MANUFACTURING - FOOD

1995
Del Monte under pressure in Europe

JOHANNESBURG — Del Monte Royal Foods, which sharply raised marketing expenditure in 1994, said it would continue to strongly defend its brands under attack in Europe.

CEO Vivian Imerman said, after announcing static annual results, that it would continue a stringent cost-cutting and rationalisation programme in 1995 to offset the squeeze on margins in difficult trading conditions.

It reported extraordinary costs of R29m below the line from the streamlining process in the year to November 30.

Del Monte increased marketing and promotional spending by 37% to R172m in 1994, and Imerman said this level would be maintained in the current year.

“We will defend our brands because we feel they’re our main asset,” he said.

Del Monte’s leading high-premium brands were being challenged mainly by lesser brand competitors, and not supermarket no-name products.

He said the international food industry was undergoing “massive reconstruction” as a result of the recent recession, oversupply of core products and the proliferation of discounters and non-name brands.

Capital expenditure for 1995 was estimated at R390-600m versus R68m in 1994 to enable the group to continue to invest in state-of-the-art technology and maintain its low-cost base.

On the production side of operations, Del Monte would try to improve its recoveries and efficiencies.

Imerman said Del Monte was still considering some acquisition candidates and hoped to conclude a major deal this year. He declined to comment further on the issue but added that it was also seeking one or more international partners for its Royal Beech-nut business.

The type of acquisition could include producers of complementary brands but any deal would be aimed at giving Del Monte the “critical mass” it needed in its core markets, he said.

Trading conditions were picking up as economies improved, he said especially the price of pineapple products, which contributed 25% to total group turnover of R1.5bn in 1994.

Although cut-backs in world production and a drought in Thailand had seen the oversupply in pineapples shrink and prices rise recently, margins would remain under pressure until the Kenyan shilling depreciated to a more realistic exchange rate, he said.

Del Monte was expanding into the Far East but not under its own labels at this stage, chief operating officer Enrico Solo said.

Del Monte reported share earnings at 61.5c for 1994 versus 61.6c in 1993, and maintained its final dividend at 13c, making 21.5c for the year versus 21c.

“We’re not in a position to make a forecast on (1995) earnings at this time,” he said — Reuters
Kolosus does well

BY ROSS HERBERT

Kolosus Holdings, the recently listed food products and tanning firm, announced on Friday inter-term results for the six months to November, which included sales up 49 percent and attributable profit up 60 percent.

Total turnover jumped from R476.2 million in the first six months of 1993 to R702.5 million in 1994. Attributable profit hit R30.3 million, up from R18.5 million in 1993.

Earnings per share were 50.4c, up from 31.4c in the first half of 1993.

The group’s food businesses include Supreme, Bull Brand, Country Bird and Kolosus Animal Production.

Its leather tanning business supplies hides for automobile seats and the shoe industry.

The food businesses performed well, with improved productivity in the meat division and bad debt down 90 percent over the previous five year average.

Loan capital fell by R8 million during the period. No dividend has been declared.

The company was listed last December.

"Management is confident that the projected results as stated in the prospectus will be met," it says.

Kolosus is trading at a P/E ratio of seven, compared with the food industry average of 20.3.
Delfoods reports small earnings rise

BRANDED foods group Del Monte Royal Foods' Delfoods' earnings edged up marginally to R219,1m (R208,5m) in the year to end-November as poor trading conditions, low pineapple prices and unfavourable exchange rates subdued growth.

The largely European-based group, controlled jointly by Anglo American and chairman and CEO Vivian Imerman, reported a 10.6% rise in turnover to R1,26bn (R1,16bn) - a flat result in sterling terms.

Gross margins improved, but after increasing its marketing and promotional spending 37% to R172m to defend its market position, operating income was 6.7% up at R265,1m (R233,9m).

In the second half, Imerman said, hard currency margins for pineapple products were affected by an unexpectedly strong Kenyan shilling and Philippine peso. Most of the pineapples, which represented 25% of group turnover and 23% of operating profit, were sourced from these areas.

Although the total interest charge for the year had increased, it had declined in the second half with a reduction in working capital. Pre-tax income was R265,1m against R202,4m previously. The extremely low tax charge of R1,3m - reflecting tax losses and an efficient tax structure - was expected to continue in the foreseeable future.

Delfood's share of associates' earnings dropped sharply to R7,3m from R20,1m. There was a deterioration in the second half performance of the Philippines operations, in which it had a 35% share. Earnings per share declined to 38c from 49c.

Apart from a major acquisition, speculated to be Hero, the group was also looking for an international partner for local company Royal Beech-Net. An acquisition, an international partnership and the introduction of new Del Monte products "form the cornerstone of our policy of growing the profitability of the group on its existing low-cost base".

While he would make no earnings forecasts for the current financial year, Imerman said trading conditions should show some improvement and higher sales volumes were expected. Pineapple prices had shown some recovery in the past few months as the oversupply situation was corrected, but margins would remain under pressure unless there was a more realistic Kenyan shilling exchange rate.
Overseas recession hampers Delfood

Del Monte Royal Foods (Delfood) reports a marginal increase in earnings for the year to last November.

Attributable earnings rose to R210,1 million from R208,5 million in 1993.

Group turnover increased 10.6 percent to R1,546 billion (R1,307 billion), while operating income was up 6.7 percent to R248,9 million (R233,276 million).

Earnings per share rose 0,5c to 61,5c (51c).

An unchanged final dividend of 13c has been declared, bringing the total for the year to 21,5c (21c).

CEO Vivian Immerman says results were adversely affected by the after-effects of a prolonged recession in Europe.

"Consumer expenditure remained depressed in all our major markets as a result of stagnant disposable income and little or no improvement in unemployment levels."

Group results were negatively affected by developments in Kenya, where a resurgent shilling impacted on hard currency margins for pineapple products.

Furthermore, profit margins were pressured by over-supplies of the group’s core products and a proliferation of cheap no-name brands.

The group has responded to the trend in international food manufacturing towards rationalisation and restructuring of operations.

He says some European acquisition candidates are still under consideration.

The South African operations are performing well.

Immerman says the group’s 1995 performance depends upon economic recovery in the major markets. — Sapa.
Fast food cooks up fat profits

Business Staff

THE fast-food fraternity fired fat profits and consumed mountains of ingredients as South Africans snacked their way through the summer festive season.

One of the major players in the Western Cape easy-eating market, Steers, reported an average increase of 18 percent at its franchises — after allowing for inflation — compared to summer 1993.

Nick Efstathou, of Cape Franchising, Western Cape licensors for the Steers Group, said overall business at outlets for the take-out company in the province were up 41 percent, although this included the opening of six new branches.

The increase in Steers branches to 28 translated into 84 new permanent jobs in service positions and another 15 in administration and management. During peak times a further 140 casuals were added to the payroll.

The degree of activity in the fast food industry over the holiday period can be measured by its consumption of primary foodstuffs.

In December, Steers went through 60 tons of potatoes, 11 tons of meat, and six tons of tomatoes.

Nearly a quarter of a million rolls were made to cater for the 8 000 customers who passed through Steers' doors in the Western Cape each day.
Good catch for I&J

Business Staff  21/12/95

FISHING and food group Irvin & Johnson increased its taxed profit by 31 percent to R41.7 million equal to 144.8c a share in the six months ended December.

But the directors say they are not satisfied with this result.

"The improvement in profitability, while pleasing, is in terms of returns on investors funds and capital employed still not at the levels last achieved in 1986."

They plan a further improvement in returns.

The higher profit is the result of an upturn in economic conditions both in South Africa and overseas, and also to new projects coming on stream, the directors report.

Turnover rose by 19 percent to R1.06 billion while improved margins led to operating profit rising 25 percent to R56.6 million.

I&J has not declared an interim dividend. It declares an annual dividend (last year, 86c) in August.
The current year has seen a marked improvement in the economy, with a recovery in consumer spending and an increase in business investment. This is evident in the strong performance of the stock market, driven by improved corporate profits and a rise in consumer confidence. The Federal Reserve has been instrumental in supporting this recovery through its accommodative monetary policy, which has helped to lower interest rates and promote lending.

In the near future, the focus will likely be on fiscal stimulus and infrastructure spending to further boost economic growth. The government has proposed a significant investment in infrastructure projects, which are expected to create jobs and improve the nation’s economic competitiveness. Additionally, there is a push for increased spending on healthcare and education, which are critical for improving the country’s long-term economic prospects.

Overall, the current economic environment is favorable, with a strong recovery and a bright outlook for continued growth. As we move forward, it is important to remain vigilant and continue to monitor economic indicators closely to ensure that the recovery remains sustainable.
Employee quits after union row

AN employee of Fedex Food Services in Randburg, Gauteng, has resigned after a union objected to her telling employees they should put their queries on taxation to President Nelson Mandela, managing director Mr Colin Walker said yesterday.

Mrs Janet Sherrard's comment was made at an employees' meeting in Linksfield, Johannesburg, in December.

After a disciplinary hearing she was given a final written warning and both she and the company apologised for the remark.

However, the Hotel, Liquor, Catering Commercial and Allied Workers Union rejected her apology and threatened industrial action unless she was dismissed. A spokesman Mr Alfred Phatiti said hearing Mrs Sherrard had resigned and if it were not true the union would decide on further action.

--- Sapa
Unilever shows ‘contrasting performances’

LONDON — Anglo-Dutch food and consumer products group Unilever said yesterday that 1994 pretax profit jumped 24% to £2,680m from £1,938m a year before.

Analysts noted that the rise in profit, which compares with median expectations for around £2,458m, was exaggerated by an exceptional charge of £490m taken in the 1993 results.

Unilever said underlying sales growth in the year accounted for 25% of the 6% advance, with acquisitions accounting for three points. Disposals accounted for the rest.

At constant exchange rates, sales rose by 8% from 1993.

Unilever Chairman Sir Michael Perry said 1994 was a year of “contrasting performances”.

European economies improved during the year, but “growth in Europe was restrained, partly because of the unsuccessful launch of the Power range of detergents in some countries”.

The “most significant aspect” of the results was the improvement in the US. Businesses in the rest of the world “continue to grow rapidly”, accounting for 27% of worldwide sales.

Operating profit in Europe fell before exceptional items during the year to £1,518m from £1,538m. In the US operating profit rose 15% to £502m from £437m and detergents restructuring “continued, and while sales were lower, profit was maintained”.

The rest of the world also saw a strong rise in operating profit, up 15% at £768m from £668m.

India and SA “recorded particular progress and the Latin American businesses continued to expand, most notably in Argentina and Chile”.

— AP-DM.
disappointing, though at least one analyst says he is prepared to live with the outcome given the extent of last year’s problems.

The nub of these is that the European recession has turned out to be harder and longer than anyone expected, not least a buoyant Vivian Imerman in the heady days when he was advocating its purchase. If he has any reason to be chastened it is that he seriously underestimated the extent and duration of this downturn. Not that he was alone in this, given the size of Anglo’s participation, it must have examined the situation with equal concentration and come up with the same expectations.

Though Del Monte’s turnover improved 10.6% to R1.55bn, thus increase didn’t find its way down to the bottom line. Operating income rose to R249m, but that reflects a decline in margin from 16.7% to 16.1% though that is still acceptable in this competitive business.

Increased interest payments, up nearly 42% to R43.2m, shook whatever complacency was left, thus was restored only by a small tax bill of R1.3m. After a disappointing contribution from associates (only R7.3m — 1993: R20.1m), EPS of 61.5c compares with 1993’s 61c. It is as close as a whisker Gearring it little changed at 13.5% (1993: 13.5%).

All this draws attention from Del Monte’s really crucial problem — it is that — as with every international food company which owns a unique brand — it has been forced to defend itself from the unrelenting attack mounted by dedicated house brands. Great supermarket names such as Tesco, Sainsbury and Safeway are all putting their own labels on their shelves.

As Ed Henk Rudolph research partner Syd Vianello says: “Spending R172m on marketing and advertising may seem a lot but seen as 11% of turnover it’s barely enough. The industry norm varies between 12% and 15% of turnover.”

Del Monte is an integrated producer; marketing is crucial if it is to preserve the leadership which its brand name confers. Every other major player has been similarly affected, which explains why Nestlé and Unilever, for example, are diversifying their risks across the globe. This is an option Del Monte can’t adopt easily because it is confined geographically in its use of the brand label. Any expansion it makes into the Far East, for example, will have to be through new labels.

However, it is widely rumoured that Del Monte is in active negotiations for the purchase of the Swiss company Hero, among the world’s leading jam makers. The price is said to be about R2.8bn and the effect will be to buy a major share of the German

FOX

Second, Sage is actively pursuing its policy of distributing North American financial products through its marketing operation centred on New York and now apparently highly profitable. The development of an international flow of funds will supplement Coronation’s own advanced programme. Last, the alliance suggests a growing synergy between the two companies which may result in some interesting developments over the next few years.
Irvin & Johnson (I&J)'s improved interim performance justifies the confidence tacitly expressed in its future by parent Anglovaal Industries.

Since 1989 I&J's return on capital has fallen each year, partly because of indifferent results but also because the asset base has been expanded through extensive capital spending programmes. With economic recovery, this result points to improving returns and a more attractive investment prospect.

Though nearly half of turnover comes from distributing fresh and frozen chicken, income from this source for the last 18 months was limited when chicken supplies were cut by Newcastle Disease. Also, the recession curbed consumer demand.

While the disease now appears to be under control, prices continued to increase throughout the six months to December 3. Volume throughput fell 9%, but rising red meat prices encouraged consumers to buy more chicken and frozen fish products, and prices of these to rise.

I&J has been spending considerable amounts on re-engineering the catch process on its trawlers and on improving handling efficiencies in its processing plants. Benefits of these capex programmes partly explain the better margins.

I&J's export revenues of value-added hake products improved in the first half. With the average hake price up by about 15% in US dollars in Europe, the export programme contributed significantly to the better result. Though volumes fell across the board, sales values and margins increased nationally and internationally.

Production from the new R40m potato plant and other projects in the prepared foods divisions contributed to the turnover increase. Vegetable exports have continued to grow, but local sales were only slightly ahead of the previous year. New margarine ranges and new protein products helped sales volume growth, says financial director John Morrison.

As the local economy improves, consumer demand for I&J's products should strengthen. Sales volumes of most of its products have been constrained over recent years. Growth would enable wider margins.

The outlook is for real earnings growth of at least 10%, giving EPS of 260c. At a forward p/e of just under 17, the share appears reasonably priced.

Gerald Horgan
Delfood bruised by Kenyan Bob

DEL Monte Royal Foods' fortunes in the year to November 1994 were marred by the humble Kenyan shilling's ascent.

Kenya is one of the group's two pineapple-growing regions, the currency doubled in strength between planting and harvest and cost Del Monte "several millions of pounds", according to holding company chairman Graham Boustead.

Delfood hit its turnover by 10.6% to K1.85 billion. A small drop in margin meant a smaller increase in the bottom line to earnings of K10 million or 61.5c a share - half a cent up on 1993.

Del Monte tacked K25 million of extraordinary items under the line when they could readily have gone up. The losses on the line were under current international practice. The losses related to closures and streamlining.

Delfood chairman and chief executive Vivian Immerman says global recession has led to major restructuring and rationalisation among international food players. Faced with stiff competition, Del Monte strove to contain costs and to retain market share through aggressive advertising, marketing and promotional expenditure was raised by more than a third to K172 million.

This leads almost to a Catch 22.

The company spends money which might otherwise accrue to the bottom line on maintaining the Del Monte brand name so that its products can command a premium which is also destined for the benefit of shareholders.

Del Monte's Emilio Sola gives an example of how Del Monte fruit juices defended market share in England at £1.2 a litre against house brands of 59p and no-name brands of 34p.

Mr Immerman says prices for many fruits have increased by up to 50% in the past few months but that the lag effect will defer the benefits until later in the year. Pineapples, which make up a quarter of sales and 23% of profit, have recovered well from their lowest level in 30 years. They are also grown in the Philippines, where the peso is firming.

It appears that currency speculators have dabbled in the Kenyan market and when they decide to head for the door, the shilling is expected to crack.

Delfood will improve from a recovery in consumer spending, a reduction in the oversupply of many products, the elimination of discounters and the smoothing of anomalies in exchange rates.

Locally, the Del Monte brand won a 13% market share four months after its launch. Royal Beech-Nut also had a good year and Mr Immerman says an international equity partner or partners are sought for the part of the group.

Del Monte is also looking for acquisitions in Europe and markets in the Far East to achieve a critical mass at which the expenditure on marketing becomes spread over a greater product base and market share. It had mixed fortunes in Europe, mostly better but worse in Germany.

The group has low gearing at only 13.5% and spent K64 million upgrading plant and equipment to maintain its cost-competitiveness.

The drop in the share to 67c from R10 last June now shows that the market had anticipated Del Monte's low earnings growth. Observers will need to see some improvement in earnings before they re-rate the share but I still think there's value on fewer than 11 times historic earnings.

ANTON BOTHA

ST (ST) 26/12/95
No action against Del Monte chief

BY HEIN BEHRMANN AND CHARLOTTE MATHEWS

Del Monte Royal Foods chairman Vivian Imerman yesterday denied that Anglo American was suing Del Monte's European canned fruit business for R335 million.

He said Del Monte Royal Foods subsidiaries had initiated proceedings in London against the sellers of Del Monte Foods International (DMFI) in 1992, and that all claims were against the sellers of the company and not the company itself.

Anglo subsidiary Royal Foods bought DMFI in 1992 for R2.2 billion, of which Anglo American contributed R800 million.

Imerman was responding to a London report that the suit had arisen because DMFI's accounts did not give a true view of its affairs and its directors did not disclose a deterioration in the financial situation.

Imerman said the writ against the sellers was a standard procedure to protect the Del Monte Royal Foods subdiaries' warranty claims against the sellers, specifically in relation to a time limit relating to the escrow accounts established at the time of the sale.

The outcome of the claims would not affect the value of the group or its results, which would be published on schedule, he said.

DMFI, which is based in the UK, processes and markets canned pineapple, deciduous fruits, fruit beverages and tomato products. Most of its deciduous fruit requirements are sourced from SA.

Delfield's operating profit in the year to November 1993 was well below the forecast made at the time of the acquisition - R258.2 million against a forecast of R331.5 million.

However, this figure was redeemed by interest payments and a low tax rate and attributable profits came in R3 million ahead of forecast.

Delfield's directors said on releasing interim results in July that a modest improvement over 1993 was likely for 1994.
Del Monte pours cold water on report

Del Monte Royal Foods (DMR) last night poured cold water on reports that Anglo American was suing any companies in the Del Monte Group.

It was reacting to a weekend report emanating from London that Anglo was suing Del Monte's European canning business for more than £80m. The report said Anglo claimed Del Monte's accounts "did not give a true and fair view of the group's affairs" and that Del Monte directors "did not disclose that there had been a deterioration in their company's financial situation".

However, a source close to Del Monte said yesterday the issue related to a much smaller amount which had formed part of the initial purchase price of Del Monte and "had no bearing on the present business of the company". The source said this was "normal legal process".

In 1992 the then Royal group, together with Anglo, took control of Del Monte Foods International (DMFI) in a deal worth more than £6bn.

DMR subsidiaries had issued proceedings in London against sellers DMFI in 1993. The claims were against the sellers of the company and not against the company, DMR said. The writ was standard procedure to protect DMR subsidiaries' warranty claims against the sellers, specifically in relation to a time limit concerning the escrow account established at the time of sale.

The outcome of the claims would not affect the value of the group as all amounts were fully provided for at the time of acquisition.

The claims had no effect on its financial results, which would be published on schedule, DMR said.

One analyst remained sceptical about the denial, saying Del Monte's sluggish share price could indicate that the market was aware of a problem in the group.

