the light of falling sales in the wine and spirits industry

Nicola Jenvey

DURBAN — Beverage group Distillers Corporation nudged up turnover 2.8% to R1,98bn in the year to June, despite dramatic declines in brandy volumes, the group's core product.

Distillers is an investment holding company, the subsidiaries of which are engaged in the manufacture of brands, spirits and wines and their wholesale distribution under various trademarks.

MD Jan Scannell said the marginally higher turnover was due to continued improvement in local market share for vital product categories, as well as a significant 23% boost in export sales.

The group has also been innovative in the new products launched on the market, particularly in its wine range.

However, operating margins deteriorated to 13.9% from 14.2%. Attributable income rose 6.3% to R188m.

Headline earnings increased to 129.6c from 123.1c and the unchanged 45c final dividend left the annual total at 67c.

Analysts lauded the results, particularly in the light of falling sales in the wine and spirits industry over the past year and specifically the challenges facing the brandy market.

Unlike other liquor, brandy is a value-added product, which has been severely hit by two years of high excise duty hikes.

The long-term view on brandy is that the product will again come into favour.

Scannell said the nature of the group's activities required a long-term view of consumer demand for products.

The investment in production facilities and stock under maturation is accordingly planned.

The group nearly doubled its long-term interest-bearing debt to R445.8m, which Scannell said was an investment into improving the efficiency and capacity of production facilities.

Looking ahead he said the group expected "unfavourable trading conditions", but analysts welcomed the possibility that rising consumer demand would produce a further growth in earnings.

Distillers anticipates the growth from its export markets to be a springboard in the future.

The group has strengthened its wholesale marketing structure internationally, establishing five offices over the past two years as support operations for key markets.

Although aiming for its products to be available worldwide, Distillers has targeted Europe, UK, US and Africa as growth points.
That Appletiser fizz hits US stores

POPULAR SA sparkling drinks Appletiser and Grapetiser will soon be widely available in the US for the first time.

Southland Corporation — which owns the 711 chain — has decided to carry the drinks in 711 stores. The 711 chain has five to six thousand stores throughout the US. Of these, 60% are franchise-held and 40% are owned by the company.

Initially, the drinks will be available at the company-run stores, but they will also be offered to the franchise owners.

The drinks will be distributed by McLaie Company, one of the largest food distribution companies in the US, which is owned by Wal-Mart and headquartered in Texas.

"This is an incredible opportunity," says Johann Lochner, president of Pure Sparkling Beverages Inc., the authorized agent for Appletiser and Grapetiser in Texas.

His company is staffed by "just a few people" and yet he has managed to set up a major business development that will boost the SA drinks industry.

Since 1991, when he first arrived in the US from SA, he has wanted to see the drinks on sale in the country, and he tirelessly promoted them, securing distribution rights and creating marketing plans.

"I researched like crazy," he laughs. "I am passionate and consumed by it." He eats, drinks and sleeps Appletiser.

In July 1998 he finally secured the distribution rights for Texas from SA Beverages, and since then he has secured deals that will not only see the drinks in stores and restaurants in Texas but around the country as well.

Because he successfully approached Texas-based companies that distribute nationally, Lochner has been able to expand sales dramatically.

In other parts of the world Appletiser and Grapetiser are promoted and distributed by major companies — Coca-Cola in Europe, Cadbury-Schweppes in Japan — so it is even more of an achievement for Lochner to secure the US deal.

With no previous experience in marketing or business — he is a theologian — Lochner focused all his energy on creating a winning presentation, and he sold the product first to McLaie and then to Southland Corporation.

Lochner has also secured a deal with the Ben & Keith Company in Texas for the distribution of the drinks to food service businesses and restaurants. — African Eye News Service (18A)
Deadly liquor still being sold

By ELIAS MALULEKE

A VARIETY of spirit liquor that can kill is still being sold over the counter at a number of bottle stores despite a government ban on the sale of the drinks and a warning about the danger faced by drinkers.

The deadly concoctions have been contaminated with a high level of methanol.

Methanol is alcohol extracted from coal or wood and is designed for industrial use, mostly for fuel, anti-freeze, gas and paraffin.

Only drinks containing the less harmful ethanol are permissible for sale in the country.

The Department of Agriculture’s Director General, Bongwe Nkobe, has sounded a warning to the public not to buy the contaminated liquor.