Anglo American declined to comment on the issue.
Overstocked markets hold back Langeberg

BY CHARLOTTE MATHEWS

Food group Langeberg expects to improve its earnings in 1996 compared with 1994 despite the taxation of GEIS from March 1 and the reduction of the GEIS incentive for the full year, chairman Nick Dennis said in the group’s latest annual report.

In the year to September 1994 difficult operating conditions resulted in a fall in attributable profit to R60 million from R67 million and the dividend was reduced to 12.5c from 14c.

Dennis said the past financial year had been difficult because of disruption in the period leading up to the election, slow recovery in overseas economies and reduced peach and pear crops in SA.

With all Langeberg’s important markets experiencing an overhang of stocks, demand for canned fruit remained sluggish.

Increased demand could materialise in 1995 if the improved economic outlook in SA continues, combined with a renewal in overseas economies.

As carry-over stocks in international markets are absorbed, sales should improve.

Langeberg’s rationalisation in 1994, which has lowered its cost structures, together with lower interest-bearing debt, should contribute positively in 1995, Dennis said.

In the past year there was a positive cash flow of R105.2 million, contrasting with the previous year’s R23.2 million outflow.

Langeberg shares were trading at 390c this week, where they are at a P/E of 10.7, well below the sector average of 21.2.

Since reaching 750c two years ago the shares have crept downwards and are bumping along their all-time lows.
LANGEBERG

(185)

PM 20/1/95

Ready for recovery

Activities: Canning, freezing and drying fruit and vegetables
Control: Tiger Oats 64%
Chairman: H Dennis MD R G Brown
Capital structure: 160m ands Market capitalisation R640m
Share market: Price 400c Yields 3.1% on dividend, 9.4% on earnings, p e ratio, 10.7, cover, 3.0 12-month high, 830c, low, 390c Trading volume last quarter, 897 000 shares

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If your quest is for what the professionals refer to these days as "relative value" on the JSE, keep an eye on the giant canning operation Langeberg.

Listed in June 1992, its opening price was 800c. It moved to a high of 920c two months later but thereafter declined steadily to a low of 390c and is now trading marginally higher at 400c. Both the fundamentals and the charts indicate the share is attractive at this price.

Since 1992, Langeberg has had to endure poor local economic conditions which stunted demand for its products and a massive overhang of raw material stock on the international market after bumper fruit crops in Europe and the US in 1992.

In the first half of financial 1994, exports continued to decline and local supply was restricted by frost damage to the Transval tomato crop and partial loss of the pea crop. Now market conditions are improving in SA and the northern hemisphere.

Overseas, excess stocks have been drawn down to normal levels. Locally, provided no full-blown drought or unforeseen political upheaval affects either supplies or the economy, consumer demand is set to improve. In addition, the rationalisation within

COMAPANIES

- to thermal power stations. This has had the disadvantage in years of limited international demand of exposing the company to low prices.

However, in times of rising demand and soaring prices (the last spot price through Richards Bay is reported to have been at US$360/ton), the converse is true. Duiker is unusually well positioned to take full advantage of a seller's market, especially since its exposure to long-term export supply contracts is also limited (apparently to a modest 200 000/ton/year to Tapower for five years).

The company is said to have moved most of its uncommitted export quality coal through Swiss-based trader Marc Rich, and is heavily geared to the recent turnaround in the spot market. This partially explains the surge in the share price from about R5 in January 1993 to the current R88.

There are some concerns however, Anthracite colliery Moohoen, in which Duiker holds a 40% interest, is due to close in March. The extent of its contribution to Duiker is unknown, so the effect cannot be quantified. Second, the anthracite division has lost money for successive years, causing some worry Third, significant amounts are perceived to be needed for rehabilitation and environmental controls.

But the balance sheet is strong, with net cash resources now at probably about R780m (after paying the special dividend of R36m, an event which has led some analysts to ask whether it was done because Lombrozo needed the cash).

There is some speculation Duiker's share price will break R100 this year, that will put it on an historical p e of a demanding 26, and it must be unlikely it will run much further.

David Greenw
LEBOWA BAKERIES

Unpalatable mixture

Activities: Operates a group of bakeries in the Northern Transvaal, Bakers and confectioners.

Control: Sasko 88.4%

Chairman: Prof S P Manaka MD To be appointed

Capital structure: 57.2m ords Market capitalisation R57.2m

Share market: Price 100c Yields 2.5% on dividend 12-month high 110c, low 75c Trading volume last quarter, 63 400 shares

Year to Sept 30 '91 '92 '93 '94
ST debt (Rm) 0.8 1.3 1.4 2.2
LT debt (Rm) 3.1 2.0 1.8 1.0
Debt equity ratio (0.38) (0.24) (0.02) (0.06)
Shareholders' interest 3.66 3.68 3.73 3.73
Return on cap (%) 27.7 23.2 13.8 (1.95)
Turnover (Rm) 91.1 102.2 98.0 125.0
Pre-tax profit (Rm) 10.6 10.8 6.1 (1.4)
Pre-tax margin (%) 11.7 10.5 6.2 (1.1)
Earnings (c) 23.0 24.2 17.4 (0.17)
Dividends (c) 9.25 10.5 6.0 2.5
Tangible NAV (c) 94 116 125 89

* Interim dividend only

Attributable earnings have fallen just over 100%, from R4.3m in 1993 to a loss of R55 000 (0.2c a share), and no final dividend was paid. The group is also suffering from the effects of deregulation, which has increased competition and driven up indirect costs such as marketing and distribution.

During the year Lebaka closed two unprofitable bakeries and bought five more from holding company Sasko, but the resulting 27.7% increase in turnover to R125.9m (R98.6m in 1993) did not carry through the trading loss was R1.4m. Sasko has taken over management of all the bakeries, with the aim of returning them to profitability in the next two years.

Sasko director Leon Cronje says the plan is to upgrade plant and vehicles in the original Lebaka bakeries, to bring them into line with Sasko plants. The major costs result from skewed distribution patterns and uneven capacity usage. Sasko intends to cut expenses by optimising production and distribution over the group of bakeries.

The Sasko deal has pushed up the share price 35% from its 12-month low of 74c in September but the deal was financed by increasing the share capital from 30m to 57.2m shares. Sasko has benefited by retaining its market share in Lebowa and gaining management control of Lebaka.

Lebaka's profits are unlikely to improve materially for some time as cost-cutting reforms are instigated by the new management. This is a share to be watched, rather than bought now.

Margaret Amsel Botes

Drought and unemployment continue to depress bread sales in the Northern Transvaal and the performance of Lebowa Bakenes Limited (Lebaka) in 1994 reflects the general hardship.
CG SMITH FOODS

Subsidiaries offer more

Activities: Holding company of Smith Group's food and pharmaceutical interests
Control: C G Smith (80%)
Chairman: R A Williams
Capital structure: B4,8m ord Market capitalisation R5,5bn
Share market: Price 5.80/550c. Yields 1.8% on dividend, 5.8% on earnings, p/e ratio, 17.8, cover 3.1 12-month high, 5.600c. low: 4.050c. Trading volume last quarter: 851,151 shares.

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<th>'91-'92</th>
<th>'93-'94</th>
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<td>LT debt (Rm)</td>
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<td>Dividends (c)</td>
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From a trading standpoint, business conditions for CG Smith Food in 1994 were not much different from 1993.

As chairman Robbie Williams says in his annual review, there was little or no growth in volumes for most food products and this, with restrained price increases, continued to place margins under pressure.

But the group had two things going for it last year that helped propel attributable earnings to a new high. One was a revival at Illovo where an improved 1994-1995 sugar season helped the company to an 11% annual earnings improvement and was largely responsible for adding R6,1m to Smith Food's bottom line — 30% of its total attributable profit increase.

Another factor, probably to the relief of head office management, was that operational restructuring over the past few years is finally starting to pay off.

The benefits are evident in the group balance sheet, while the income statement gained in that resolution of some of ICS's problems enhanced its growth rate from 12% in 1993 to 20%, which in turn helped to get the combined food and fishing sector, by far the biggest contributor to group earnings, out of the previous year's rut.

Possibly the most important feature of the 1994 group financial statements is the continued rapid deaeging that has taken place. The net debt equity ratio of 0.30 of two years ago is now down to 0.12. This has been accompanied by a halving of net interest paid over the same period and a virtual doubling of net interest cover from 7.7 times in 1992 to 14 now — underlying the capacity for expansion available in the financial structure.

A point that initially looks a bit odd is that the reduction in group net borrowings has occurred entirely as a result of a rise of almost R1bn in cash holdings since 1992. Gross borrowings have risen by R418m over the two years, which is proportionately more than the increase in the total asset base.

Intuitively, one could conclude that, given the differential between deposit and lending rates, surplus cash could be put to better use by reducing debt. Williams points out, though, that the situation arises because of the consolidation of a number of individual companies with disparate financial structures — the cash is not held at centre and so cannot be used to offset debt.

Regarding prospects for this year, the main listed companies in the group are forecasting growth that ranges from "satisfactory" for Oceana Fishing to "strong" at Illovo — the latter being dependent on a satisfactory 1995-1996 sugar season. Assuming there will not be a repetition of the increase in the tax rate that dented earnings growth in 1994, it is probably safe to expect earnings to improve by at least double last year's 7%, with dividends rising in line.

If this happens, the share, on a forward p/e ratio of around 15.5, is hardly expensive. Against this, however, remains the problem that the group has seldom managed to get all its cylinders firing evenly.

The pharmaceutical sector (Adcock Ingram and Logos), the smallest of the three sectors into which the group divides itself, has shown by far the strongest earnings growth with a 29% average annual compound gain over the past five years. This contrasts with 6% from food and fishing, which still account for 59% of total earnings.

The conclusion reached by the FM a year ago was that while this situation persists, there is little incentive for investors to go for Smith Food rather than some of its faster-growing subsidiaries. For now, there seems to be no pressing reason to change this view.

Brian Thompson

<table>
<thead>
<tr>
<th>SECTOR CONTRIBUTIONS</th>
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<tbody>
<tr>
<td><strong>Attributable earnings (Rm)</strong></td>
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<tr>
<td>Food/Fishing</td>
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<tr>
<td>Sugar/Chemicals</td>
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<tr>
<td>Pharmaceuticals</td>
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<td>Total</td>
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68 • FINANCIAL MAIL • JANUARY • 20 • 1995
Fruit workers strike
Staff Reporter

About 1,000 employees of the South African Dried Fruit Co-op (SAD) — 350 of them from the Western Cape — are striking for higher wages.

The Food and Allied Workers Union (Fawu) members are seeking an 18 percent pay increase. They have been offered 12 percent.

The national strike — the first legal strike at SAD — was proceeding peacefully, a SAD spokesman said.
Workers on strike over 'witch-hunt'.

Food and Allied Workers Union members employed by the Simba Group have been on strike since Monday over allegations that the company conducted a clandestine witch-hunt against workers in an attempt to root out theft. The company claimed to have smashed a theft ring and dismissed several workers as a result. But the workers claimed their dismissed colleagues were dismissed without evidence, and demanded their reinstatement. The workers are also demanding the "removal" of manager Paul du Plessis, on whose orders the witch-hunt was allegedly conducted.
Workers on strike over ‘witch-hunt’

ROGER FRIEDMAN, Labour Reporter

FOOD and Allied Workers Union (Fawu) members employed by the Simba group are on strike because they say the company refused to reinstate workers dismissed after an alleged undercover witch-hunt.

The company also refused to accede to the union’s demand that they “remove” the risk control manager, who apparently ordered the witch-hunt, the union said yesterday.

According to Simba, the surveillance operation was a success and a theft ring, which included subcontracted security staff, was smashed.

Regional director Ray Priestly said today that the strike — which started yesterday — was being viewed as “unprocedural”.

The company was concerned that last week’s strike ballot was rigged.

The union had refused to make its strike ballot register available for scrutiny.

“We have offered mediation and are waiting for the union’s response,” he said.

Mr Priestly said the company had offered to go into arbitration last week but the union had refused.

Firing the risk control manager would constitute an unfair labour practice.

According to Fawu, two of its members were dismissed on the balance of probabilities.

Workers did not condone theft but resented the “clandestine methods of surveillance” employed by Simba.
Firm and union in deal on contract workers

ROGER FRIEDMAN
Labour Reporter

THE Food and Allied Workers Union (Fawu) and a Goodwood potato chip manufacturer seem to have avoided clashing in court over the company's plan to fire contract workers and hire temporary staff through an employment brokerage.

The parties met their lawyers yesterday after the union's lawyers fired off a letter giving Brass Ladle Foods three days to reverse its decision to dismiss 21 workers or face interdictory proceedings in the Industrial Court.

Its refusal to grant permanent employee status to the 21 workers was an unfair labour practice, Brass Ladle Foods was told.

"We regard your conduct in threatening to terminate the service of the 21 so-called casual employees as not only compounding the unfair labour practice but also as a criminal offence."

A similar letter was addressed to employment brokerage Status Personnel, which the company had approached to supply temporary labour from February 1.

By helping Brass Ladle Foods in "committing an offence in terms of the Labour Relations Act", Status would have "knowingly committed a delict" against the Fawu members and could be liable for damages.

Last week the owners of Brass Ladle Foods said they could not afford costly litigation and if Fawu proceeded with legal action, they threatened to warn off potential foreign investors by telling international media what "investing here entails."

But a meeting between the union and company in the presence of a local industrial relations firm seems to have settled their differences.

The company agreed to reconsider its position and offer full-time employment to at least some of the workers who faced the axe. The company also recognised the principle of union organisation.

In return, the union agreed to suspend legal action and withdraw its conciliation board application. The union also agreed that chip making was a seasonal business and that some of the contract workers would not be employed permanently but have their contracts extended.

The final details of the agreement will be thrashed out at a follow-up meeting on January 24.

Company co-owner André Maart declared himself "absolutely happy" with the agreement, while Fawu could not be contacted for comment.
Job-seekers barred

By Mokgadi Pola

The Rand Supreme Court has made a final order barring job-seekers at New Age Beverages’s Germiston plant from harassing or intimidating company personnel in the operation of their business.

The order lays to rest the long battle between hundreds of job-seekers who have insisted on being employed on their own terms by the company.

The company has said it reserves the right to employ whoever it chooses in line with set criteria.

Makenna, Serobe and Partners, who represented New Age in the matter, said if the job-seekers ventured within 500 metres of the company premises, they would be in contempt of court.

The court order further states that job-seekers should desist from harassing and intimidating people contracted to New Age to deliver its products. On January 19 a large group of job-seekers prevented New Age employees from entering the company’s Germiston south plant.

At the time company chief executive Mr Khehla Samuel Mhembu said: “They tried to storm our premises. They stopped our trucks from entering or leaving the depot. We are bound to suspect, along with everybody else, that there is a concerted effort by powerful forces to sabotage this black initiative.”

The job-seekers’ action contradicted an agreement signed by both parties and mediated by the Independent Mediation Services of South Africa. The job-seekers undertook not to interfere with the operation or obstruct access to the company premises by staff, customers, contractors or visitors.
Cadbury holds firm despite fall in sales

BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

Food and soft drinks giant Cadbury Schweppes grew its bottom line by 19.4 per cent to £83.2 million in the year to December 1994 despite a decline in sales in the first half.

An 18.1 per cent growth in earnings a share to 231.2p brings the group's five-year compound growth rate to 22 per cent a year, achieved in a period when all the group's principal markets were declining, chief executive Peter Bestor said in an interview yesterday.

Turnover for the year grew by 14.9 per cent to £940.4 million while operating profit was 10.8 per cent higher at £91.3 million.

This shows the operating margin down to 9.7 per cent from 10.1 per cent previously.

*Bestor said the lower margin reflected difficult trading in 1994, with disruptions caused by public holidays, the general election and increased competition. Margins were also squeezed by growth in exports at lower margins, but this was offset by the tax advantages.

As a result of export concessions as well as capitalization shares which avoided secondary tax on companies (STC), the group's tax rate for the period was 21.9 per cent from 24.9 per cent.

Competition

Financing costs dropped by a third to £3.1 million, reflecting partly a repayment of debt which brought gearing down to 19 per cent from 25 per cent, and partly a restructuring of debt towards long-term rather than short-term repayment terms.

Capitalization shares, or a final cash dividend of 73c (62c) was declared, bringing the total cash dividend for the year to 93c from 80c.

Bestor said the group's activities were fairly evenly divided between confectionery and soft drinks and although the relationship fluctuated in the short term — in 1994 soft drink sales had been stronger than confectionery sales — over a 10-year period the two grew at the same rate.

The advent of competitors in both of the group's markets in 1984 — Mars and Pepsi Cola — had not had a major impact on its market share.

Pepsi Cola, although a formidable group likely to take a few percentage points of market share away from each competitor, was expected to stimulate the market overall.

Bestor said early signs were that the market would continue to grow off its low base and satisfactory growth in earnings was likely to be maintained in 1995.

Cadbury Schweppes shares firmed 7c to 224½ yesterday, putting them on a PE of 20.7 on the latest figures, close to the food sector average of 20.

However, the shares have fallen sharply from a high of 261 last June.
Cadswep overcomes decline in its markets

CADBURY Schweppes (Cadswep) achieved an 18.1% increase in earnings to R231.2m (R195.2m) a share in the year to December off a high base and despite a decline in the soft drink and confectionery markets in which it operates.

CE Peter Bestor said the 14.9% rise in turnover to R40.4m (R31.4m) reflected improved trading conditions in the second half and higher export sales. Turnover was just 7% up at the interim stage.

He said the 10.3% growth in operating profit to R91.8m (R82.9m) was achieved in a competitive market.

Financing costs were slashed a third to R6.1m on the back of lower interest rates, improved cash generation from operations and cash retained from Cadswep's previous capitalisation issue. This enabled the company to lift pre-tax profit 13.5% to R227.7m (R197.7m).

Financial director Alistair Buchanan said the tax rate benefited from higher export sales. This and an 11.5% increase in dividend income and equity-accounted earnings — from its interest in soft drink bottler ABI — saw it lift attributable earnings 16.4% to R33.2m (R28.7m).

A final dividend of 75c a share would bring the full year dividend up 16.3% to 93c (86c). Shareholders have been offered a capitalisation share award in a move aimed at retaining cash resources.

Bestor said the confectionery division had a difficult year.

The soft drinks businesses showed strong growth in the second half, and the growth in industry volumes was resumed.

Bestor said Cadswep was budgeting for growth in the confectionery and soft drink markets, which had been under severe pressure for several years.

The company has achieved compound earnings growth of 22.3% over the past five years in a period when its markets have been in decline. Despite its long term performance record, the share has been languishing in recent months. Yesterday the share gained 75c or 1.5% to close at R48, just off its February low of R46.50 Cadswep was trading at R61 in June last year.
Cadybuy firm despite fall in sales
Nestlé group to invest R600m in local operation

SWISS food group Nestlé would invest R600m in its local subsidiary in the next three years in an effort to increase market share and boost exports.

The Financial Mail reported yesterday that half the investment would be offshore funds while half would be generated from local profits.

In the past three years, Nestlé invested R78m in the local company, whose products include Carnation, Crose & Blackwell, Maggi, Rowatree and Lapis.

Chairman Helmut Mancher, who was in SA last week, said the investment would be aimed at increasing Nestlé South Africa's market share and seeing it become "a significant exporter into Africa, the Indian Ocean islands and the Middle East". The company would control sub-Saharan Africa, sourcing products locally and from other regional Nestlé factories.

Close to R100m would be spent on a milk powder factory in Harrismith. Corporate affairs manager Dave Upshon said a large portion of the extra production would be for export. The chocolate factories in East London and Maritzburg would be upgraded at a cost of R150m, and R20m would be spent on doubling production of the Maggi noodle factory.

Mancher said Nestlé South Africa was expected to double its current R2bn turnover by 2000.
CADBURY SCHWEPPES

**Fattening finals**

Despite shrinking volumes in the confectionery and soft drinks markets, Cadbury Schweppes has unwrapped highly satisfying profits.

Operating profit for 1994 is up 10% on the previous year to R91.8m. Attributable profit has increased 19.4% to R83.2m. Growth flows partly from better trading and partly from efficient cash management.

Finance director John Buchanan says the group has cut financing costs, helped by lower interest rates, and generated more cash in the business. Last year's capitalisation issue bolstered the cash reserves and another optional award will be made this year.

The outlook for 1995 is much brighter. Buchanan expects competition to be severe as the major producers fight for share in markets that are barely beginning to grow, but he forecasts a strong recovery.

"It has been a long time since we have seen such a severe reduction in the soft drinks market as has happened over the past two years," he says. Consumers tend to trade down from carbonated drinks to the squashes in bad times and Cadbury Schweppes has benefited from being in both markets - it has gained market share in the overall soft drinks market. It holds about a third of the total confectionery market, though its share of chocolate sales is slightly higher. Buchanan says the upturn in the industry this year is noticeable.

At R47.50, the share is near its 12-month low. This seems unfair given the group's achievements during the recession but perhaps its success has temporarily dimmed its allure. Investors may see recovery stocks coming off a lower base as having better value because their growth is more dra-

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**SWEET STUFF**

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<th>Year to</th>
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<tr>
<td>Dividends (c)</td>
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momatic. "It is remarkable that we managed to get 22% growth over that period," says Buchanan.

If it is true that when the chips are down investors buy stocks for the quality of their management, this is a good choice. There is a long way to go before this counter exceeds its worth. - Margaret Anne Hoist
Del Monte to the fore

Deputy Business Editor

FOOD group Del Monte's rationalisation programme is bearing fruit and its South African operations are looking up after a difficult year, directors say in the annual report.

Chairman Vivian Imerman and chief executive Graham Bousred expect better trading conditions this year.

Last year was a tough one for the industry worldwide, they say, with suppliers slashing prices by up to 20 percent to maintain market share.

But several markets showed strong growth Del Monte's sales volumes in France rose 26 percent, and in Sweden, where the Del Monte brand now holds 23 percent of the market, to 15 percent.

The launch of Del Monte Iberia secured a 27 percent market share in Spain for the group.

But results in Germany and Britain were disappointing.

The group said pineapple prices had shown a marked recovery, though the continuing strength of the Kenyan and Philippine currencies was affecting hard currency margins for pineapple products.

Toronto-listed mining and exploration company Trillion Resources is to take a 30 percent stake in Consolidated Mining in a R60 million deal.

Initially, Trillion is to pay R14.4 million for 41 million new Cons Mining at 35c each and another R25.6 million for 9 million new shares in West Wits at 285c each.

Cons Mining said the Trillion cash injection would assist the group's expansion plans. Projects on the go included a major drilling programme in Mali and the assessment of a large copper deposit in Congo Brazzaville.

Condura Investment Corporation, the holding company for TEK Electronics, will control the new R100 million group formed by the merger of Santorpo's electronics interests in Plessey Tellumat SA and TEK Electronics.

The merger follows the sale of TEK's appliance interests, under the Delfy brand, to Malbak and its Airco air conditioning business to management.

Condura will change its name to Plescor.

Plessey Tellumat chief executive John Temple, who will be CEO of Plescor, said the merged group would have excellent growth prospects.

There would be no staff reductions.

The merger followed the restructuring of Plessey Tellumat into three core businesses: Plesman, which is headed by MD John van Zyl and includes the Retail Factoring, research and development and all management support services; Plesgem, under MD Alan Ray, which includes all general electronics, mining and defence interests and operates mainly from the Plessey/Langsdale site in Plumstead, Cape Town; and Plescor, under MD Rob Shaw, which includes all telecommunications activities.

The fourth core activity of Plescor would be provided by TEK Corporation, including TEK Electronics, under MD Gavin Thomson, which manufactures and distributes Telefunken TVs, M-Net decoders and Pioneer audio equipment. The TEK factory is in East London.

Foschini chairman Stanley Lewis has been appointed chairman of British clothing retailer Etam, succeeding Sir John Nott.

Mr. Lewis joined fellow Foschini Director Michael Lewis on the board of Etam last year. Both are on the board of Oceana Investment Company, Foschini Limited's associate company, which has a 37 percent shareholding in Etam.

Wool and mohair group Guth & Inggs reported a 90 percent increase in shareholders' profits to R6.1 million in the six months to December, compared with the same period in 1993, on the back of a 140 percent hike in operating income.

The dividend has been doubled to 40c, covered 7.5 times.

Directors said processing facilities had maintained better volumes thanks to stronger demand for both wool and mohair.
Del Monte seeks suitable groom for sweet bride

BY CHARLOTTE MATHEWS

Del Monte Royal Foods is looking for an appropriate international equity partner for Royal Beech-Nut to enhance the company's technological and brand development base in the confectionery sector, chief executive and chairman of Del Monte Royal Foods Vivian Inerman said.

In the group's latest annual report released this week Inerman said the group had considered a number of acquisition candidates, some of whom had been discarded, while others remained under consideration.

The opportunities for acquisitions, a partnership and the introduction of new products under the Del Monte label are the cornerstone of the company's policy of growing its profitability from its existing low-cost base.
Delfood earnings slightly up

The pressure on prices saw group sales show a marginal decline in unit value. This, and some unfavourable cost variances, had squeezed profit.

In reaction to these factors, Delfood embarked on a major rationalisation programme over the past 2 years which has brought savings to date to R33bn.

A difficult year had been forecast for SA-based Royal Beech-Nut. But it showed sharp improvements in sales volumes in all its major brands.

Delfood had one of its best years ever in France, with a 26% rise in volumes and a significant improvement in profitability. In Scandinavia, trading improved after several years of decline, and prospects were good.

In Germany, Delfood lost all the gains achieved in the previous year. It had taken steps to correct the situation, and expected improved results in 1995.
Swiss franc hits Nestle

VEVEY — Nestle SA, the world’s biggest food and drinks company, said yesterday that last year profit rose nearly 13% to Fr3.29bn ($2.5bn).

The Swiss multinational promised shareholders a 5% dividend hike to Fr2.50 a share, up from Fr2.

The sale of Nestle’s stake in the cosmetics business to L’Oreal brought in a one-time capital gain of Fr906m ($734m), the company said.

By contrast, the strength of the Swiss franc, which makes exports more expensive on foreign markets, had a “very marked impact” on sales, Nestle said.

The company announced earlier this year that sales in 1994 fell to Fr56.9bn, down from Fr57.6bn in 1993, largely because of the strong franc. Profit in 1993 topped out at Fr2.25bn.

Food analysts voiced concern at the effect of the adverse currency movements on the company’s performance. “It appears that operating gains in the first half of 1994 were wiped out by currencies in the second,” said Bank Sal Oppenheim analyst Frederick Hassauer. — Spiro AP.
In search of vision

Doug Band will be judged on how the declining core business is handled

Doug Band’s inheritance as chairman and CE of Premier can’t be the happiest. He faces a host of problems, theft and fraud among them.

But the dilemma he least expected lies in Premier’s core food business, milling, where it all began when Joffe Marks first started the company.

There should be no mistaking the seriousness of the challenge Band’s reputation precedes him, he is said to be a willing surgeon. This time round, though, a lot is riding on his ability to coax and, if necessary, bully change out of a foods operation which has fallen on hard times.

Premier’s real problem is that it doesn’t know what it is, because its principal shareholders are themselves unsure about what they want it to be.

They — new investment holding company Johmec, a new Anglo group — will deny this. But the pattern of Premier’s erratic growth, followed by reduction and then by growth again over two decades, points to a lack of direction. It confirms the view that when Premier’s legendary Joe Bloom died, the group lost its vision.

This is important, because Premier now represents a major pillar on which rests Johmec, which was recently spun out of milling house JCI.

Johmec is slated to be available for eventual purchase and control by black interests, as is JCI itself (though not its platinum operations). Premier’s contribution to this is potentially vital. And that leads, in turn, to an historical perspective.

In the early Sixties, Bloom persuaded Garfield Weston, at the time the eccentric and controlling shareholder of Associated British Foods (ABF), to take control of the Premier group. In effect, Bloom sold the control position to the UK’s biggest flour miller and baker Givan Sharpeville, the Jaffele and Bloom families probably figured they had cause to be thankful.

Bloom remained securely in the Premier saddle. He had nothing to worry about. He delivered profits and growth as regularly as the morning newspaper. No wonder Weston, who was said (perhaps apocryphally) to have frequently sacked the workforce of whole factories on a whim, left Bloom alone.

The big change came when the financial rand was abolished in 1983 — for the first time. That was when Tony Bloom, Joe’s son and by then CE following his father’s unexpected death, approached Anglo American with a scheme he said couldn’t fail.

It involved buying out ABF through the unified currency and giving Gary Weston, by now Garfield’s successor, a windfall currency profit even he could not ignore (the price was R337m). Exit the Weston family (also, by the way, the casual owners of London’s Forum & Mason).

However, the Bloom scheme involved rather more than simply buying out ABF. It also entailed injecting the Anglo/JCI holding in SA Breweries into Premier Bloom, by now firmly supported by JCI chairman Gordon Waddell, persuaded Liberty’s Donny Gordon to come to the party.

The result was dramatic. From being a food company with minor pharmaceutical interests, Premier suddenly became a massive industrial conglomerate which controlled one of SA’s leading companies.

There is more to this manoeuvre than meets the eye. It also enraged Old Mutual chairman Johannes van der Horst, who resigned in a fury from the Anglo board.

More than one market observer now suggests the deal was part of a complex play to neutralise Mutual’s growing power in the control structure of SA Breweries.

Another effect was to change radically the nature of Premier, making it a true investment holding company.

But it also became clear, from an outraged and mortified SA Breweries CE Dick Goss, that Bloom had to stand down as chairman of Premier in favour of someone Goss would accept — in the event, no less a luminary than new Anglo chairman Gavin Rellty.

In the end, not even that was enough for Goss, who went off tobulk wealthy with Sol Kerzner in Sun International, Kerzner having extracted the casino operations from Southern Sun for a snip.

Six years later, the ball game changed again. This time it was caused by Bloom’s peremptory announcement that he intended emigrating, apparently for personal reasons.

“We know now,” says a senior broker unkindly, “why he left. The truth is Premier’s performance left a lot to be desired. Its earnings were about to fall out of bed.”

And suddenly there was consensus that Premier was the wrong vehicle in which to park control of Breweries. Premier’s holding was lifted and stored in Bevon, along the way, Liberty had accrued further shares in SAB so it became SAB’s largest single shareholder. Curiously, over one decade, one large life assurer has been replaced by another in controlling SAB.

The effect on Premier was instantaneous. At one point it was a food company with a few other, substantially smaller, interests. Then it became a massive investment conglomerate. It was then being shrunk again. This is not the kind of tactical interplay which comforts long-term investors.

Since then, running parallel with these developments, the group has been “grown” again. Its manufacturing pharmaceutical interests have expanded and accounted for 24% of attributable earnings over financial 1994 (though the group’s pharmaceutical distribution has been an unmitigated disaster).

Similarly, the purchase made by former group MD Gordon Utan of Metro Cash & Carry, when that company appeared to be on its knees, is now regarded as a stroke of genius.

“I have to admit it,” says Ed Hern, Rudolph research analyst Syd Vianello, “it’s been a roaring success. I have to take my hat off to them.”

The story of Premier’s involvement in pharmaceutical distribution is less edifying. Originally, the company took a stake in a small distribution company, run largely for the benefit of a group of Pretoria dispensary chemists, called Pretoria Wholesale Drug. It was moderately successful and could be developed, it was thought, into a profitable national wholesale business.

Wrong.
(UPD) encountered the twin difficulties of an economy slipping into recession and strong, almost increasing competition, so the decision was made to link up with the newest and most aggressive contestant, Norman Knight’s Medical Cash & Carry.

Former Premier chairman Peter Wrighton was forced to concede: this turned out to be a bad deal. "We’ve done some good ones (deals) and we’ve had some which haven’t turned out so well. This is definitely one of the latter.

Yes, it was Knight and his team that chased that market share, it seems at almost any price. That was followed eventually — much too late — by a detailed investigation which pilloried everyone in sight from the auditors to the managers.

Knight has subsequently been seques-
trated and charged with six counts of fraud and theft totalling R40m. The impact on Premier has been severe. Among other actions it was forced to convert R275m into fixed interest-free subordinated loans, virtually an acknowledgment that the money is tied up for ever.

"Effectively," says an analyst, "it’s been sterilised. Their chances of getting it back are close to zero."

This can’t be said of Premier’s excursion into the chicken business, which had all the makings of calamity but from which the group emerged smiling.

Utuan’s portfolio included Farm Fare, which, he promptly used as the vehicle for a merger with those run by Bokomo and Saccia to form Bonny Bird. Premier held 50% of the new company.

But it was a bad time for the broiler business. Premier succeeded in selling the whole parcel to Rainbow along with half share in Epol, the feed manufacturer already under severe pressure from Tiger’s Meadow Feeds.

In retrospect,” says a broker, “this may be the masterstroke of Utuan’s career. Not only did he transfer all the problems associated with chicken production to the country’s biggest operator, but he also neatly capped Tiger’s aggressive expansion into this aspect of feeds.

Premier’s real difficulties, however, lie in its food division, its original core business.

A single line reveals the extent of the problem: attributable earnings from Premier Foods fell from R188m in 1993 to R96,5m in 1994 and it is likely to be a lot worse this year.

Milling has never been easy in SA, the difficulties are compounded by the existence of a single channel marketing system manipulated by the Maize Board, and which levied an extraordinary differential charge on millers of R185 a ton in the 1993/1994 season. And thereby hangs a tale.

Technological innovation waits on no one. In the case of milling, recent advances have been so unusual that they led to the invention of what is now called the "mini-mill." This is a milling facility small enough to be carried on a bakkie and operated by one man. And the revolution created was extensive.

It enabled entrepreneurs, many of them farmers and including some black businesswomen, to take advantage of an inherent, double weakness in the industry structure. First, the capital and technical barriers to entry were effectively breached. Second, the size of the maize Board’s levy — from which big players like Premier and Tiger could not escape — and its inability to police it adequately, created challenges from small operators. They could — and did — cock a snook at officialdom.

In a plentiful maize growing season, small millers hatched up their mini-mills and roamed the countryside, buying rough maize wherever they could, processing it and selling it on, heavily discounted courtesy the Maize Board. The quality may not have been up to Premier’s and Tiger’s excellence, but the discount in rural areas after years of recession counted for much more.

The result was something approaching a disaster for large business. And it spelled the end for the Maize Board as it constituted a new factor this year is a pervasive drought, which means maize has become a rare commodity in rural areas. It will have to be imported and millers will have to pay a uniform price to get their hands on it. The mini-mills will be oiled and mothballed in turns this season.

For the rest, Premier’s business is well constructed and spread between retail, entertainment and leisure — made up of its dominant interests in Chicks, CNA Gallo and Teltron (14% of attributable earnings in 1994), wholesaling — exclusively Metro — 18% of attributable earnings last year. This illustrates how important it is to Premier’s future that Band and Utuan get Foods right. Last year, it provided 44% of the group’s earnings base.

Utuan is now chairman of Premier Foods, which he is leading through yet another restructuring. He is decentralising to the extent that individual businesses will become discrete profit centres, broken down into four businesses: milling, baking, grocery products (Epic oils) and Bonnita, the group’s successful and recently listed dairy operation.

What is different now for Premier Foods — just as it is for its big rival, Tiger — is that the original core of the groups was concentrated in staples, for many decades areas of steady growth.

No longer: Added value is the key and the problem which awaits Utuan, once he has trimmed the divisional and restored operating margins, is to change philosophy essentially, milling is a harvesting game. He needs to reap the cash flows from milling and turn those into new, value added, high growth operations. It is a tall order.

Meanwhile, Band will superintend Premier’s other businesses directly, all the while peering over Utuan’s shoulder at Foods. And he has another problem which may seem minor but is highly symbolic: the company’s luxurious head office is out of place and size — Band’s own office is large enough to double as a ballroom.

Over 10 years, under Tony Bloom and then Peter Wrighton, Premier grew too big for its shoes and much of that was a chimera, put in place to satisfy the needs of disparate times and different managers. It went exhaustingly from large to huge, then to smaller, then to huge again.

Inevitably — and even though the companies have actually become very different — comparison will be made with Tiger Oats if for no reason other than that closer parallels don’t exist. And the fact is that Tiger is once again rated by the market ahead of Premier.

Still, any company with turnover of R4bn a year, attributable earnings of R259m and a market capitalisation of R4,3bn demands to be taken seriously. Against that, however, Premier’s share has retreated a third from its 12-month high of 775c. Even at this level, though, the current p/e of 17 may be too demanding, given the problems which have to be overcome.

For Band and Utuan, the next year will be particularly important. A critical market is watching their every move.
Foodcorp eats up critics

By Charlotte Mathews

Foodcorp, which is 75 percent owned by Malibac, has confounded analysts with an 18.5 percent improvement in attributable earnings to R86.3 million in the six months to February — well above market expectations.

The main impetus for the increase came from higher volumes, coupled with tight control of expenses.

Turnover grew by 19.3 percent to R1.6 billion and operating profit by 19.4 percent to R101.6 million, showing unchanged operating margins at 6.4 percent.

Chief executive Dave Kenny said gross margins had declined because of a sharp rise in input costs, but this had been offset by controlling expenses.

Financing costs had risen sharply to R14.3 million from R9.7 million previously as a result of higher working capital requirements, and a tax payment of R6.1 million from R5 million in the same period last year.

The tax rate was almost unchanged at 33.9 percent from 33.6 percent, and could have been even lower if the group had been able to issue capitalisation shares in lieu of dividends. This was prevented by covenants in the company's debenture trust deed.

The contribution to minority shareholders, mainly in bakery companies, declined to R1.4 million from R2.5 million.

On fully diluted earnings per share of 105.8c (99.6c), a dividend of 27.0c (25.0c) was declared.

Kenealy said the grain-based and edible oil operations, which consisted of Nola, Ruto and Sunbake, had all improved results, Nola had done particularly well.

Agri-Business had also increased its contribution, while Marine Products' fishing operations in South Africa and Chile performed in line with expectations.

Simba, the snack foods division, improved quality but held prices static, which resulted in increased market share and factory throughput. Simba has not increased prices since September 1993, but Kenealy said this had not depressed profitability significantly since it was a high-margin product. He believed there was still scope to grow the market and hold prices.

Simba now has about 57 percent of the snack foods market.

Disappointing results were declared by the joint venture operations — Enterprise, PILsbury and the Cold Chain Enterprise was hit by the shortage of local pork, and had to import several months' supply at higher per ton cost and higher holding costs.

PILsbury, involved mainly in frozen vegetables, was affected by the need to buy in frozen vegetables at the end of calendar 1994. The Cold Chain, a joint venture with ICS, has been struggling to bring its operations in Gauteng under control.
Foodcorp beats all expectations

MALBAK's food group Foodcorp exceeded market expectations and its own forecasts with an 18.5% earnings rise to 118.5c (R8.3c) a share in the six months to February.

CEO Dave Kennedy said yesterday the results reflected particularly good performances by its grain-based and edible oil businesses — Nola, Ruto and Sunbake. Its protein businesses and market share gains by Simba were also good, but its three joint ventures, Enterprise, Pillsbury and Cold Chain, performed poorly.

Increased sales volumes and higher prices in most divisions, especially in the protein-based operations — saw turnover rise 19.3% to R1,566mn (R1,282mn).

Although higher input costs affected gross margins, tight control of expenses enabled the group to lift operating income 19.4% to R120.6mn (R85.1mn). The sharp rise in financing costs to R14.3mn reflected higher interest rates and increased borrowings due to increased stock levels. Thus, and a higher tax rate, saw taxed income grow 15.4% to R57.7mn (R50.9mn). After minorities, attributable earnings were 18.5% higher at R56.3mn (R47.5mn).