The spirits identified with the methanol and batch code names in brackets are Oakville (A287), Rasputin Vodka (A287), Richwood V O Brandy (A571), Foutplas XO Brandy (A489), Kasparov Vodka (A525), Bravoska Vodka (A537), Bravoska Vodka (A581), Prestons London Dry Gin (A598) and Russian Style Vodka (A599).

Some of the laced drinks were found being sold in bottle stores in Johannesburg and on the East Rand during a snap survey by City Press on Thursday.

Department of Agriculture spokesperson Alex Serumula said if taken, the drinks could cause headaches, nervous breakdown, blindness, body itching, respiratory problems, cardiac arrest and even death.

“We have already received complaints about people falling ill as a result of drinking the laced liquor,” Serumula said.

The department, which is working closely with the Health Department to inspect liquor in all bottle stores in a bid to trace all the laced drinks and to identify more, has also involved the police with the view of bringing criminal charges against the people involved.

“We suspect that a syndicate is involved in the brewing and the importation of the deadly drinks,” Serumula said.

He said investigations have proven that most of the brands that contain methanol have been brewed in this country.

“This is an elaborate scam to flood the market with cheap liquor for a huge profit margin. The brewers are also using methanol to avoid paying tax which is charged for drinks containing ethanol,” said Serumula.

Serumula said a certain fee was payable to the government for liquor containing ethanol and to avoid paying the tax, the brewers added the illegal methanol to disguise the alcohol content on ethanol, thus avoiding taxes and selling their deadly brews cheap.

He said on completion of their investigations, the matter would also be referred to the Liquor Board with the view to cancelling the licences of the brewer.
Rigorous round of reorganisation helps SAB crack shebeen market

Tom Lloyd

It can be tough at the top, particularly when your rivals are temporarily out of sight. South African Breweries (SAB) has 90 percent of the 25 million hectolitres South African beer market, and a recent Morgan Stanley study judged it South Africa's only world-class company.

Most of SAB's local market is in black areas, where demand for beer is currently price sensitive. SAB knew substantial volume gains, and consequently strong profit growth, could be had if it could significantly reduce the real price of its products.

"We wanted to increase beer's— and thus SAB's—share of the whole liquor market," says Tony van Kraalingen, the marketing director of SAB's beer division. "To do that, we had to keep our prices down."

"We couldn't just squeeze supplies, so we focused on our costs and expanded our distribution network significantly."

"Our strategy worked. The efficiency drive, which has turned SAB into one of the lowest cost brewers in the world, reduced prices steadily—by over 20 percent in real terms with annual price decreases of 60 over the last 10 years. The value was so apparent that customers refused to switch back." The volume gains appeared on cue.

"That has made SAB a sustainable competitive advantage and delivered a level of customer value that competitors find difficult to match."

But there was an unseemly law of diminishing returns. "By the mid-1980s, productivity-driven growth was getting harder to come by," Van Kraalingen says. "We recognised that continued and sustainable growth had to come from our brands and improvements in our product quality and our customer service."

While further price cuts were difficult to sustain, competition was also getting tougher. SAB faced threats from beer imports, new entrants into the beer and alcohol matrix, and a growing segment of the population who wanted premium branded spirits and both sorghum and low-quality wine in the highly price-sensitive end of the market.

Moreover, impending government legislation caused the prospect of widespread changes to the liquor market. Some 80 percent of SAB's beer volume is accounted for by over 800,000 shebeens, small drinking dens which sprang up in response to historic restrictions on South Africans buying and drinking alcohol.

Legalisation of shebeens could result in explosive growth in SAB's distribution network requirements and a massive increase in costs unless ways can be found to make surplus levels to the needs of very different market segments.

A pilot project was launched in one of SAB's 25 operating divisions south of Johannesburg in 1993. It focused on consumer needs and consumption patterns, volume flows through alternative channels, competitor activity, packaging, sales order profiles and delivery frequencies, channel margins, sales call priorities and frequencies, and promotional and merchandising requirements.

"Encouraged by the results, SAB ultimately extended the pilot to all 25 SAB districts. It adopted a new market segmentation framework, which became the focus for differentiated service delivery and overall performance management."

Sales reps in particular markets instead of selling in all customers in their areas, and acquired a deeper knowledge of customer needs and market trends.

The organisational impact on SAB has been considerable. With newly focused and empowered sales reps, sales rep McGrath rapturous market feedback, they require new skills and knowledge. This led to the segmentation framework, which became the focus for differentiated service delivery and overall performance management.

"SAB has appointed channel managers to provide leadership, who also form a crucial link between brand marketing and the field. Brand managers are able to tailor launches and promotions to the needs of specific segments.

"We now better understand how beer gets into shebeens," says Trevor Hughes, SAB's national trade marketing manager. "For example, in rural areas, poor availability has often led to dealers discovering back-street sources taking excessive margins. In these areas, retail prices have been cut down from about R2 to R1 a quarter (10%)' through aggressive market education and increasing availability.

"Refrigerated containers on the channel and specially designed trucks in shebeens have provided a much-needed chill.

"The township market was difficult to manage, and we have traditionally underinvested in it," van Kraalingen says.

"The new segmentation has helped us to identify new opportunities and potential growth."

Tom Lloyd is an editor of Transformation, a Country Can be Changed publication.
Fighting it out in Kenya to establish the brew that is true

SA Breweries and entrenched competitor are spending millions

James Macharia

NAIROBI — The suds are flying in the Kenyan beer war.

Newcomer SA Breweries (SAB) is challenging the established business practices of long-dominant East African Breweries. Both companies are fighting for market share as the thirst for beer shrinks in a depressed economy.

Spending on advertising by the two brewers during the first six months of this year is already 30% higher than it was over the whole of last year.

Advertising spending by the two companies this year reached $2.2m following the Kenyan beer maker's launch of Pilsner Ice Light last week. This was the eighth beer brand to enter the market since SAB broke the East African Breweries monopoly by opening the Castle Brewing plant a year ago.

East African Breweries has had to learn the hard way about coping with competition since SAB brought a marketing battle to its doorsteps.

This competition is taking place as the country's weak economy contributes to a shrinking market consumption which is now at eight litres a head compared to 15 litres a decade ago.

The launch of Pilsner Ice Light by East African Breweries is part of its plan to secure a niche in a market that extends to Uganda and Tanzania, where SAB is also fighting to become the leading regional brewer.

In Kenya, Castle Brewing has yet to capture the 30% share of the market it anticipated after one year in business.

After its first 10 months of operations, Castle is still lagging at 5% compared to East African Breweries' 55% stranglehold on the beer market.

Kenya's petite beer drinkers are partially at fault. They mutually gave Castle Brewing brands a try but rapidly reverted to their regular beers.

In addition, East African Breweries played hardball in winning the support of pub pubs throughout Kenya — it offered them free new coats of paint with its beer logo and supplied beer freezers with its logo in exchange for brand loyalty. Businessmen say this approach is similar to Coca Cola's successful marketing tactics in Kenya and has left Castle Brewing with few beer outlets.

Each company accuses the other of responsibility for the crude bunyan vandalism that characterised their early competition, although the problem has largely died down.

In addition, bad blood created by court battles over Castle Brewing's Ranger beer formula, which it was forced to alter following a patent challenge, has withered.

Both companies have now focused on heavy spending on advertising and are moving towards the marketing of brands.

Vernon Ayton, chairman of Ayton Young & Brown, which handles the Castle Brewing advertising account, says that the light beer brands are targeted at the younger generation, in particular youths earning good salaries who have not yet become wedded to a brand.

"This segment of the market includes women who find the current brands bitter and loaded with calories," says Ayton.

An East African Breweries manager in charge of advertising says that new brands are expected to "give someone who wants to socialise for long hours without fear of getting drunk or gaining weight".

He says this is a marketing segment that has never been tapped and is the next frontier as far as brand competition is concerned.

Castle Brewing is expected to launch a light brand of its own in response to Pilsner Ice Light, says Ayton. Castle has introduced new beer brands over the past year to counter each of its African neighbours' choices, starting with Castle beer to compete with East Africa's Tusker, Castle Milk Stout to challenge East African's Tusker, Castle Milk Stout to challenge East African's Tusker, Castle Milk Stout to challenge East African's Tusker, Castle Milk Stout to challenge East African's Tusker, Castle Milk Stout to challenge East African's Tusker, Castle Milk Stout to challenge East African's Tusker, Castle Milk Stout to challenge East African's Tusker, Castle Milk Stout to challenge East African's Tusker, Castle Milk Stout to challenge East African's Tusker, Castle Milk Stout to challenge East African's Tusker, Castle Milk Stout to challenge.