Foodcorp was unable to offer a capitalisation issue due to "certain covenants in the debenture trust deed", and so declared an interim cash dividend of 27c (23c) a share. Kennedy said a capitalisation award would have added 5% to earnings.

Foodcorp

He said last year's restructuring of Simba had started producing dividends. It had shown a large volume increase, and this figures showed that it had a 57% share of the snack market. The agribusiness operation increased its contribution, and Marine Products' fishing operations were in line with expectations.

But the joint ventures were "disappointing". Kennedy said Enterprise's results were purely a reflection of raw material costs as it had to import pork "at considerable expense" due to a local shortage. The net effect was that although it did well in terms of sales volumes it could not maintain margins. The supply situation was now under control.

Pillsbury's results reflected lower volumes and competitive pricing. Kennedy said there had been management problems, and more marketing-oriented directors had been appointed.

The good performances of certain branches of the Cold Chain were dragged down by losses in Gauteng. Foodcorp did not manage that joint venture but had put pressure on management to sort it out.

Kennedy said there was still a major emphasis on exports, which made up about 7% of the group's business. Foodcorp would like to see exports at 10%. Earnings growth was put at 16%-19% for the year.
Foodcorp astounds analysts' forecasts

BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

Foodcorp, which is 75 percent owned by Malbak, confounded analysts with an 18.5 percent improvement in attributable earnings to R56.8 million in the six months to February, well above market expectations.

The main impetus for the increase came from higher volumes coupled with tight control of expenses.

Turnover grew by 18.3 percent to R1.6 billion on which operating profit was up 19.4 percent at R161.6 million, showing operating margins unchanged at 6.4 percent. Foodcorp chief executive Dave Kenneally said gross margins declined because of a sharp rise in input costs but this was offset by control of expenses.

Financing costs rose sharply to R14.3 million from R9.7 million previously as a result of higher working capital requirements and a tax payment of R51 million from R5 million in the same period last year.

The tax rate was almost unchanged at 33.9 percent from 33.6 percent and could have been even lower if the group had been able to issue capitalisation shares in lieu of dividends.

The contribution to minority shareholders, which are mainly in bakery companies, declined to R1.4 million from R2.5 million. On fully diluted earnings a share of 105.8c (59.6c) a dividend of 27.0c (23.0c) was declared.

Kenneally said the grain-based and edible oil operations, which consisted of Nola, Ruto and Sunbake, all improved results, and Nola in particular had done exceptionally well. Agrit-Business also increased its contribution while Marine Products' fishing operations in South Africa and Chile performed in line with expectations.

Simba, the snack foods division, improved quality but held prices static, which resulted in increased market share and factory throughput.

Disappointing results were declared by the joint venture operations Enterprise, Pilimsbury and the Cold Chain.
Langeberg to restructure: Food processing group
Langeberg is undergoing a restructuring which could see up to 20 percent of full-time staff no longer directly employed by the co-operative. Managing director Ray Brown confirmed the group’s entire operation was being reassessed to see which functions could be outsourced to make operations more cost-effective.
Langeberg allays fear of mass sacking

MAGGIE ROWLEY
DEPUTY BUSINESS EDITOR

The fears of Langeberg staff that 20% of them might lose their jobs as a result of restructuring were allayed yesterday by group managing director Mr Ray Brown.

He said that of 2,800 full-time staff, 560 could be affected, but only two or three percent might actually lose their jobs.

‡ The group was currently assessing all its operations from management downwards to see which functions could be "outsourced" to make them more cost-effective.

‡ Mr Brown said that in looking at the viability of "outsourcing" certain functions, they were considering, among other things, setting up certain staff members in their own businesses or employing them on a consultancy basis to carry out these functions.

"Our main function, and one that we perform well and efficiently, is the processing and canning of fruit and vegetables, but that does not necessarily make us, for example, good transport managers," he said.

"Every aspect of the value chain of our business is being looked at and assessed. Where the value of the operations is outsourced by their cost, it will raise questions."

The process would take at least three months, Mr Brown said.
Aussie franchiser chooses SA

By Shirley Jones

Australia's second fastest growing company - Lenard's Chicken - has chosen South Africa for its first offshore venture.

South African partners Barry Hundley and Rob Clemo signed the deal in February.

Lenard's has a network of 80 outlets in Australia. South Africa was the obvious choice for Lenard's expansion because of cultural similarities.

Hundley and Clemo opened their first store in Randburg in February this year. The second opened in Pretoria last month.

"The growing sophistication of South African consumers has created a gap in the market between fast foods and the limited pre-packed lines available in supermarkets, butchers and delicatessens," Hundley says. A good response to this new retail concept.

The market in black communities will be tested by providing samples from a mobile unit at strategic points.

Although Hundley and Clemo's licence extends to the whole of Africa, except Egypt, they will develop the South African market first. Once all is in place here, they will move north.

Lenard's will concentrate on establishing franchises along the Durban-Pretoria axis. Once there are more than 10 franchises, the operation will move to the Western Cape. At the end of the year more than 100 outlets should be operating across the country.

750 jobs

Considering that each outlet is likely to employ at least seven people, Hundley is confident this will create more than 750 jobs.

Hundley says the Australian and South African parents will provide training. The South African parent will police the system to see that franchises are run according to standard.

Hundley says Lenard's will create opportunities across the business spectrum, from small businesses to major corporations.

There will be spin-offs for the agricultural, food processing and building sectors.

He says that as a value-added product, chicken has not been fully developed in South Africa and that Lenard's will have a significant effect on chicken consumption patterns and hence on the broiler industry.

It is unlikely that Lenard's South Africa will be able to source its chicken from a single national supplier and has committed itself to drawing on regionally based sources, stimulating local industry.

"Lenard's Stores will be better served by strong regionally based chicken producers."

"Even then, the stores' specific requirements of three distinct weight ranges will create a market for smaller niche suppliers, thereby spreading the growth of opportunities."

"Lenard's will draw on the whole local broiler industry rather than concentrating on one or a few large producers."

Rebuffed after approaching Rambow as a supplier, Lenard's has appointed Chubby Chick in Fochtelstroom and Early Bird Farms as its first suppliers, Hundley says.
DEL MONTE GROUP

The battle continues

(86) FM 7/1/95

About the best that can be said of this food group in the Anglo American Corp stable is that it has stood still over financial 1994.

Chairman Graham Boustedt doesn't exactly carry a beacon of light for investors when he says: "We expect 1995 to be a disappointment too." This assessment is probably based as much on Boustedt's obvious concern about the state of international currency rates as on anything else.

However, despite that gloom — perhaps intentionally offered so as not to bog down shareholders — there is evidence that the group has made significant progress in low-key, low-visibility areas not easily discernible from the annual report of the three listed companies.

The financial statements from Del Monte Royal Foods (Delfood) are sobering on the surface. Turnover improved 11% in rand terms to R1,558m — modest enough. However, the operating margin of 16% (operating income before interest and tax as a percentage of turnover) is high in the food industry. It must be unlikely that Del Monte can squeeze more than another percentage point from this area. Indeed, it has fallen marginally from 1993 — evidence of the intense competition in this business.

The area of most pain is in the contribution of Delfood's associates. This has fallen from R20,1m to R7,3m. Principal causes for this abrupt decline are the strengths of the Philippine peso and substantially weaker pineapple prices.

Another factor impairing profitability has been the extraordinary strength of the Kenyan shilling. Both countries are important suppliers of pineapples to Delfood, Kenya more so. In the Philippines, the currency has retreated to its previous low against the US dollar and some commentators say it will soon plummet.

That isn't so for Kenya where the currency remains strong. That has its source, at last partially, in the massive inflow of fund capital into Kenyan government bonds. The effect last year was to reward speculators with high capital gains (said to be about 45%) together with handsome interest payments of around 25%. Understandably, Delfood's managers can't wait for this bubble to be pricked.

Del Monte's business is to buy in fine-quality food products from independent sources — as well as its own, directly owned suppliers — and to process these for sale, usually as canned goods in European supermarkets. The Inerman family and Anglo took control of the European arm of the group in 1993.

Unfortunately, the timing could not have been worse. Bumper fruit crops over 1991-1992 meant canners bought more and processed more. The result was a glut on European markets. Producer prices plunged. It was also an ideal opportunity for the large supermarkets to challenge brand names with their own labels.

This has happened in mass-market packaged areas. Indeed, a feature of the early Nineties has been the extent to which brand names have been attacked. They make an easy target. This is not exactly comforting for Delfood, whose rationale is based around its name and the implied excellence of its product. However, it is also true that in some markets, such as the UK, Monte brands on the shelves — hard against the supermarket's own product and at twice the price — have held their own. That says something for customer loyalty bred out of long-established and consistent quality.

An interesting conundrum is Delfood's policy towards the German market, long held out to be the key to success in Europe. Delfood made a strong showing there in 1993, only to give away nearly all its gains in 1994. By contrast, the group read the French market accurately and made strong inroads. So the question must be whether — given the unusual structure of the German market — it is worth persevering with. Delfood managers confirm there are other, more lucrative areas waiting for development.

Finally, there is the matter of the group's growth and whether this is to be by the slower organic method or by acquisition. Del Monte has been in talks with Swiss jam manufacturer Hero for about a year. Boustedt says Del Monte has been talking to a number of parties but declines to identify them.

FINANCIAL MAIL • APRIL • 7 • 1995 • 116

116 • FINANCIAL MAIL • APRIL • 7 • 1995
Outlook 'better than ever' for Cadswep

Chairman Alan Clark said the export programme to Russia had been "highly successful" and there was a good increase in exports of other products, notably chewing gum, into Africa and other markets.

During the year Cadswep bought concentrated cordial drinks manufacturer Rodney's, whose sales volumes and trading profit had exceeded forecasts.

Clark said there was "an above average potential for growth in our markets during the next few years". There would also be an intensification of competition, particularly from international brands.

Cadswep was expecting competition from abroad, but Clark said the group "has the resources and experience to successfully counteract competition".

There was potential for recovery in the confectionery division from the low base of financial 1994.
Sweet elation

Activities: Manufactures and markets confectionery and soft drinks

Control: Cadbury Schweppes Plc 55%

Chairman: A J L Clark MD P M Bester

Capital structure: 35,1m ordinary Market capitalisation R194m

Share market: Price 5400c Yields 1,7% on dividend, 4,3% on earnings, p/e ratio, 23,4, cover, 2,5 12-month high, 6100c, low, 4650c Trading volume last quarter, 189,666 shares

Year to December 31 '91 '92 '93 '94

ST debt (Rm) 13,8 36,8 57,9 17,8

LT debt (Rm) 46,9 35,9 8,6 40,0

Debt equity ratio 0,12 0,10 0,09 0,08

Shareholders' interest 0,67 0,71 0,74 0,73

Int & tax earnings 4,8 4,6 6,8 11,3

Return on cap (%) 9,8 8,8 9,5 9,9

Turnover (Rm) 610 724 818 940

Pre int margin (%) 60,6 70,5 82,5 51,8

Pre int margin (%) 9,9 9,7 10,0 9,8

Earnings (c) 134 161 196 231

Dividends (c) 54 68 80 93

Net worth (c) 1774 1819 1813 1983

The reviews by chairman Alan Clark, CE Peter Bester and financial director John Buchanan reflect undisguised elation that Cadbury Schweppes has emerged from recession with its growth record intact.

And not without reason. Ahead of the elections last year there was an obvious apprehension for the immediate future. The forecast then was that the first six months were unlikely to produce any fireworks but conditions could improve in the second half depending on political developments.

Significantly, it was not then clear that the confectionery division would continue to be plagued for much of the year by production difficulties at its Port Elizabeth plant — had management known, it would probably have been less enthusiastic.

In the event, fears that CadswEEP would not be able to perform proved groundless. Notwithstanding production difficulties and labour related production losses around the time of the election, first-half results nevertheless reflected 15% growth and this improved to 20% in the second half as earlier difficulties abated.

The overall growth rate was just over 18%, down from 21,8% in 1993, but Buchanan can nevertheless report that the five-year compound improvement in nominal earnings is 22,2%, or real growth of 10,5% a year.

The interesting point about 1994 results is the extent to which they were affected by meteoric attention to asset management. Operational problems were reflected in an improvement of only 11% in pre-interest profit on a 15% turnover gain. However, a significant reduction in average debt — which can only have come about through careful cash management — yielded a one-third saving in net finance charges even though year-end borrowings (net of cash) are not much different from 1993's.

These interest savings boosted pre-tax profit growth to 18,3%, much in line with the bottom line. But between these two points there was another hurdle to be overcome, in sharply lower growth in income from associate ABI, whose contribution rose only 11% This, however, was offset by a lower effective tax rate, attributable in part to CadswEEP having joined the scrapping dividend pay-off which eliminated any liability for STC.

The dichotomy within the group is reflected in the fact that CadswEEP without ABI achieved earnings growth of almost 22% despite the underperformance of the confectionery division, roughly double ABI's gain. ABI's contribution to CadswEEP's bottom line consequently declined from 23,1% to 21,5%.

The fact that CadswEEP itself was able to maintain satisfactory growth despite production and trading difficulties goes a long way to explain management's confidence that the group is about to enter an accelerated growth phase. For one thing, Clark points out that it is fairly unusual for the confectionery and soft drinks markets to decline in real terms, as they have since 1989 (confectionery more so than the soft drinks sector), but, with the economy improving and after last year's fundamental environmental changes, this adverse trend should start to reverse.

This year's results should also benefit as the confectionery division progressively overcomes production difficulties which, at times, caused stock shortages and thus loss of market share Clark comments that recovery potential here is significant.

Though there is no specific forecast, indications are that CadswEEP should be able to better its five-year annual growth rate of 22% which, coupled with lower inflation than during that period, could yield a real earnings improvement of as much as 15%.

Despite this potential, the market still seems to be a bit ambivalent about the share which, at R54, is almost exactly midway between its 12-month high of R61 last June and the recent low of R46,50. The year-on-year gain is only 7% well short of the improvements in earnings and dividends, which means that, relativitively, the share is now cheaper than before the elections even though the outlook appears to have improved materially.

The best that can be said about this is that CadswEEP has outperformed the Food sector (where it is listed), where the deterioration in yields has been even more marked CadswEEP's premium to the sector, based on earnings, has in fact widened from 32% a year ago to 36%, which at least indicates that the market has given some recognition to performance, even though this is hard to see in the actual share price.

SA EAGLE

This one needs courage

Activities: Short-term insurance

Control: Eagle Star Insurance 59% Ultimate holding company is BATS Industries Plc

Chairman: C F Coates MD P T Martin

Capital structure: 12,2m ordinary Market capitalisation R523,7m

Share market: Price R43 Yields 4,7% on dividend, 6,6% on earnings, p/e ratio, 14,7, cover, 1,5 12-month high, R56, low, R43 Trading volume last quarter, 44,000 shares

Year to December 31 '91 '92 '93 '94

Total assets (Rm) 1,17 1,30 1,81 1,84

Solvency ratio (%) 92,1 94,5 117,2 120,4

Gross premium (Rm) 892 905 1021 1313

Underwriting profit (Rm) (8,8) 11,2 (4,9) (134,7)

Investment inc (Rm) 92,9 78,8 78,6 140,3

Pre-tax profit (Rm) 82,0 87,3 73,8 5,8

R&D (%) 9,4 9,4 5,7 3,2

Earnings (c) 507 500 499 293

Dividends (c) 165 195 200 200

Tangible NAV (c) 5360 5904 8216 9047

It needs a brave investor to buy shares in a company which has declared pre-tax profits down from R74m to R6m, EPS reduced by more than a third and a massive underwriting loss which is largely the result of SA's high level of crime, particularly as this shows no sign of abating.

Still, for anyone prepared to accept the risk which is an integral part of the short-term insurance industry, now could be the time to buy SA Eagle.

The share price, currently R43 trading at half NAV, has probably bottomed. It may take some time for Eagle to get its income statement back into respectable order, but you can be sure that as soon as there is
Langeberg up despite taxes

EDWARD WEST

CAPE TOWN — Cape-based food processing group Langeberg Holdings' earnings increased 13% to 17.1c (15.1c) a share in the six months to end-March after general export incentive scheme taxation took a hefty bite out of profit.

Sales volumes in core operations rose 8% as the group took advantage of improved trading locally and internationally, despite increased competition.

Turnover was 15.6% up at R429.8m. Operating income, taking discontinued operations into account, was 26% up at R40.2m.

Due to increased taxation, income was only 13% higher, at R27.3m.

Langeberg Holdings MD Ray Brown said profit growth was achieved locally as last year's rationalisation started to reach the bottom line. He said the group maintained market share on the back of its brands, Roo and All Gold.

Brown said prospects for the full year looked promising, with export realisations expected to show further improvement. Favourable local market trading was expected to continue.

"The group's strong balance sheet should contribute to continued profit growth and despite the hefty increase in tax, full year earnings should reflect the group's improved profitability," he said.
Profit up 56% for Langeberg

BY FRANCOISE BOTE

Langeberg Holdings, a member of the Tiger Cuts group, has reported a 56 percent increase in profit before tax of R42.8 million for the six months to end-March on the back of margin improvements.

Following recent reports of proposed retrenchments and general rationalisation, Ray Brown, managing director of Langeberg Holdings, said: "We are going to continue to reduce our costs because we are world competitors."

A substantial increase in taxation has, however, reduced gains to a 13 percent improvement in net profit after tax.

Taxation increased from R3.3 million for the corresponding period last year to R15.5 million as a result of GEIS being taxable from this year.

Turnover increased by 15.6 percent to R429.8 million on sales growth of 8 percent, despite another period during which selling prices showed few increases.

Earnings a share increased 13 percent to 17.1 cents.

The group has declared an interim dividend of 4.5 cents a share.

Brown added that despite the hefty increase in tax, full-year earnings should reflect the group's improved profitability.
ICS achieves 66% surge in earnings

BY CHARLOTTE MAXHAMS

Food group ICS Holdings continued the improvement evident at the September year-end by reporting a 66 percent surge in earnings in the six months to March compared with the same period last year.

The directors attributed the improvement to the sale of the loss-making Clayville dairy and a good contribution from the poultry division. However, they warned that the rate of growth in the second half of the year would be slower.

Turnover lifted by 9 percent to R1,5 billion. Excluding the effects of the disposal of Clayville dairy, it was 19 percent higher. On operating margins at 6,3 percent from 4,0 percent a year previously, operating profit was R652 million.

Gearing was steeper year on year, reflected in a rise in interest paid and a fall in interest received, but it was down from year-end to 6 percent from 22 percent. The tax rate eased to 38 percent from 42 percent.

Attributable earnings before extraordinary items were 66 percent higher at R54,9 million, and were boosted by a R1,4 million net surplus on the disposal of properties. The interim dividend was up by 50 percent to 27,0c (18,0c).

ICS MD Roy Smither said the group was "close to firing on all cylinders". Joint venture operations in general were beginning to make meaningful contributions.

Earlybird Farm, the poultry business, benefited from farming and plant efficiencies as well as improved poultry prices, but higher feed prices are expected to have a negative effect on earnings later in the year.

The dairy division did well, with a turnaround in the Cape Town fresh milk division, and the meat division moved ahead in general although tanning came under pressure. The Cold Chain, a joint venture with Foodcorp, improved but was still below expectations. Enterprise Foods had a disappointing six months, but Fedex and separately listed Sea Harvest performed well.

The DarrylMaal-Nestle joint venture had not fulfilled expectations because high capital investment was needed to secure its future markets.

Smither said although results for the second half would not show the same rate of improvement, a meaningful increase in earnings for the full year was expected.
ICS's performance beats expectations

SAMANTHA SHARPE

IMPROVED trading conditions, the fruits of earlier strategic initiatives and the sale of the loss-making Clayville dairies helped lift food group ICS Holdings' attributable income 66% to R34.97m for the six months to March.