The new brands, Castle's Milk Stout has been hitting the fastest mover in securing customer loyalty and is expected to put a serious dent in Guinness's market share within five years, says Ayton. However, East African's Tusker remains as dominant in the market as it is in the SAB product has an edge.

UDM treasurer defects to ruling party

Nomavenda Mathiane

The National Treasurer of the United Democratic Movement (UDM), Tidubs Christodoulou, announced his defection to the African National Congress (ANC) yesterday.

Christodoulou was a Gauteng MP for the New National Party before joining the UDM.

Christodoulou said he had over the years developed friendships with certain ANC members and the party had not set any preconditions for his membership.

"I believe that the ANC is a moderate political party representative of all the people of SA," said Christodoulou.

UDM spokesman Annette van Wyk said she found Christodoulou's departure strange, particularly for someone who had been part of the UDM's formation.

"I was with him when we put together the vision and the mission of the party," said Van Wyk.

She thanked Christodoulou for the work he had done for the party and said the party's CE Clive Mento would take care of the UDM's finances until a new treasurer was appointed.

The ANC's Gauteng provincial secretary, Obed Bapela, welcomed Christodoulou to the party and said he would bring with him a wealth of business experience and add much-needed impetus to the process of change.

Christodoulou said he would serve as a member of the ANC's Pretoria branch.
Black investors fume on firm's sidelines

Patrick Woulau

BLACK business leaders have criticized SA Breweries (SAB) for not taking black investors seriously and calculating the purchase of a stake in the company as originally proposed.

SAB announced its intention to buy 23% of its own shares in a move that included the purchase of a stake in the company as originally proposed.

They have been particularly critical of the company's strategy of expanding its international brewing interests.

A host of investors in the beverage industry said it was inappropriate for SAB to buy into a business that it did not own or control.

It is not clear, however, what the intention of SAB is for the buyer's stake in the company.

SAB management were in London yesterday and could not be reached for comment.

There is a suggestion that the remainder of SAB's stake was sold over a weekend.

The business leaders urged an independent source to look into the matter.

Tradition-bound Czechs wary of SA plan to buy beer makers

PRAHUE — SA Breweries (SAB) has told the Czech government that it wants to buy a controlling stake in the country's biggest brewer, Pilsner Urquell.

The Czech government has until Friday to respond to SAB's offer.

SAB is prepared to pay a premium for the shares, which would make it the biggest foreign investor in the Czech Republic.

SAB's offer is expected to be challenged by domestic investors, who say it is too low.

The Czech government has been under pressure to sell shares in Pilsner Urquell, which is one of the biggest companies in the country.

SAB has been trying to buy a stake in Pilsner Urquell for several years, but the Czech government has always rejected its offers.

SAB's offer is expected to be met with resistance from domestic investors, who say it is too low.

Despite this, the Czech government has been under pressure to sell shares in Pilsner Urquell, which is one of the biggest companies in the country.

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Castle toasts its first ‘fierce’ year in Kenya

James Macharia

NAIROBI — SAB subsidiary Castle Brewing marked its first anniversary in Kenya last night with the launch of Trophy Lager and a plea to the government to reduce taxation of the beer industry.

CE Roger Smith asked the government to cut the 50% value-added tax on beer and remove the 65% duty on malt which had to be imported as it is not locally available.

Smith said the beer industry needed a tax regime to grow and remain competitive and with the tax on malt which has dropped 45% over the past 10 years being raised to raising prices, "growth will only return to the industry in the medium term if the tax is reduced," he said.

The company’s first year of operations was a fierce battle, Smith said, adding that the government was partly to blame.

"It is the responsibility of government to remove duties on imported malt and cut beer taxes to ensure a level playing field," said Smith. He announced plans to expand to upstream beer markets in the company's second year.

Castle brewed a second malt by-products cocktail last year with the Kenya Breweries about the brewing of Quench Lager.

East Africa Beverages Ltd aims to manufacture the lager, a normal beer using technical know-how, but the company has not yet made an official announcement.

Brewers have big plans for their partnership

PRAGUE — The top two Czech brewers, including the maker of the original Pilsner beer, said yesterday they planned to boost their reach worldwide and release a new product.

South African Beverages (SAB), the world's largest brewer and Japan's Suntory, are planning to launch a new product that they said would form a 51% to 59% joint venture combining the Czech brewers under the name Suntory.

The deal provided the chance to use Suntory's global distribution network as a springboard for sales expansion.

"SAB is a company that does not have a global brand so it is a great opportunity for us," said Vincent Pernot, CE of Pernod Ricard, which yesterday bought SAB's de-listed business.

"SAB believes the tradition of Czech beer and Pilsner Urquell is a prototype of bottomFERM beer, as it has a long history and is highly regarded in Europe," said the new venture, which established itself in Europe, doubling its output in the region.

In other news, made before the deal, Pernod Ricard said they could almost double production in the Czech Republic, boosting it to 750,000 hectolitres a year to 14 million hectolitres in 2008 — Homer.
SAB pulling ahead in Europe's brewing beer battles

By MARCIA KLEIN

SA BREWERIES' acquisition of Czech Republic brewers Pilsner Urquell and Radegast puts the SA group head-to-head with Heineken in the fight for dominance in the European beer market.

The $628-million acquisition, with a 44% Czech market share, could see SAB becoming the leading brewer in central Europe.

Analysts said this week that, because SAB paid 3.5 times a share, the acquisitions would not add much short-term value. However, the deal was still considered excellent from a strategic point of view. But an analyst said SAB needed to deliver on the Pilsner Urquell brand's potential as a premier boutique brand.

The terms of the deal are an agreement with Nomura International to buy a controlling interest in Pilsner Urquell and Radegast for $321-million and the right to buy the balance of Nomura's interest by mid-2001 for $308-million.

SAB group CEO Graham Mackay said: "We are confident that we can expand our presence not only in Europe but also further afield." In the Czech Republic, per capita consumption of beer of about 160 litres a year is the biggest in the world.

SAB said that, apart from the opportunity to enter this market with a 44% share, the acquisition would enable it to develop higher-margin incremental sales of the acquired brands through existing distribution channels. It was also an entry point into developed beer markets through the expansion of the Pilsner Urquell brand in the premium export segment of major international markets.

SAB already has operations in Poland, Romania, Hungary, Slovakia and Russia. The acquisition of a further 7.5-million hectolitres will increase its production in central and eastern Europe to about 17-million hectolitres.

One analyst said the deal, although promising, "would not cause an overnight re-rating" of SAB.

The recent surge in the share price has merely brought it back into line with where it was trading six months ago. "London analysts are expecting a bit more. They will always be a bit disappointed because SAB is a SA counter. But as earnings from outside SA increase, they could change that view."

The deal follows recent announcements of the formation of Safari Limited, a special-purpose vehicle to acquire 10% of its own shares after the unbundling of Benvon. The announcements also gave details on the disposal of SAB's interest in PSG.
Crackdown on 'deadly' booze

City bottling plant loses licence

Nicola Janeway

DURBAN — The Coca-Cola South African Bottling Company has been granted a new licence to bottle its products. The company was previously prohibited from operating due to concerns over the levels of alcohol in the products.

The Department of Agriculture has been monitoring the company's activities, and has found that its products meet the required standards. The company has also implemented new safety measures to ensure the safety of its employees and the public.

The company has thanked the Department of Agriculture for its support, and has committed to continued compliance with all regulations.
MAJOR PLAYERS JOSTLE FOR SPACE AT THE BAR (187)

As the local brewer packs up the Czechs

'South African Breweries, the London-based beverage group, has staked its claim as one of the major players in the unfolding consolidation of the world's beer industry.

In a deal worth more than $1 billion, SAB announced the acquisition of an 85% stake in the company that owns the world's biggest beer business, the company with 30% of the world's beer market.

The acquisition of the Czech Republic's Pilsner Urquell will give SAB a significant share of the market in the central and eastern European region, where it is already the world's largest brewer.

SAB will become the second-largest brewer in the world, behind AB InBev, and will be the largest brewer in Europe.

The acquisition is expected to be completed by the end of the year, and SAB plans to integrate the Pilsner Urquell business into its existing operations in Central and Eastern Europe.