ICS MD Roy Smither said that while the results were "ahead of expectations", ICS would be unable to sustain the strong growth. Earnings a share increased 66% to 14c, while dividends rose 56% to 7c.

"Turnover rose 9% to R1.3bn, but the elimination of the distortion caused by the sale of Clayville would have translated to an 18% increase in turnover," he said.

"The disposal of Clayville dairies had a major impact on the results, but there were good contributions from other sectors and the group is close to firing on all cylinders."

"Operating profit before interest, received soared 87% to R97.15m, with strong contributions from the poultry division and a key factor behind the improved figure."

Earlybird Farm, which operates the broiler activities, benefited from improved farming and plant efficiencies and from higher feed prices. But industry deregulation and market shortages led to higher feed prices, which were likely to have a negative impact on earnings later in the year.

Profit, after a R57.74m tax charge, rose 9% to R37.48m. A R1.4m extraordinary surplus was earned from the disposal of properties, which compared with an R2m extraordinary loss at the same time the previous year.

Smither said Sea Harvest — listed separately — also performed well, with better catches, fewer markets and increased factory efficiencies contributing to a 26% increase in earnings.

Also making good contributions were the dairy divisions, with the Cape Town fresh milk operation turning around strongly, and the meat divisions, although the tanning operations were put under pressure by raw material costs. Fodics performed well in all areas.

But while The Cold Chain showed an improvement on the previous period, its performance was below expectations. This was due to throughput shortfalls as a result of inadequate supplies of certain products.

Enterprise Foods had also had a disappointing six months, mainly because of the high cost of pork, which was imported to counter shortfalls.

Smither said the Dairy Maid-Nestle joint venture had not yet fulfilled expectations because of the high capital investment needed to secure its future markets.

He said the net debt-equity ratio was down to 6% from the 22% at year-end. "With this level of profitability and adroit asset management, the returns for shareholders are substantially better."

While there would probably be a slowdown in the rate of growth in the second half, earnings for the full year should still show a meaningful increase.
ICS close to firing on all cylinders, states MD

Getting rid of a loss-making subsidiary and increasing joint ventures improve the bottom line 60%.

By Charlotte Mathews
Investment Editor

Food group ICS Holdings continued the improvement evident at the September year end by reporting a 60% surge in earnings a share to 14.5c ($2.38c) in the six months to March compared with the same period in 1994.

The directors attributed the improvement to the sale of the loss-making Clayville dairy and a good contribution from the poultry division.

However, they warned that the rate of growth in the second half of the year would be slower.

Turnover lifted by 9% to R1.5-million. Excluding the effects of the closure of Clayville dairy it was 15% higher. Operating margins at 5.5% from 4.0% a year previously, operating profit was R96.2-million.

Gearing was steeper year on year, reflected in a rise in interest paid and a fall in interest received, but it was down from year end to 6% from 22%.

The tax rate eased to 38% from 42%.

Attributable earnings before extraordinary items were 68% better at R54.9-million, and were boosted by a R1.4-million net surplus on the disposal of properties. The interim dividend was improved by 50% to 27.0c (18.0c).

ICS MD Roy Smithen said the group is "close to firing on all cylinders". Joint venture operations in general are beginning to make meaningful contributions.

Easytour Farm, the poultry business, benefited from farm management and plant efficiencies as well as improved poultry prices, but higher feed prices are expected to have a negative impact on earnings later in the year.

The dairy division did well, with a turnaround in the Cape Town fresh milk division, and the meat division moved ahead in general although tanning came under pressure from high raw material costs.

The Cold Chain, a joint venture with Foodcorp, improved but was still below expectations because of an inadequate supply of some products.

Enterprise Foods had a disappointing six months mainly because of the high cost of pork but Fedies and separately-listed Sea Harvest performed well.

The DairyMaid-Nestle joint venture has not fulfilled expectations because high capital investment is needed to secure its future markets.

Smithen said although results for the second half will not show the same rate of improvement, a meaningful increase in earnings for the full year is expected.
Tiger Oats lifts earnings by 25%

BY CHARLOTTE MATHEWS

Stronger consumer demand, benefits from the discontinuation of unprofitable businesses and attention to under-performing operations, helped food and pharmaceutical group Tiger Oats lift earnings by 25 percent to R222.7 million in the six months to March 1995, according to figures released yesterday.

Turnover was 12 percent higher at R6.1 billion, showing volume growth of only 3 percent, but operating income grew by 17 percent to R394.5 million. This excludes the contribution from Oceana Hauling Group which is now proportionately consolidated against 1994 when it was fully consolidated as a subsidiary.

Tiger sold a 25.4 percent interest in Oceana for R64 million in the past year to a consortium of investors led by Real Africa Investments.

The interest bill dropped to R7.4 million from R28 million as gearing on the balance sheet fell to 2 percent from 26 percent. However, the tax rate rose to 35 percent from 32 percent.

On earnings a share of 14.6c (118.6c), the dividend rose to 38.5c from 31c.

A divisional breakdown showed that the food division increased its contribution to the bottom line to 67 percent from 64 percent as its profits grew by 32 percent, while profits from the pharmaceutical division grew by 16 percent and the fishing division's contribution was static after the disposal of the stake in Oceana.

Nick Dennis, the MD of Tiger Oats, said the results were ahead of expectations and were boosted by results from County Fair and Golden Lay, which were able to take advantage of the shortage of protein products in wholesaling. Spar increased market share and animal feeds and Beacon Sweets performed well. Improved trading conditions in international and domestic markets enabled Langeberg to increase earnings by 13 percent.

But wheat milling performed below expectations and maize meal milling sustained a loss again this year.
Telkom told to consider options: The telecommunications minister, Pallelo Jordan, has instructed Telkom to consider options to transform the company into a world-class, customer-driven company, including possible privatisation. Jordan said in parliament that the process of "identifying suitable opportunities for equity restructuring" was being guided by the Telkom board in liaison with himself, relevant cabinet committees and other stakeholders. No negotiations on equity restructuring were taking place yet.

Miners to mourn: All Gengold's miners will be given today off on full pay to mourn the victims of the Vatia Reels disaster last week. Memorial services will be held on all the group's mines.

Safety achievement: The Union Section at Rustenburg Platinum Mines is celebrating the achievement of 1 million death-free shifts. This is the third time the mine has achieved millionare status.

Labour Relations Bill 'this year': The minister of labour, Tito Mboweni, has told the senate that he intends to get the draft Labour Relations Bill, currently being considered by Nedlac, before parliament this year despite pressing demands on time.

COMPANIES

Tiger shows its oats: Tiger Cuts has lifted earnings by 29 percent to R222.7 million in the six months to March 1995, according to figures released yesterday. Turnover was 12 percent higher at R6.1 billion, showing volume growth of only 3 percent, but operating income grew by 17 percent to R394.5 million. On earnings a share of 148c (118.6c), the dividend rose to 38.5c from 31c. See next page.

Medi-Clinic earnings rise: Medi-Clinic Corporation reported yesterday a 34 percent improvement in attributable earnings to R39.3 million (R29.4 million) for the year ended March 1995. Turnover rose 35 percent to R385.4 million (R284.7 million). Earnings a share grew by 26 percent to 27.4c a share (21.8c) while the group declared a final dividend of 6c a share (5.05c) resulting in a higher annual dividend of 8.5c (7.25c). See next page.

Lufthansa halves losses: Deutsche Lufthansa, the parent company of the German airline, halved pre-tax losses to $26.3 million in the first quarter and said the outlook was bright except for the strength of the mark. The company also announced a dividend for last year, the first since 1989.

Sun in joint hotel venture: Southern Sun has formed a joint venture with the huge Intercontinental group to run hotels throughout Africa. From now on three hotels in the Southern Sun group — the Cape Sun, the Sandton Sun and Towers and the Beverly Hills Sun — will carry joint branding as Southern Sun-Intercontinental Hotels Africa. Intercontinental would put its nine hotels in Africa, including those in Nairobi and the Ivory Coast, into the joint venture. See next page.
Strikers arrested at factory

STRIKING Tastic Rice Corporation workers who ignored a Supreme Court restraining order were arrested today on the factory's premises.

The workers, members of the Food and Allied Workers' Union, said yesterday they would not heed the interdict obtained on Monday by management, preventing them from disrupting the company's business, as they felt the order was "unjust".

They first occupied the company's premises last Thursday after wage talks deadlocked.

The employees were demanding a nine percent increase, while management offered seven percent. After the interdict was obtained, the union shifted its demand back to 12 percent.

Yesterday, employees prevented casual workers from entering the factory and chased away an outside contractor wanting to load rice.

Union spokesman Derrick Galloway said: "We don't accept the interdict." The strikers were prepared to go to jail.

Last night police arrested a group of about 33 strikers on the premises and today the remaining 30-odd strikers were also arrested and removed.

The company recognised the strike as legal but said the striking workers had breached the terms of the long-standing recognition agreement "by occupying the company premises for four days, intimidating non-striking staff and forcibly preventing casual workers from entering the factory premises".

General manager Rob Spiller said that just as the strikers had a right to strike, management had a right to continue with the company's operation.
Shake-up helps boost Tiger Oats

Marcia Klein

FOOD and pharmaceutical group Tiger Oats backed its sluggish earnings trend of the past few years to report 26% growth in attributable income to R222.7m (R176.2m) in the six months to March.

MD Nick Dennis said the benefits of restructuring and rationalisation had started to filter through to the bottom line. Turnover was 12% higher at R6.1bn (R5.4bn), although volume growth was only 3% for the period. Operating income increased 17% to R394.5m (R337.1m), benefiting from strong consumer demand, the benefits of discontinuing unprofitable businesses and focusing on underperforming operations. Dennis said operating income would have increased 21% but for the R54m disposal of a 25.4% interest in Oceana Fishing Group to a Real Africa Investments-led consortium.

Sharply lower net interest costs reflected lower borrowings and strong operational cash flow. This saw pre-tax income rise 25% to R305.7m (R247.6m). However, a higher tax rate resulted in an 18% rise in taxed income to R255.7m (R217.3m). After associates and outside shareholders, earnings were 25% up at 146c (118c) a share. A 24% higher interim dividend of 35.5c (28c) a share was declared.

Food division Tiger Foods increased earnings 33% to contribute R150.1m or 67.4% of the bottom line. Wholesaling showed strong growth through market share gains by Spar and growth in the overall retail food sector.

The broiler and egg operations benefited from the shortage of protein products and internal restructuring, and the animal feed division and Beacon sweets reported good results. Langeberg increased earnings 13% as local and international trading conditions improved.

Wheat milling operations performed below expectations and maize milling sustained a loss for the third successive year. Dennis said it was "a tragedy" the maize industry was in such a position so soon.

Continued on Page 2

Shake-up boosts Tiger Oats

Continued from Page 1

after deregulation. Tiger believed there should be total transparency in the industry and supported calls for a maize forum. "Although the free market system was "the preferable route", it was "regrettable that its introduction has coincided with the drought", Dennis said.

Pharmaceuticals increased their earnings 16% to R62.4m or 28% of the group's bottom line. Adcock Ingram reported earnings up 15% and Logos Pharmaceuticals continued to perform well.

Oceana Fishing, now accounted for as a joint venture, increased earnings 26%.

Dennis said the balance sheet remained strong, with net gearing at only 2% against 21% in March last year. Cash available from operations improved R310m through control of working capital. Although there had been "notable improvements" in a number of divisions, management would continue to focus on companies which were still underperforming.

Further good growth in earnings was expected for the full year.
Sugar leads sweet company portents

PACIOI

bank Investec continued to charm the market. Its earnings beat analysts' forecasts, surging 84.4% in the year to end-March. It benefited from increased business volumes and higher interest earned on capital raised during the year.

Sound performances were enjoyed by all operations. For the first time, a full set of results were included from Sechold which produced profits of R42.4-million for the nine months to end March — well up on its loss of R13.8-million in 1994.

It was the Investec group's 17th consecutive year of strong earnings and asset growth. And its dividend was 30.4% higher at 150c a share.

On the engineering side, Dorbil reported a strong turnaround in the six months to end-March. Attributable earnings leapt from R504,000 to its previous interim period to R599,000.

Ahead of these results, the share price has climbed from R12.50 in July to a high of R40 this week.

Dorbil benefited from increased activity throughout the group and from the rationalisation of its contracting operations over the past few years.

Earnings a share for the six-month period of 194.5c is already far higher than the full-year figure of 51.5c for 1994. Interim dividend payments were resumed at 30c a share.

Meanwhile, healthier economic conditions appeared to be allowing people to get back in better style. Hospitals group Medi-Clime boosted earnings by 25% to 27.4c a share in the year to March on the back of higher occupancies and better-than-expected performances from some clinics.

A final dividend of 4c a share was declared, lifting the total distribution for the year, at 8.5c a share, by 17%.

Zilla Efrai
Tariff barbs spike SA's canned fruit

By CIARAN RYAN

deciduous fruit exporters face a new enemy – powerful but inefficient competitors in southern Europe.

South African fruit and canned fruit exports are one of the great success stories of recent years, but the latter have been specifically excluded from the Generalised System of Preferences (GSP) agreements conclude last year with Japan, Europe, Canada and the US. These GSP agreements allow thousands of South African products to be imported at low or no duty. Canned deciduous fruit exports, however, attract duties of 24% in Europe, compared to certain machinery which attract little or no duties and also qualify for category four GSP benefits.

GSP only partially compensates canned fruit exporters for such high duties, which are way out of line with the level of duties charged on other value-added exports.

"I am willing to bet my last dollar that in the latest free trade agreement being negotiated with South Africa, Europe will again exclude canned deciduous fruit," says Mr Brown.

"There appears to be an animosity towards exporters, particularly successful ones, because of the GSP benefits we receive. We, however, are not relying on government negotiating a trade agreement which is favourable to us. We are busy diversifying our export markets away from Europe, where better margins are attainable over time."

Europe accounts for 50% of canned deciduous fruit exports, but only 30% of gross margin.

In addition to high protective barriers, Langeberg and Autumnings European competitors are subsidised at about the cost of raw fruit for South African canners – roughly R200 a ton.

In terms of the General Agreement on Tariffs and Trade, European governments are required to shave this support by 35% over five years.

"If the South African deciduous fruit industry had been given the same grower subsidies and access to the European market as Greece, South Africa would today be the biggest exporter of this product in the world."

After Greece, South Africa is the world's largest exporter of canned deciduous fruit with annual sales of about R500-million, and Langeberg is the world's largest single exporter. The relentless rise in export volumes from South Africa has excited protectionism in many of its markets. Excessive subsidisation and high protective barriers has encouraged over-production of canned deciduous fruit in Europe, with the result that prices dropped in 1993 and 1994, although they are now beginning to recover some of these losses which were partially ameliorated by the weakening rand.

One advantage Langeberg has is variable raw material costs.

"We are preparing for the phasing out of GSP and low margins in Europe by continuously reducing costs and improving efficiencies. Our prices in the local market have increased at well below the inflation rate over the last three years, yet we were able to improve margins."
Fair value

**On the face** of it, conglomerate C G Smith has returned results entirely acceptable to an expectant market — though it has to be said these have been severely overtaken by those of former holding company Barlow (see page 106).

The principal components are Nampak (paper and packaging) and C G Smith Foods, which incorporates Tiger, one of SA’s most important food manufacturing and processing companies which, in turn, holds diverse interests in pharmaceuticals, fishing and food production.

And, by and large, these elements have produced good results in the past six months Nampak, in particular, manages repeatedly to return exceptional growth figures — this time an increase in attributables of another 30%. This sector is Smith’s most important — it produced 52% of attributable earnings.

It is in food and pharmaceuticals where Smith faces its biggest challenges. Pressed for a response about the vulnerability of Adcock Ingram to continuing severe competition, vice-chairman Robbie Williams believes threats have now largely been absorbed “Adcock,” he says, “has lived through the worst which can be thrown at it.” By implication, he sees the short-term future as comparatively stable.

No-one would say this, however, of Tiger’s fishing interests. These are threatened — or so it seems — by what are euphemistically called “community interests.” This is shorthand for demands by elements of coloured fishing populations for a share of fishing quotas which they allege were allocated originally under apartheid regulations. Tiger has tried to accommodate this by reaching a new control agreement for Oceana with black-controlled Real Africa. What happens down the line at Sea Harvest is another matter.

By contrast, Illovo Sugar produced a startling recovery based on a much improved second half of its cane-growing season. It returned an improvement of 391% in EPS and is expected to return good results for the second half.

The other side of this coin is Langeberg, the Boland canned fruit and vegetable producer Williams defends Smith’s decision to increase its equity participation: “It has really good brands which dominate the SA market.” Nevertheless, the truth is the company hasn’t met the expectations with which its listing was greeted.

None of this answers another issue which needs attention by Smith chairman Derek Cooper: is there really a continued need (if there ever was) for an intermediate pyramid on the lines of C G Smith Foods? It is 80% controlled by Smith, in turn, it holds all the food and pharmaceutical interests. In effect, it is nothing more than a dividend trap.

With Smith at R21 and on a p/e of 17, it is probably fairly valued; certainly it offers little prospect for capital growth. 

David Glasson
French caterers truck into Western Cape

ECONOMICS

Government
Restructuring cutters at food groups

HILARY JOFFE

(though they have done that too)

Tiger's Sandton head office block is 70% empty, while Premier is moving from its Killarney premises to smaller premises in Melrose.

At Tiger, Dennis retrenched 70 of 115 head office staff, opting instead to outsource support functions such as information systems, pensions and insurance, and public affairs.

"We still pay for these, but substantially less than it would cost to do them ourselves," says Dennis.

"The operating structure was not appropriate to a company like ours with ultramarginal margins," says Premier Food's chief executive, John Mansbridge.

The group has shut down its starch, textured vegetable protein and peanuts businesses.

Some benefits of rationalisation were seen in the group's recently released results for the six months to end- March. Earnings were up 25% with Tiger Foods' earnings up 32%.

Dennis attributes this to luck — but not pure luck. "The wind blew and we had our sails up," he says.

Action taken to address underperformance in the broiler business meant it was in a position to take advantage of disease problems in the industry which cut supplies and raised prices. Work began months ago in the egg business positioned it to perform well amid a market shortage.

Animal feed, Beacon Sweets (of which Tiger owns 50%) and the Spar retail chain also did well.

The costs of rationalisation were not offset by any great extent in the interim results because they were anticipated in results for financial 1994, which included a R70m write-down of Tiger Foods' assets.

Dennis says it is difficult to predict the second half of the year, with extreme uncertainty about the price of maize meal, and chicken prices falling as chickens were imported.

Premier's results for its year to end-April, due out soon, will provide evidence of severe problems in the food division, with the new regime showing only in financial 1996.

Premier Foods is now being restructured for the second time, following the failure of the first effort which then CEO Peter Wrighton said would remove R40m in costs.

The first time round the group was restructured along functional lines. Marketing, sales and distribution were run in tandem for the two major divisions — milling and baking, and grocery products.

Utan says this structure was inappropriate for a group as large and as complex as Premier Foods.

It removed authority and responsibility from the individual business units and did not have the support of trade unions or management. The wheels came off in December, he says, when the system "gunned up".

Utan moved quickly to reverse this, opting instead for a simplified and decentralised structure.

The group is now built around individual business units accountable for their own performance, with the emphasis on empowering people within each unit.

Much has been done to bring costs down but, says Utan, "we do not want to cut into the fabric of our business."

There is no intention to reduce the contribution of staples, nor are there any plans for plant closures.

Deregulation

Rather, the group sees growth opportunities in existing core businesses, and Utan's "driving ambition" is to increase food's contribution to the Premier Group.

Utan believes lack of interest by food industry leaders — and therefore poor marketing — is behind the decline in consumption of staples in recent years.