The deal is part of SAB's strategy to expand its presence in the fast-growing central and eastern European market, which is expected to be a major driver of growth in the company's beer sales.

SAB's CEO, Paul O'Sullivan, said the acquisition would help the company to accelerate its growth in the region and to become a significant player in the European beer market.

The deal will also give SAB a stronger position in the premium beer segment, which is expected to grow faster than the overall beer market.

SAB's CEO, Paul O'Sullivan, said the acquisition was a significant step in the company's strategy to increase its presence in the fast-growing central and eastern European market.
EYES ON ETHIOPIA

South African Breweries International (Africa) is reviewing its strategy for entry into Ethiopia’s 1m hl/year beer market. This follows the Ethiopian government’s decision earlier this month to sell a minimum 51% stake in each of its three brewing companies, which have a combined annual brewing capacity of more than 800,000 hl.

SAB, a subsidiary of London-based brewing group South African Breweries Plc, previously announced plans to build a 500,000 hl brewery near Addis Ababa, the country’s capital, in a joint venture with Ethiopian partners, International Beverage Corporation Ethiopia, a predominantly agricultural economy of 61m people and with the largest livestock population in Africa, is one of the continent’s poorest countries with an average per capita income of about US$100. But it fits in with SAB’s strategy of investing in countries with low beer consumption rates — Ethiopia’s per capita is about 1.6l — but with potential for growth.

The World Bank projects that Ethiopia, which went into war over a border dispute with Eritrea earlier this year, will achieve economic growth rates of 6.4%/year between 1999 and 2003. SAB International (Africa) MD Andre Parker says an SAB team will visit Ethiopia in November to look at the prospects for the three brewing companies, Harar, Bolele and Meta Abo.

The review of SAB’s entry strategy into Ethiopia will include an evaluation of whether it will make more economic sense for SAB to buy into one of the three brewing companies or continue with plans to build a new brewery.

In expanding across the rest of Africa since the early Nineties, SAB has successfully pursued a strategy of buying into existing breweries, upgrading their facilities and improving the image of their brands. The only exception was Kenya, where the absence of acquisition opportunities forced SAB to build a new brewery in Thika, outside Nairobi, the Kenyan capital.

Of the three breweries being sold, Meta Abo located in Sabata, 27 km from Addis Ababa, is the biggest, with 34.4% of the market. Harar, is the only Ethiopian brewer to export beer, mainly to the US, Canada and the Netherlands.

Jakubek Sikhakhana
Johannesburg — For the first time in its history, South African Breweries (SAB) has sold more beer outside the country than inside it during a reporting period.

In the six months to the end of September, SAB sold 90.3 million hectolitres of beer elsewhere in Africa, Central and Eastern Europe and China compared with 26.5 million hectolitres sold in South Africa. Acquisitions and good organic growth outside South Africa were in sharp contrast to unchanged beer volumes within the country.

During the first quarter of the reporting period local beer volumes slumped 4 percent, stronger than expected volumes in the second quarter enabled the local operation to announce unchanged volumes for the six months.

S$430 billion, Africa continues to dominate the group’s profit performance accounting for 70 percent of the total. The dominance at profit level is attributable to the higher margins on local beer sales as well as the inclusion of substantial non-beer interests in South Africa such as hotels, gambling and beverages.

In the six months’ period, the group reported a 10 percent increase in turnover to R18.1 billion from R16.5 billion, and a 12 percent improvement in operating profit to R2.2 billion from R1.9 billion.

Earnings per share were lifted 10.6 percent to 147.8c from 133.8c and a dividend of 40c a share has been declared. Shares in issue increased by 6 percent.

Much of these increases reflect the comparative weakness in the rand. The group now reports in US dollars which showed little change on the previous interim’s performance.

In dollar terms, turnover was virtually unchanged, operating profit was up a marginal 3 percent and earnings a share were up 2 percent.

The interim results did not include any impact from a number of significant transactions announced recently. The disposal of POGS, a S$29 million stake in a Czech brewer and the S$40 million Bevcon share buyback will only be effective in the second half of the year.

At the end of September the group had debt of S$102 million, with cash in the core businesses of S$196 million countered by POGS debt of S$100 million.

Executive director Malcolm Wyman said transactions during the second half would result in gearing of around 20 percent.

SAB slumped 10c, or 3.2 percent, to R6.60 yesterday.