Dennis, by contrast, notes the recession may have prevented maize volumes declining further because people could not afford to switch to wheat and rice substitutes. But, he says, the market is so huge it will not fall considerably significantly "in our lifetime", although deregulation and new technology increase competition.

Staples is just one area in which Premier and Tiger are calling the market differently. Performance in coming years should tell whether their calls are correct.
COMPANIES

R8m plant chips in on excess capacity
Edward West

CAPE TOWN — The Oceana Fishing Group’s frozen chip processing plant at subsidiary Lamberts Bay Fishing Company represents the town’s first major investment in nearly 20 years, said Lamberts Bay mayor Tobie Kaizer.

The plant, which was opened this week, is part of Oceana’s strategy to use excess capacity at its fish processing plants during off-season to produce a variety of canned and frozen products.

Lamberts Bay Fishing Company GM Peter Grobler said it also enabled Oceana to spread costs at a time when fishing quotas were under pressure.

The R8m chip plant is based on a process started four years ago in St Helena Bay where the fish canning plant was used to can basic foodstuffs. Previously fish volumes only justified 80 work days a year, but the new canned products pushed plant utilisation to a double shift for the full year.

Potato chip equipment was imported from Hamm and Hak Engineering company in Holland and the plant, which is situated close to SA’s top potato growing region — the Sandveld and Ceres — was built in five months.

The first chips were introduced to the market in March and since then a number of sizeable contracts had been secured, said Grobler. Market acceptance of the group’s brand, Gold Seal, was ahead of expectations, he said.

The project’s feasibility depended on the fact that chips could be processed in tandem with lobster. Without lobster quotas, the chip plant would not be able to stand alone.

He said significant opportunities for the expansion of the plant and product lines were being considered.

Meanwhile, Western Cape economic affairs MEC Chris Nissen this week opened a small business hive in Lambert’s Bay, which is to be managed by Oceana.
Macphail as new parent
The price for 75% was a R6m coal contribution. Hanseatie keeps a 25% stake. Macphail MD Paul McNaughton says it's intended to take advantage of UK pot closures to penetrate the industrial Midlands (Manchester, Huddersfield, Leeds) from supply depots at Newport.

Finally, there's the purchase of Coalcor, the distribution company centred on Cape Town. This appealed to the grabs of analysts, who say Macphail bought Coalcor only to recoup its large debts. McNaughton confirms Coalcor owed Macphail R17.5m but says the deal involved only R24m. "That's a lot better than the R60m wanted two years ago," he says.

The indication is that 1995 EPS will be unchanged at about 5c. That will be on about 60% more issued shares and implies a rise in attributable profit to R12.2m. Real benefits from the UK and Namibian expansion will flow through only in 1996. Based on this, next year will be one in which Macphail will hope to fail. David Gleeson

NAMSEA/NAMFISH

Fritto mixo

Activities: Fish catching and processing
Control: Namibian Sea Products 38.5%
Chairman & CEO: P C Kettle
Capital structure: 31.5m ords Market capitalisation R44,1m
Share market: Price R10.40 Yields 10.7% on dividend, 12.6% on earnings, p/e ratio, 7.9, cover, 1:2, 12 month high, 140c, low, 78c Trading volume last quarter, 1.7m shares

ST debt (Rm) 2,956 6,632 7,000
LT debt (Rm) 502 5,132 7,212
Equity ratio (%) 62.7 33.0 38.7
Return on assets (%) 9.6 9.5 6.6
Net profit (Rm) 99 115 125
Turnover (Rm) 292 360 78.8
Pre-tax profit (Rm) 2,127 2,181 2,621
Pre-tax margin (%) 7.6 7.8 7.8
Earnings (Rm) 2,020 2,020 2,020
Dividends (c) 40 20 129 150
Tangible NAV (c) 612 900 912 943

* Includes 80c extraordinary dividend | Share split 10 for one

In a difficult year marked by an unexpected migration of pelagic species farther north than usual, Namibian Sea Products (Namsea)’s profitability was hit by reduced efficiencies Namibian Fishing Industries (Namfish), though had a highly satisfactory year because increased white fish quotas were caught in full.

Namsea conducts pelagic fishing through 76%-owned UFE and other subsidiaries. UFE also processes quota and nonquota fish caught by other concession holders.

In 1994 a pilchard quota of 23,734 t was issued to member companies of UFE out of a total allowable catch (TAC) of 125,000 t (1993: 115,000 t). This was caught in full and UFE also processed a further 49,352 t on behalf of other quota holders.

The problem was that because of abnormal environmental factors, fish migrated north from the traditional fishing grounds to mass around the Angolan border.

Operating conditions and greater travel distances meant that fuel bills increased. Factory costs rose because of higher turnaround times for the vessels, and substantial quantities of fish had to be rejected for canning to maintain standards. Though Namsea’s turnover rose by 33%, operating profits and thus EPS could muster only an 11% gain.

The uninvited migration has had an other (more serious) consequence. The Namibian Minister of Fisheries, in conjunction with Namibian Marine Resources, set a provisional TAC for 1995 of only 35,000 t until research provides evidence that the biomass has not been depleted. The provisional TAC has been increased but not by as much as quota holders expected, because, as chairman Peter (Paddie) Kettle says, abundant quantities of pelagic fish are again evident north and south of Walvis Bay.

Kettle is, however, seemingly unconcerned by this lower TAC. He says catches are "really good, UFE is processing substantial quantities of fish, prices of fish oil and meal are higher and if necessary we’ll catch pelicans in Angolan waters for which we have obtained appropriate licences." In a nutshell, he is upbeat about Namsea’s 1995 prospects.

He feels similarly about Namfish. Though it also has pelagic interests through its 23% of UFE, its fishing efforts are directed almost entirely to trawling for hake. In 1994 Namfish not only caught its full quota but handled a fivefold increase in volumes through the factory. The freezer trawler Garova’s operation also became profitable and contributed significantly.

Moreover, export prices were higher.

Namfish’s prospects for 1995 have not been enhanced by an increased TAC. That remains unchanged. But 100% subsidiary Northern Fishing Industries has been awarded a quota of 1,572 (1994: 750 t). The catch should therefore grow, the hake resource appears sound and plentiful and world prices continue to harden.

Nambua is a member of the Lomé Convention. Namfish therefore has enhanced trading opportunities in Europe and prospects for increased operational profits seem brighter than ever.

In April Namfish set a new high of 140c, its current price. Its p/e ratio is 7.9, and dividend yield just under 11%. If all goes according to plan, a conservative 20% earnings rise is within reach. That would put EPS at 21c and the perspective p/e at 6.7. Given the risks inherent in the industry, it’s a fair price. But the dividend yield should make the counter attractive as a yield-sweetener in any portfolio.

Namsea’s prospects are more difficult to assess but, considering Kettle’s buoyancy and the possibility that at least some of the direct costs incurred in 1994 can be avoided this year, earnings prospects also appear better below the surface.

Any investor interested in a high yield as well as capital growth should buy and hold both shares.

GERALD BROGAN

LIBERTY INVESTORS

The alternative entry

Activities: Joint holding company of the Liberty Life Group
Control: Gordon family 65%
Chairmen: D Gordon
Capital structure: 200m ords Market capitalisation R15.8bn
Share market: Price R16.75, Yields 1.9% on dividend, 3.5% on earnings, p/e ratio, 28.8, cover, 1:8, 12 month high, R18.75, low, R14.75 Trading volume last quarter 1.7m shares

Year to February 28 *92 93 94 95
Total assets (Rbn) 1,387 1,57 2,48 2,82
Investments (Rbn) 1,341 1,544 2,48 2,81
Pre-tax profit (Rbn) 689 836 103,121,010
Pro-fit margin (%) 48.7 48.7 77.5
Earnings (c) 34 43 50 88
Dividends (c) 16.5 20 25 32.4
Tangible NAV (c) 655 947 1,181 1,338

* Includes special dividend of 17.5c (September 1992) and non-recurring dividend of 30c (November 1992)

This is the vehicle through which Donald Gordon exercises joint control, with Standard Bank Investment Corp (SBIC), of the Liberty Life Liberty Investors (Libvest) holds 50% of unlisted Liblife Controlling Corp, which in turn owns 52.2% of Liberty Holdings, which holds 52.7% of the Liberty Life Association of Africa (the mamastay life assurance company).

At year-end, this 50% interest in Liblife Controlling, on the market value of its 52.2% investment in Liberty Holdings, was
says Langeberg Foods MD Ray Brown “If we had the same levels of support, we would have been able to flood the world markets — but with quality fruit.” Langeberg contributes about 30% of SA’s canned fruit production.

Brown says the effects of high EU subsidies are reflected in official world statistics for canned deciduous fruit production. Between the 1982-1983 and 1992-1993 production seasons Greek canned fruit production shot up from 10.1% to 21.6% of the global total; Spanish production grew from 3.6% to 8.3% and total European production from 26.1% to more than 40% of total global output.

SA’s production remained at virtually the same level (7.1% to 7.3%). Greece is the world’s largest canned fruit exporter, followed by SA. Together the two countries provide over 60% of global exports.

“The artificial grower subsidies in Europe have stimulated production, notwithstanding the fact that they are not able to sell all their production in Europe. And the European tariff duties on SA cans, ranging from 17% to 26%, are further protection of the inefficiencies inherent in the southern European industries,” says Brown.

UK-based Foodnews last week quoted SA Fruit and Vegetable Canners’ Association GM Terry Malone as saying: “We produce quality products directed at the premium-priced sector of the market, affording European customers a choice they would not otherwise have. We have no intention of flooding the European market with cheap products. Mediterranean canners should not fear losing their current place in this sector of the market.”

Malone says the reduction of EU tariffs would compensate for the phasing out of SA’s general export incentive scheme (Geis), which will disappear by 1997. Current Geis levels, he adds, are about 8%, not 20% as alleged by European canners.

Brown says the European deciduous fruit canning lobby is “grossly dishonest” in depicting the SA industry as the threat to the EU market. “But, while we have been trying to diversify into the more lucrative Far Eastern market (which currently takes about 30% of SA exports), this is a costly and long-term exercise and Europe remains our largest (70%) single export market.”

SA exports about 92% of its canned fruit production, “but we are not planning a major invasion of the European market.”
Tasty days for Ocfish and chips

BY AUDREY D'ANGELO

Faced with the prospect of cutting jobs for fishermen and factory workers when its anchovy quota was cut, the Oceana Fishing Group (Ocfish) invested in facilities to process vegetables in its Lamberts Bay canning plant and in a small business lure for entrepreneurs in the West Coast village.

This week its new R8 million French fry processing plant was opened officially by the chairman of the group, Don Ncube. Peter Grobler, managing director of Ocfish subsidiary Lamberts Bay Fishing Company, said the investment was a continuation of a highly successful project started at the group's St Helena Bay Fishing Industries some years ago. It was realised that the fish processing plants could be used outside the fishing season for canned and frozen vegetables.

This facilitated the creation of stable employment in a highly seasonal industry...

Ncube said the Lamberts Bay plant already had "a few sizeable contracts" for French fries. Its new Dutch-made equipment would enable it to meet the exacting standards of large international fast food chains expected to enter the South African market in the future.

The mayor of Lamberts Bay, Tobie Kazer, said this was "the first real investment we have seen in 80 years".

It was a welcome boost for the economy of this otherwise stagnant town.
Oceana opens R8 million chip processing plant

Oceana Fishing Group opened an R8 million potato chip processing plant at Lamberts Bay this week.

The venture is modelled on Oceana’s St Helena Bay Fishing Industries project, where employees in the fish processing plant work in the off season on the production of canned and frozen products.

After a feasibility study to find out which raw materials could be processed in Lamberts Bay, Oceana decided to install a French-fry plant.

State-of-the-art technology from Holland will enable the operation to meet the standards of the big international fast food chains, which are eyeing the South African market.

Lamberts Bay Fishing Company general manager Peter Grobler said the company already had a few sizeable contracts for frozen potato chips.
Manuel assurance over food dumping

The Argus, Wednesday June 7 1995

Business Staff

TRADE and Industry minister Trevor Manuel has promised a tough stance on foreign food producers dumping their products in the South African market.

Opening a sophisticated R33 million dairy processing plant in Paarl yesterday Mr Manuel said although protection on demand was as "dead as the dodo" he wished to give an assurance to the food industry.

"We will do all in our power to strengthen our ability to investigate dumping," he said.

Mr Manuel officially opened dairy products manufacturer Bonnita’s new ultra high temperature (UHT) processing, packaging and distribution plant.

He praised the company for making such a large investment which would do much to convince potential foreign investors of the opportunities the South African economy presented.

Mr Manuel, who was lifted four storeys high in a forklift inside the huge factory as part of his role in the ceremony, said foreign investors were waiting for South African businesses to demonstrate their confidence in the country’s economy.

Speaking before Mr Manuel, Bonnita chairman Gordon Utan said steps should be taken to prevent South African farmers being disadvantaged by the dumping of overseas production.

He called for a balance between production and local protection.

The factory is the country’s first fully integrated UHT processing, packaging and distribution plant.

Bonnita said it had built the factory in Cape Town because of its convenient export facilities and because the Western Cape was a major milk and fruit producing area.

The plant boasts the latest processing and filling equipment to accommodate different pack sizes.

A fully automated palletising and racking system has been installed with a capacity of 4 000 one ton pallets, facilitating easy storage and selection of filled packs and efficient stock management.

The UHT process is designed to give fresh milk and other dairy-based products, as well as 100 percent fruit juice, a longer shelf-life — about six months — without affecting their nutritional value.

Bonnita, which this week celebrated a 64 percent increase in profits after listing in August, will produce its long-life EverFresh and PureJoy 100 percent fruit juice brands there to supply local and export demand.

Saltcor tastes good growth

By Andrew D'Angelo

Saltcor, which produces about 7000 tons of salt a year, exports 20 percent of this to other African countries, the sole proprietor, Donald Brown, said yesterday.

Saltcor has moved its head office from Bellville to a new R1.5 million building on the outskirts of Stellenbosch and invested heavily in new computer technology to cope with its growing business.

Brown said in an interview that it achieved record sales last year and he predicted further strong growth.

About 40 percent of Saltcor's production goes to the agricultural sector, mainly for fodder and cattle feed. Another 40 percent goes to industry and for domestic use.

It supplies all the salt used by the West Coast fish farming industry, domestic salt to the Durban area and coarse salt to co-operatives countrywide. It exports to Malawi, Zambia, Zimbabwe and Zaire.

Saltcor also distributes salt for other producers, mainly on the export market.

Brown went into the salt business in 1975 when his father, who started a small salt pan in Namaqualand, got into financial difficulties.

"He was not good on the financial side," said Brown. "I felt I had nothing to lose by taking over."

Brown built the business up and now owns several Namaqualand salt pans, in addition to the original one, which is near Brandvlei.
Delfood hopes could be squashed by results

Marcia Klein

DEL Monte Royal Foods (Delfood), the largely European-based branded foods group, would produce another set of subdued results when it published its interim results next week, analysts said yesterday.

The share had continued to languish and there was weakness ahead of the results. Yesterday Delfood gained 5c to close at R5.55 off its R5.50 low. It was trading at R5.10 just more than a year ago.

In the year to November it reported marginally higher earnings of R20.1m (R18.5m) following poor trading conditions, low pineapple prices and a strong Kenyan shilling and Filipppine peso which affected hard currency margins.

Directors said in March that trading conditions were improving and pineapple prices firming, but the trend in exchange rates remained unclear.

They expected this financial year to be better than the last, but analysts said it was possible the group would not live up to this expectation.

One analyst said the first quarter was traditionally their worst as it followed the more buoyant pre-Christmas period. The Kenyan shilling had weakened lately, but this would not effect the interim results.

Analysts did not think the group was losing market share in Europe, but its results would reflect a generally depressed European market. The Del Monte brand had gained market share in SA, but this could have been at the expense of margins.

The weak share price reflected continued disappointment at Delfood's performance. An analyst said that with reasonable profit increases from canners like Langeberg, there seemed to be little reason to invest in Del Monte.

There had been no news on speculation about an acquisition, possibly of Swiss-based jams and fruit manufacturer Euro.
Keep an eye on the up-and-coming food groups

A great many eyes are focused on the JSE's food boards, where the action is so intense and varied as to prompt a Rugby World Cup yawn by comparison.

The Rainbow upheaval in the wake of the chicken dumping row, the many conflicting expectations over the pending Premier Group results, the jigsaw work over which company or companies Hill House is targeting and the recent emergence of the limelight of several dynamic, up-and-coming food groups which promise to challenge the giants a few years down the line, are but some of the reasons.

It is these aspects of the food sector (and more) which are piquing the interest of the full-time analysts. The embryo, emerging food companies should (if they aren't already) excite the interest of the lay investor, for it is in this category that the greatest prospective appreciation vests.

The mammoths have already experienced their glory days. Never again will their share price set the Diagonal Street boards alight. They have been confined to the archives of the security-conscious institutions who are quite happy (and rightly so, given their investment mandates) to achieve long-term growth marginally ahead of the averages.

The young pretenders, on the other hand, aspire to be tomorrow's Premier, Tiger and Foodcorp Latch on to the potential winners, stay with them, and a few years down the line you could be pleasantly surprised by the result.

I drew your attention to Choco a couple of weeks back, when the shares were at 80c. They're now at 1.30c and range, illustrating the sort of potential as some of the newcomers instructively. Choco was making its new highs at a time when competitor Rainbow was broadcasting its woes to the world.

Choco has now been rated at a point at which its ranking almost equates with the averages for the JSE's food sector, suggesting that it could have run out of steam temporarily. The time could therefore be ripe to look elsewhere in the sector at counters like Bonnita, Kolosus and Macadamia.

Premier Group subsidiary Bonnita celebrated 10 months on the JSE last week. With the second-largest dairy products company has just come off remarkably good results for the first quarter, earnings jumping to a sparkling 63 percent to 22.5c a share.

Gearing has been brought down to manageable proportions and the earnings trend is up (the interim performance was 39 percent ahead of 1995's). The directors expect the company to derive ongoing benefits from its operations.

The 11.8 percent earnings multiple is not that demanding, being well below the food sector average. It would accordingly not be surprising to see the shares attract continuing demand as Bonnita approaches interim figures which look likely to extend the historical growth trend.

Food and textile manufacturer Kolosus has enjoyed a favourable JSE debut (it was first listed on December 13 last year). The shares have added 9 percent to their issue price in a market that has been favourably impressed by the 61 percent-a-share interim earnings advance and the deal has closed since going public.

Results for the full year to May should be forthcoming shortly and earnings are on track to top the 100c mark for a projected price-earnings multiple of under seven. There is clearly considerable value in the stock, which I would expect the market to push higher following the release of the 1994-95 data.

Macadamia Bakery Supplies, South Africa's largest supplier of bakery and confectionery equipment, is not a new kid on the block (it was first listed in 1986). However, it is in the past couple of years only that the company has begun to demonstrate its mettle.

Heavily export-oriented, Macadamia has enjoyed a strong export earnings trend in the past 18 months. The 39 percent earnings multiple exceeds the group's cost credit for its achievements, which should continue to impress as local demand starts to lack in support of buoyant export earnings.
Pepsi puts millions into Simba

By Charlotte Mathews

PepsiCo Foods International (PFI), part of the same group as Pepsi-Cola International and KFC International, is investing R190 million in cash in South Africa in taking a stake in Foodcorp’s Simba snacks business, according to an announcement today.

A new R580 million company, in which Foodcorp and PFI will each have a 50 percent stake and joint management control, has been formed and will be headed by the present Simba chief executive, Koos Ferreira.

The distribution of Simba’s products will be expanded through contract distributors, which will enable Simba to penetrate new outlets in the townships.

Foodcorp chief executive Dave Kennedy said in an interview yesterday there had been a technology agreement between PFI and Simba for some years but the new agreement would give Simba greater access to PFI expertise and it would also enable Foodcorp to participate in African ventures with PFI. Thus was ruled out by the former agreement with PFI.

A number of attractive opportunities in Africa had been identified and the first of these was being investigated.

Simba, which is already selling O’Grady’s crisps and Frito corn chips under the Frito name, sold over R500 million in snacks last year. It has about 57 percent of South Africa’s snack foods market, which is highly competitive. The company has not increased its prices since late 1993, Kennedy said.

The new business and marketing plan for Simba suggested it could grow the market and possibly its market share further — PFI’s market share in the United States is about 70 percent — and it would also become more profitable as a result of improved manufacturing processes.

FPI has a wide range of products, including brands such as Doritos tortilla chips and Sun Chips, a multi-grain snack, which have never been seen in South Africa. It is also strong in manufacturing technology, agronomy, product development and quality and distribution.

Last year Pepsi-Cola International announced the South African market through a joint venture with Nestlé Beverages in which it plans to invest R300 million over five years, while KFC International and its franchise partners also declared their intention of investing R200 million in the local market over the next three years.
Urgent talks on lock-out

Staff Reporter

ABOUT 500 workers have been locked out of a Woodstock fish processing factory, and urgent talks are underway between management and trade union representatives.

The workers, all members of the South African Commercial Catering and Allied Workers' Union (Saccawu), have been suspended without pay after an illegal two-hour strike at the I&J plant yesterday.

The Congress of South African Trade Unions (Cosatu) and two of its affiliates — the Food and Allied Workers' Union (Fawu) and Saccawu — are holding urgent talks with factory management about the issue today.

Fawu has a recognition agreement with I&J, but Saccawu does not.

Saccawu's paralegal officer Zoe Holland said the crisis was exacerbated by the fact that the workforce was divided along racial lines.

Black workers were Saccawu supporters and were therefore locked out of the factory, while coloured Fawu members remained at work.

Tension arose yesterday after the dismissal of two Saccawu supporters and management's refusal to allow Saccawu to represent the workers at an appeal hearing.

Saccawu supporters downed tools and formed a picket line on company premises.

Two Fawu shop stewards who broke through the picket line were assaulted by their Saccawu peers.

An emergency meeting between union representatives and management last night failed to resolve the crisis.

Talks continue today.

Ms Holland said the company's decision to suspend workers without pay was illegal.

An I&J spokesman said the company was compiling a press release on the situation.
FOODCORP/PEPSICO 186)

Blazing the trail

Stealing a march on its competitors, Foodcorp has announced a joint venture tie-up with PepsiCo Foods International (PFI), the international snack foods division of Pepsi-Cola. The deal — which involves selling a half-stake in Simba, Foodcorp's snacks business — means PFI will inject US$55m (R190m) into SA.

Developing the snack foods market is a stated objective of at least two other major SA groupings — Premier and Hunt Leuchars & Hepburn. Both are known to be examining a range of alternatives. Now, however, Foodcorp has blurred the trail in dramatic fashion.

Effectively, Pepsi runs four major divisions: its soft drink operation (Pepsi-Cola), the US's largest snack foods business (Frito Lay), the largest international snack foods operation (PFI) and a restaurant business, which includes Kentucky Fried Chicken, Taco Bell and Pizza Hut. PepsiCo's CEO Dave Kenneally last year that it was "keen" to establish a strong presence in SA — it has developed increasingly stronger links over the past year, with Foodcorp and Simba already manufacturing Quix Packaging and Ouma Rusks, along with cash, debt and tax liabilities — at R380m. It is being injected into a joint venture which Foodcorp and PFI will share equally. There will not be a casting vote, though shareholders will rotate about every two-and-a-half years.

The joint venture provides Foodcorp with some important advantages. First, Kenneally admits that the local snack foods business has been quiescent for two years, probably because it over-priced its product. Now he wants to grow Simba at between 15%-20% a year — "and I expect earnings growth to be commensurate," he adds.

Second, operating margins are too low. Frito Lay runs at a margin of about 20% PFI Europe at about 10%. Simba at between 8%-10%. Third, Kenneally says underlying growth potential is considerable in the US, each individual consumes about 7.5 kg of snack foods a year. In the UK, about 4.5 kg, in SA less than 1 kg. Even the more affluent sector eats less than 2 kg a year.

Foodcorp has agreed with PFI that it will be included as a partner in any new operation in Africa, excluding countries on the Mediterranean littoral. Kenneally says ventures into Africa will be examined with caution. This acknowledges the cash-strapped nature of many African economies and limits the choice of countries to those which can support viable operations.

The effect of the transaction on Foodcorp is considerable. For a start, the injection of R190m cash will enable the company to pull down its gearing, probably to below 10% at year-end.

NAV is likely to increase at end-August by better than 20%, to about 1810c (last year 1497c). Earnings should reflect the benefit of reduced borrowings — but probably not until the 1996 financial year.

Not surprisingly, the deal appears to have received early market approval.

David Gilmour
Del Monte’s really bad news

Hardly had I expressed a well-founded unease, than Graham Boustred, arguably the Anglo American Corp’s champion profit producer, challenged me to choose between a parcel of Vaal Reefs and Del Monte Foods shares.

He himself clearly has no doubts, indeed, it may be said Boustred led Anglo into Del Monte because he sees the issue starkly; mines are finite per se, in the end their resource is exhausted. Growing and selling food is different — it is a perpetually renewable business.

When Anglo teamed up with Vivian Imernan to buy control of Del Monte Foods for £345m in December 1992 it was hailed as the biggest external investment ever made (since overshadowed by Gencor with Billiton and Sappi with S D Warren). Implicit were the underlying themes that big is good and if it’s outside SA it’s better.

Last year, Del Monte reported attributable profit of R210m or 61.5cps, all the indications are that when it announces this year’s Interims later this week (after the FM goes to press), the bottom line may be as much as 30% down.

Why? How could this have happened?

The answer — it seems — lies in the outwardly prickly but ostensibly innocent pineapple: Del Monte earns as much as 30% of its profit from selling canned pineapples or juice extracts. It sources its pineapples from Kenya where it owns and manages its own producing units.

However, over the last year or so, the Kenyan currency has strengthened impressively against the benchmark US$ — by as much, depending on how you do the sums, as double. Attracted by high interest rates offered by the Kenyan government on its loan stock, emerging funds managers piled in with large amounts. The Nairobi treasury was only too happy to take the donations. And one result was that the currency went into orbit — from 80 Kenyan shillings to the dollar to 40.

Fund managers rubbed their hands with glee with cause — they were enjoying large, and probably unexpected, capital profits from currency appreciation at Del Monte’s offices, however, it was all gloom.

The sums are complicated but may have resulted in converting an $8m profit last year into an $8m loss this time round. Del Monte was saved from what may have been an even worse out-turn by the price of pineapples on European markets — fortunately it rose. The end result is that the Kenyan operation probably produced a $2m profit, $6m down on last year. That translates into about 7.5cps. Alone, therefore, the sag of the Kenyan pineapple probably cost Del Monte 10% on its 1995 Interims.

Since that happened, fund managers have started taking profits. Result: the Kenyan shilling is on the fast track downhill, now at about 55 to the dollar. But it comes too late to save Del Monte’s results for this year.

If this does anything it is to highlight the danger of assuming that external businesses are axiomatically good. They aren’t. The essential elements of operations still need to be examined and pronounced healthy. And a vital area of international business clearly lies in managing currencies.

Major global companies do this every day in a hundred countries. They are forever playing and making use of the currency markets and hedging instruments. In the case of Kenya and Del Monte, however, no forward hedging instrument is available. The only possible option might have been to join the Kenyan loan stock game, buying enough to counter the currency’s wild appreciation. Unfortunately, it is easy to pronounce with the benefit of hindsight — and, anyway, it would probably have been beyond Del Monte’s resources to have laid down so much cash up front.

Investors who bought at the time of the Del Monte acquisition can hardly be ecstatic about the returns. At the beginning of 1993, the share price was R9, it peaked at R10 a year ago and is now 55c — capital depreciation of 95% in two and a half years.

Apologists for Anglo’s venture into Del Monte will be tempted to argue this is a long-term, strategic, investment and that everything will come right in the end. The only response is to quote Maynard Keynes who is reported to have agreed with the observation but then added that "in the long run, we are all dead."

The trick, surely, is to extract the optimal benefit for shareholders as soon as possible, not to argue they should wait patiently for happier days.

Labouring long

Information which reaches my finely tuned ears is that the JSE has presented broker Ed Hern, Rudolph with seven charges drawn in terms of the Exchange’s regulations.

I understand these are mixed up between charges against the firm itself and others against Ed Hern and CE Johane Biersch in their personal capacities. I have been unable to determine the nature of the charges and presumably the firm’s partners must now decide whether to lodge guilty pleas or to contest them. That will mean a tribunal headed by a retired judge.

Meanwhile, an outstanding matter is the investigation of broker Frankel Pollak which is running about six to eight weeks behind the Ed Hern process.

At least these matters are moving towards resolution of some kind — but then, after four years so they should.

David Osmian
The humble Kenyan shilling continued to haunt Del Monte Royal Foods in the six months to end-May as interim earnings plunged by 34% to R90-million from R130-million last year.

Kenya is one of the group's two pineapple growing regions for its exports to the European market (the other is the Philippines), and the 30% appreciation in the Kenyan currency during the six months has cost Del Monte dearly.

The decline in interim earnings is likely to reduce full-year profits to 70% of last year's R221-million, the company said in a statement.

By Sven Lunsche

At the November 1994 year-end Del Monte had predicted a recovery in earnings in anticipation of weaker shillings and Philippine pesos. Pineapples account for about a quarter of group earnings and operating profits.

Del Monte chief executive, Vivian Inerman, said that "in spite of economic recovery in Europe, the food sector has so far remained muted and the Kenyan shilling has, until recently, remained exceptionally strong."

The group's interim turnover was up by 3.7% to R762.3-million, boosted by the weaker rand, but operating earnings fell by R23.5-million to R57-million.

Mr Inerman said the reduced General Export Incentive Scheme rate from 19% to 15% also had an adverse impact on earnings. Del Monte, jointly controlled by American and the Inerman family, declared a 25% reduced interim dividend of 6c a share.

Del Monte's chief operating officer, Enrico Sola, was optimistic about the remainder of the year. "Supply and demand of pineapple and dried fruit appears to be back in balance. With selling prices now much firmer the group expects to operate at full capacity this year."

Mr Sola said Del Monte had, in the last two months, launched a fruit-based drink in Italy and a freshly squeezed juice in Britain.

Mr Inerman said Del Monte's local subsidiary, Royal Beech Nut, was in negotiations with an international food group to form a strategic partnership and "enhance the company's competitiveness in the confectionery sector."
Currency knocks Del Monte

Marcia Klein (186)

DEL Monte Royal Foods (Delfood) dropped attributable earnings by a third to R60.1m (R90.1m) in the six months to June 2 as it continued to be plagued by a strong Kenyan shilling and low pineapple prices.

Chairman and CEO Vivian Imerman said earnings reflected the effect on pineapple margins of the unprecedented strength of the Kenyan shilling and the fact that the food sector remained depressed in spite of economic recovery. Results were affected further by a strong Philippine peso and the reduction in the general export incentive scheme (GEIS).

Sales volumes were static and market shares were maintained, and the 27% rise in turnover to R763.4m (R701.1m) was largely due to the weaker rand.

The 30% appreciation of the Kenyan shilling saw operating income fall 21.3% to R97.2m from R116.8m previously. The GEIS reduction was partially offset by the

Continued on Page 2

Del Monte (186) B0 26/6/95

Continued from Page 1

rand's depreciation.

Delfood held back on pineapple deliveries rather than accept poor prices. This led to an increase in working capital and the interest bill rose 14.3% to R31.9m (R27.9m), causing pre-tax income to decline by a third to R55.2m (R82.3m).

The drop in attributable earnings of its Philippine associate to R6.4m (R9.2m) reflected a stronger Philippine peso and a backlog of contracts at low prices.

Earnings were 32.7% down at 17.7c (26.5c) a share, and a 29.4% lower interim dividend of 6c (9.5c) a share was declared.

Subsidiary Royal Beech-Nut reported 14% higher turnover on the back of higher sales volumes and marginally improved prices of some products. Operating results were well ahead of the previous year.

Royal Beech-Nut was negotiating with an international food group for a partnership which would enhance its position in local and export confectionery.

Chief operating officer Enrico Sola said supply and demand of pineapple and deciduous fruits were back in balance, and possible shortages had been forecast for the year's end. As a result, selling prices had recently firmed. The growth of discounters and private label products had reached a plateau.

The traditional seasonal improvement in earnings was expected in the second half, and full year earnings were expected to be 70% of those of financial 1994.

Imerman said that in financial 1995, Delfood would benefit fully from a normal exchange rate structure, would have a full year of higher pineapple prices and lower production costs arising from a restructuring of its operations.

Delfood planned to merge its two production facilities in Italy, install canning facilities in Greece, Kenya and possibly SA and a plastic bottling line in Italy.

It was previously speculated that Delfood was negotiating to buy Swiss-based jam manufacturer Hero for £500m. Imerman said regional acquisitions were rather being considered.

Delfood's acquisition strategy would be focused on fruit-based beverages and would be aimed at addressing the cyclicality of the group's business.
Working women face worse discrimination

Renee Grawitzky

The increasing participation of women in the economy and the labour market has been accompanied by an increase in discrimination and inequality, says the International Labour Organisation.

The publication of the organisation's publication, World of Work, said: "The feminisation of employment has not been accompanied by improvement in the quality of employment." Women workers continued to be discriminated against in areas such as pay, with women receiving 70-80% of the rates of pay of men in the industrialised world.

Jobs dominated by women had traditionally been characterised by low status and remuneration.

Despite growing inequality in the workplace, however, there was an increased awareness by some governments of the need for gender equality. A growing number of countries were adopting wage equity and affirmative action measures to accelerate women's entry into leadership and managerial positions, the report said.

The organisation said most women workers worldwide continued to be concentrated in clerical, services, sales and middle-level professional occupations.

In SA the status of women at work does not appear to be a matter of concern to most employers if one analyses employment practices. For example, the main thrust of affirmative action as interpreted by companies has been on racial lines, and disregards gender. This is not in accordance with the reconstruction and development programme, which specifies that affirmative action should apply to both blacks and women.

A map survey of a number of women in middle to senior management positions in a cross section of organisations revealed that some experienced overt discrimination such as inequality in wages while others experienced a more subtle and intangible form of discrimination. "We could take the form of being constantly reminded of women's other roles - as mothers and homemakers as opposed to career women."

Some women perceived that women's opinions were not given the same credence as men's in the same or similar positions and that women from middle-management level and below found it more difficult accepting women's views.

One woman said, "Women bring it up themselves in certain respects. They are not used to the constant fear of having to prove themselves and they try to overcompensate for being women."

Others said that management was quite happy to let women remain in more junior positions even though they were performing more senior functions. "When confronted, management either said women were not ready, even though they had performed the task for extended periods, or that they should be happy as they were affirmative action placements."

Comments by all the women interviewed indicated that they felt the "old boys' club" was alive and well.

Fawu considers creating umbrella industry forum

Renee Grawitzky

The Food and Allied Workers' Union (Fawu) is contemplating establishing a national industry forum in the food sector, with 13 sectoral forums falling under the main body.

The national forum would consider broad policy issues such as education, training and industrial restructuring with the aim of becoming competitive worldwide. The sectoral forums would negotiate wages and conditions of employment.

Fawu's Valorie Pianagan said the forum would cover sectors such as sugar, dairy, fishing and baking.

She said initially the union would pursue its objectives in those sectors where it was strongest and able to achieve its goals.

Pianagan said initial discussions had taken place between the union and the Chamber of Baking which represented baking employers.

She said the union wanted to establish an industrial council in the baking sector, but was trying to "achieve understanding and support of both employers and workers. She said part of the delay was that both parties were reluctant about how the structure would operate and the subsequent effect on their lives."

The Chamber of Baking's executive director, Nick Alberts, said the chamber was prepared to discuss the formation of a sector forum.

Alberts said, however, that "we are concerned about the wisdom of such a move at this stage in the development of the industry where we are trying to preserve jobs and keep some marginal bakeries viable."

He said the industry was dominated by six companies with approximately 3 000 small independent bakeries who would have to be accommodated.

Alberts said even within the "big six", "some groups bargain as company level, others at regional level and some are totally decentralised."

Western Cape leads boom in tourism

Theo Rawana

SA's tourism industry is well on its way to recovery, figures released by the Central Statistical Service (CSS) show.

The number of overnight visitors to SA rose from 11,578 000 in April this year to 11,873 000 in the same month last year, the CSS said.

The most visited province was the Western Cape which attracted 38% of the visitors. The total number of bed nights sold to foreign tourists in April was 2 073 603, 117% above the figure for April 1994. Asian tourists accounted for the greatest increase in market share, according to the CSS.
DELMONTE ROYAL FOODS

Demands long horizons

PM 30/6/95

Right on cue and just as the PM predicted, Del Monte Royal Foods, the operating company in the pyramid, produced interim earnings a third lower than last year's.

Earnings of R60m compare with 1994's R90m and the EPS are 17.7c. CE Vivian Inerman puts a brave face on it but the truth is that it's a dismal showing. To be fair, much of the underlying cause as probably beyond the control of management. As they plaintively put it, who could have foreseen the unparalleled strength of the Kenyan shilling over the past year?

That currency is now in retreat but it doesn't signal the end of the problems. Del Monte has a few others in its bottom drawer. First, there's the withdrawal of general export incentive scheme bonuses as a consequence largely of SA's accession to the Uruguay Round of Gatt (now World Trade Organisation). It looks as though this will offset relief from the vexation of the

Kenyans currency

Second is the critical area of timing. Pinapples are Del Monte's main source of earnings and they are experiencing a price resurgence, especially in Europe. Unfortunately, Del Monte can't take full advantage because it is tied by contracts to some degree. And the cycle is expected to be comparatively short-lived.

The vicissitudes which have beset this group since it was bought by Anglo and the Inerman family are becoming the stuff of legend. It is no longer for short- or medium-term holders. This is a stock for investors with distant horizons and time on their hands.

David Cloete
Nestlé depots hit by go-slow

Workers at a number of Nestlé depots and factories nationwide employed "go slow" tactics yesterday in solidarity with workers involved in a dispute with management at a factory in Mossel Bay.

The dispute — which has led to management calling a restraining order on workers here after claims of sabotage — comes in the wake of talks between management and the Food and Allied Workers' Union over centralised bargaining.

Nestle's corporate affairs manager Mr. David Upshon said yesterday the firm would keep to a "no work, no pay" policy until the matter is resolved.

However, workers have objected to this, claiming they have been effectively barred from returning to work. — Staff Reporter
Western Cape businesses affiliated to the wine and fruit industry are booming, with some suppliers reporting a doubling in demand over the past year, and the trend is expected to continue.

In line with the increases in both domestic and export demand for local produce, suppliers of bottling, labelling and packaging equipment said at the Wine Farmers and Fruit Growers Exhibition held in Cape Town this week that considerable investment was being made in local industry.

Peter Peck, managing director of C de Solla Agencies, said: “Overseas suppliers are more inclined to give back-up now that we are moving greater volumes of machinery.”

On average, suppliers reported that orders had increased by between 35 and 50 percent over the past year, with some reporting increases of over 100 percent.

“This is largely because of the big increase in the demand for quality wine from pressing,” he said.

Demand for other equipment in the wine industry, specifically bottling and labelling equipment, has also increased.

Frank Mason, sales and marketing manager of KHS Manufacturing, specialists in the bottling and packaging market, said that the increase in demand was largely from businesses that had put projects off shortly before the election and had now decided to continue with these plans.

Investment in the fruit farming and processing industries has followed suit with local equipment suppliers also reporting an increase in orders of 40 percent, but saying that the strongest growth in the market is still to come.

A packaging manufacturer said he expected even bigger increases in demand within about three years.
Food sector shares remain unappetising to investors

Marcia Klein

DROUGHT conditions, problems in the maize and broiler industries, the effects of higher interest rates on consumer spending and poor results from certain food companies have seen investors lose their appetite for food sector shares.

The index, at a significant premium to the industrial index some two years ago, is now at a discount. It closed yesterday at 7 139, down from 7 320 a year ago.

An analyst said the sharp decline in recent months — from a level of close to 7 800 in April — was partly due to the weak performance of certain stocks, notably Premier Group.

Another analyst said many food stocks had been affected by the drought, and some were perceived to be risky, particularly those with large exposures to the broiler, maize and sugar industries. It was not clear if the decline in the index was a structural rerating or an indication that the shares were undervalued and that a rerating was on the cards.

Many portfolio managers were moving out of cyclical stocks which were becoming fully valued, and this should see the beginning of renewed interest in the food sector.

Although there had been an uptick in the economy, there were concerns about the effect of higher interest rates on consumer spending.

Premier Group, a major index constituent, closed yesterday at 460c, 8c below last month's low of 468c and well off its August high of 570c.

It recently reported 14% lower earnings for the year to April following problems in its core food division and United Pharmaceutical. It also indicated it would require about R700m to reduce its debt burden.

Other shares in the sector which have performed poorly were Hunt Leechars & Hepburn (HL & H), Rainbow Chicken and Del Monte Royal Foods (Delfood).

HL & H closed at its low of 97c after dropping from its high of R1.7 reached a year ago. Rainbow has declined similarly, closing yesterday at 230c, just off its June low of 210c and well off its July 1994 high of 380c.

Delfood closed at its 42c low from an August high of 80c after poor results and uncertainty about near-term earnings prospects.

Analysts said there was recovery potential in HL & H, but stockbrokers were recommending investors to steer clear of Rainbow whose results could reflect the effect of cheap imports.

In the past, Rainbow and Delfood could have bottomed out, but there appeared to be no rush to buy as they were expected to remain depressed in the short term.

Tiger Oats, which rose from a September low of R20 to close yesterday at R32.75, had found some favour in the market as it was perceived to have good brands and was more exposed to the value-added market than some of its competitors.

An analyst said it had top brand names, a good spread of business and had shown some success at restructuring and rationalising the business.

Analysts said Malhak subsidiary Foodcorp, which beat expectations to report a 18.5% increase in earnings in the six months to February and which recently clinched a joint venture deal with PepsiCo, was undervalued.

The share has shown some strength recently, rising from a March low of R25.25 to close yesterday at R34.50, close to its December high of R35.

One analyst said the recently announced Simba joint venture with PepsiCo was seen as a good deal.

Analysts believed there was also upward potential in Tongaat-Hulett, which finished yesterday at R44 from a November high of R52 and a February low of R36. One said it was a diversified group, all of its businesses were lean and most were the lowest cost operators in their sectors.
More quizzed over NSB death

By Joshua Raboroko

Police will this week question several Pretoria businessmen in connection with the killing of National Sotho Breweries Group executive Mr. Khotsotholetso Mmabikwe.

Mmabikwe was involved in business transactions amounting to more than R500,000 with two Indian businessmen from Pretoria at NSB's Jabula Foods in Springs, before he was shot dead in his Fairland home on June 7.

This was confirmed yesterday by Captain Francina Kalp, who said they wanted to do ballistic tests on the guns of the Pretoria businessmen.

Police said they had been unable to do tests on the firearms of the NSB client's Mr. Motloua Mahasele's son-in-law, Mr. Sipho Ndzeki, who apparently sold them his gun. But they said they were "still there"

"Police also want to know what happened to the R500,000 that two representatives of the businessmen, Mr. Shafted Adams and Mr. Shabina "Mohammed", reportedly paid to Ndzeki for food products bought from Jabula Foods.

Ndzeki, who has been seen in the company of the two businessmen in the past, denies receiving the money. Police say they will also probe Ndzeki's connection with the businessman.

According to NSB group finance executive Mr. Chris Venter, the best-

Muslims march over Bosnia

APPLYING PRESSURE...Top journalists Don Matthews and Aimee Alhawawy (standing) lead about 2,000 placard-carrying marchers delivering a memorandum to the American Consulate in Johannesburg on Friday. The Bosnian crisis protest march was organised by the Muslim Students Association, demanding that the United Nations should bring an end to the genocide in Bosnia. (Photos: Pat Sebowo)
Cadsweep gets taste of sweet success
Marcia Klein

STRONG consumer demand for its soft drink and confectionery products and market share gains in a competitive market saw Cadbury Schweppes (Cadsweep) savour earnings 25% up at 121.1c (96.7c) a share in the six months to June.

Turnover rose 21% to R462.4m (R385.9m) as a surge in its domestic confectionery and soft drink sales was partially offset by lower export sales.

CE Peter Bester said export sales to Russia were affected by a collapse in the currency, volatile market conditions and increased competition from other companies coming into that market.

He said the "an improvement in operating profit to R472.2m (R335.3m) "was driven by higher volumes while margins held steady in the face of strong competition".

Lower average borrowings resulted in a continued reduction in financing costs to R3m (R4.1m), enabling Cadsweep to lift pre-tax profit 33% to R38.4m (R28.6m). But a higher effective tax rate saw taxed profit increase 26% to R28.4m (R22.2m).

After a 25% rise in earnings from associate Amalgamated Beverage Industries, attributable profit was 27% ahead at R45.5m (R34.6m). A 30% higher interim dividend of 24c (20c) a share was declared.

Bester said the group had achieved a "good solid result" in line with expectations and had gained market share in its soft drink and confectionery markets. "Our experience has shown us that as the economy starts to pick up, these are the first...

Continued on Page 2

Cadsweep
Continued from Page 1

Cadsweep's carbonated soft drink volumes were well up on the previous year's, while concentrated soft drink volumes also increased, but to a lesser extent. Sugar confectionery volumes were buoyant and chocolate volumes were modestly higher.

Bester said competition in the carbonated soft drink market had intensified, but Cadsweep had increased market share. In the confectionery market, competition had fallen back and the Mars group's effect on the market was negligible.

Cadsweep planned to expand capacity in anticipation of growing markets, particularly confectionery. He expected buoyant trading conditions and improved domestic demand to continue in the second half. However, export sales to Russia would be lower than in the corresponding period last year. The group would report satisfactory real growth in earnings at year-end, but probably not at the same level as at the interim stage. In the medium term, growth in demand would gather momentum as the economy strengthened.
Domestic demand feeds Cadbury Schweppes profit

BY CHARLOTTE MATHEWS

Stronger consumer demand lifted attributable profit at food and beverage group Cadbury Schweppes (South Africa) by 26.7 percent to R339 million in the six months to June 17 compared with the same period last year.

Turnover grew by 25.3 percent to R462.4 million, reflecting good domestic sales volumes but lower export sales.

One of the group's successful product launches on the local market has been Astro chocolate sweets, and it is struggling to keep up with demand, said John Buchanan, group finance director.

Export sales were lower, mainly because the Russian market was hit by the collapse of the rouble and increased competition.

The group's bottom line benefited from a drop in finance costs and the 28 percent tax rate, which though still light, was above last year's owing to lower exports and the taxability of export benefits.

Dividend income and equity accounted earnings from Amalgamated Beverage Industries, in which Cadbury Schweppes has a 19 percent share, rose 24.8 percent to R15.5 million.

On earnings 25.2 percent higher at 121.1c (96.7c) a share, the dividend was increased by 20 percent to 24c from 20c. The lesser increase in the dividend partly reflected traditional policy (usually more than 50 percent of earnings is made in the second half), and partly directors' caution on the second half.

The directors said prevailing trading conditions were expected to continue for the rest of the year, which would favour domestic demand. They expected growth in this area to gain momentum as the economy strengthened over the next few years.

However, export sales to Russia are likely to be significantly lower than in the second half of last year. As a result, real earnings growth for the full year is forecast to be satisfactory, but not at the same pace as in the first half.
Domestic demand boosts Cadbury

BY CHARLOTTE MATTHEWS
INVESTMENT EDITOR

Stronger consumer demand lifted attributable profit at food and beverage group Cadbury Schweppes (South Africa) by 26.7% to R43.9 million in the six months to June 17 compared with the same period last year.

Turnover grew by 25.3% to R482.4 million, reflecting good domestic sales volumes but lower export sales.

One of the group's successful product launches on the local market has been Astro chocolate sweets, and it is struggling to keep up with demand, said John Buchanan, group finance director.

Export sales were lower, mainly because the Russian market was hit by the collapse of the rouble and increased competition.

The group's bottom line benefited from a 25% drop in finance costs and the 25% tax rate, which though still light, was above last year's owing to lower exports and the taxability of export benefits.

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NSB goods rot in store

By Mongadi Mafata

FOODSTUFFS worth more than R300 000, mysteriously removed from National Sorghum Breweries subsidiary Jabula Foods, are rotting in a warehouse in Springs.

The consignment was removed from Jabula Foods' Springs factory weeks before the murder of group executive Mr Khathutshelo Mutshekewane.

The goods have been stashed for about five weeks in the warehouse of Van Heerden Transport, whose managing director, Mr Mike van Heerden, is demanding R40 000 before releasing them.

Workers at the transport company told Sowetan yesterday that worms had started infesting some of the bags containing dried mance and soup powder. Van Heerden said that he did not know how to dispose of the rotting foodstuffs.

Van Heerden said he had tried to seek help from NSB with a view to resolving the matter but had not been successful.

"I called NSB executive chairman Professor Mshale Mahanyele and the group's finance executive, Mr Chris Venter, but they could not help me," the businessman said.

Van Heerden said he removed the foodstuffs on June 13 from the Jabula Foods factory at the instruction of an Indian businessman, a Mr Naucker, who claimed he had paid for the goods. He was to have ferried the foodstuffs to Johannesburg.

"However, there was a sudden switch in destination and the first and second consignments were eventually delivered in Pretoria on June 13 and 14," he said.

He said on June 15 Mutshekewane and a man who introduced himself as NSB chief of security arrived at Jabula Foods and stopped his workers from loading the third consignment on the trucks.

Mutshekewane told the Van Heerden crew that the goods were stolen."That's when my brother smelled a rat and we decided to reroute all the trucks to our warehouse immediately." He called Naucker to demand payment and was referred to a Mr Shaik, an agent of Sadasan Trading, who promised to settle the R16 300 transport bill.

After several attempts to get his money, the businessman said, he was insulted by Mahanyele's son, Mr Sipho Ndzeke, in the presence of the two Indian businessmen.

The businessman has already contacted the local police.

He said Mutshekewane visited his business just before he was gunned down on July 7 and asked for a detailed inventory of the foodstuffs in his possession. Mutshekewane had an appointment to meet police over the matter when he was shot dead at his home in Fairland, Johannesburg.

"Apparently the investigation came to a halt after he (Mutshekewane) was killed," the businessman said. The Pretoria businessmen refused to comment yesterday.

Van Heerden and NSB public relations officer Mr Bokako Teflo were not available for comment.

Jabula Foods was closed down after it showed losses of approximately R17 million.
Del Monte buys Confruit

JOHANNESBURG — Del Monte Royal Foods announced yesterday that its wholly-owned offshore subsidiary, Del Monte Group, had purchased the entire issued share capital of an Italian fruit juice company, Confruit SPA for an amount of 26-billion Italian Lire (R150-million) from the Bucci Group in Italy.
Del Monte in R59m buy-out

By JULIE WALKER

Del Monte Royal Foods' offshore group Del Monte Group announced on Friday it had bought Confruit SPA, Italy's leading manufacturer of fruit juices, for 26-billion lire (R350-million).

Approval has been obtained from the SA Reserve Bank although the deal will be financed entirely by way of Del Monte Group's offshore financing facilities without recourse to South Africa.

Del Monte itself is one of the leading brands of fruit products in Europe and elsewhere. Confruit is one of the most efficient and lowest-cost producers of fruit drinks such as nectars and 100% fruit juice. Turnover at the enlarged Del Monte-Confruit operations will more than double, making it the top supplier of nectars and the second or third largest in other fruit drinks.

Confruit has operated for 30 years from Faenza, and produces 3-million bottles and cartons of juice daily.

Vivian Imerman, chairman of Del Monte, says margins are notably higher in certain sectors of the European fruit-juice market and prospects are good.

Del Monte was bought by Mr Imerman's company Royal Beech-Nut three years ago when Anglo American became a major shareholder. Del Monte has been a disappointment so far.

The share price has fallen by about half since Anglo came aboard. Delfood dropped to as low as R4 a fortnight ago from 925c last August before picking up 30c last week.

Its interim earnings were down by a third to 17,7c a share and the management expects the same for the full 12 months.
Del Monte pays R59m for Italian juice company

Staff Writer

Del Monte Royal Foods (Delfood), in the Anglo-American stable, has bought Italian fruit juice company Confrut SPA for R59 million from the Bucci Group, it said in a statement at the weekend.

The acquisition, which is being made through Delfood’s offshore subsidiary Del Monte Group, will be financed from offshore facilities, Del Monte said.

The company said the acquisition would have no immediate effect on the earnings, dividend distributions or net asset value of Delfood or its holding companies, but in the medium term, production and marketing synergies were expected to hold substantial benefits.

The chairman of Del Monte, Vivian Imerman, said Delfood had taken a strategic decision to focus on the fruit beverage sector of the market.

According to a company statement, Confrut has operated in Italy since the early 1960s and has built up a nectars, fruit juice and fruit-based drinks business.

Confrut is a low-cost producer that has developed its own processing technology and produces about 3 million bottles and cartons of drinks a day.
Ocfish may chip in with McDonald’s

BY PETER GALLE
FEATURES EDITOR

Market talk is that the Ocean Fishing Group (Ocfish) has been awarded the lucrative contract to supply McDonald’s local franchises with frozen potato crisps when the American fast food company enters South Africa later this year.

Informed sources said Ocfish’s new R8 million frozen chip processing plant — which opened in June — at subsidiary Lamberts Bay Fishing Company, had been awarded the contract.

Dave Behrens, the managing director of Ocfish, yesterday confirmed that it had submitted a proposal to McDonald’s, and that it had been talking to representatives from McDonald’s who are in South Africa at the moment. But he declined to comment on whether it had been awarded the contract.

“Yes, we have been talking to McDonald’s and, yes, we did submit a proposal to them, but so did several other firms. I am unable to comment on whether we have been awarded the supply contract or not. You need to talk to McDonald’s about that,” he said.

A spokesman for McDonald’s would not disclose its planned future supplier, saying details would be publicised this month.

Ocfish began producing crisps at the Lamberts Bay operation in March as part of its strategy to use excess capacity at its fish processing plants during the off-season.

When the plant was opened, Peter Grebler, the general manager of Lamberts Bay Fishing Company, said a number of sizeable contracts had been secured for its frozen crisps and that significant opportunities were being considered.

It is believed McDonald’s wants to establish its first South African outlet before the end of the year and has been searching for black franchisees. But the timeline depends on this month’s court fight to defend attempts to have a trademark expunged from the register because of non-use.

The case is expected to establish a trademark protection precedent for international players after South Africa’s recent blacklisting by the United States for violation of intellectual property rights.
Will it be MacChips from Ocifish?

BY PETER GALLU
FEATURES EDITOR

Market talk is that the Oceana Fishing Group (Ocifish) has been awarded the lucrative contract to supply McDonald’s local franchisees with frozen chips when the US burger giant enters the country later this year.

Informed sources said Ocifish’s new R8-million frozen chip processing plant at subsidiary Lamberts Bay Fishing Company, had been awarded the contract.

Ocifish’s managing director, Dave Behrens yesterday confirmed that it had submitted a proposal to McDonald’s, and that it had been talking to representatives – who are in the country at the moment. But he declined to comment on whether it had been awarded the contract to supply the hamburger chain with frozen chips.

“Yeah, we have been talking to McDonald’s and yes, we did submit a proposal to them, but so did several other firms. I am unable to comment on whether we have been awarded the supply contract or not. You need to talk to McDonald’s about that.”

A McDonald’s spokesman would not disclose who its suppliers were going to be, saying full details would be made public later this month.

Ocifish first started producing chips at the Lamberts Bay operation in March as part of its strategy to use excess capacity at its fish processing plants during off-season. When the plant was opened, Lamberts Bay Fishing Company GM Peter Grobler said a number of sizeable contracts had been secured.

McDonald’s, which has been trying to find suitable black franchisees, is believed to be hoping to have its first local operation up and running before the end of the year.

But that depends on this month’s court fight to defend attempts to have its trademark expunged from the local register because of non-use. McDonald’s registered its trademark in South Africa long ago, but has never used it.

The case is expected to establish what trademark protection international players can expect locally, which has become a serious issue following the US government’s recent blacklisting of South Africa as a country where intellectual property violations have taken place.
CADBURY SCHWEPPES

**Turn up the heat**

(182) 158/95

After another set of pleasing interim results, Cadbury Schweppes (Cadswep) management is looking forward to a hot summer — in more ways than one. Most earnings are generated in the second half and the weather plays a large role in cool drink consumption.

Turnover in the 24 weeks to June 17 rose 25,3% to R462m and operating profit jumped 25,9%. The long-heralded increase in the tax rate, spurred mainly by the removal of export incentives, chipped away at pre-tax profit, but the 24% increase in dividend and associate company earnings lifted attributable profit by 26,7% to R43,9m.

Finance director John Buchanan says: "Strong consumer demand has been one of the main drivers, compared with this period last year. Economic momentum that built up in the last quarter of 1994 has carried through. We are pleased with the results."

The confectionary and cool drink markets, squeezed during the recession, increased as domestic disposable income and volumes rose, though price increases were largely below the inflation rate, keeping the operating margin steady at just above 9%.

Confectionery purchases drop when the economy turns down, but rise more rapidly once things pick up again, says Buchanan. Over the last ten years, there has been a good correlation between market surges and increased demand for the group’s products.

Buchanan expects domestic demand to

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**REFRESHING SIGHT**

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110 • FINANCIAL MAIL • AUGUST 4 • 1995
Wildcat Saldanha strike cripples giant cannery

Staff Reporter

AN illegal strike by 500 fishermen has crippled operations at Sea Harvest in Saldanha Bay, one of the largest fresh fish processing factories in the southern hemisphere.

Managing director Louis Penzhorn said today all of the company's 18 trawlers were confined to harbour, forcing the fresh fish processing factory to close.

The closure left about 1,000 fresh fish factory employees with nothing to do, but the frozen fish processing division was still operational today.

The dispute centres on the allowance paid to fishermen for each ton of fish caught.

The company has already agreed to the fishermen's wage demand of R50 a day but has offered an extra R3 a ton of fish caught, while most fishermen want R5.

For some categories of workers, the difference between the demand and offer was R4 a ton.

"Unfortunately we have had a high degree of intimidation," said Mr Penzhorn.

He said he would address a meeting of all workers tomorrow and attempt to resolve the crisis.

General secretary of the Trawler and Linefishers' Union Norman Daniels said although the union could not endorse an illegal strike, it was still representing workers in their negotiations with the company.

He said Sea Harvest was "the best payer in the industry", but conditions of employment for sea-going employees were "very harsh".

Mr Daniels said he would be at Mr Penzhorn's meeting with the workers tomorrow.

Some 2,000 workers downed tools at Continental China's Blackheath factory today over a dispute with management, workers said.

General manager Gordon Bell confirmed a work stoppage was in progress.
Sea Harvest and fishing union talks in stalemate

BY FRANCOIS ROBERT

The two-week old strike which has brought the Sea Harvest factory at Saldanha to a standstill is set to cost the company a substantial amount in lost production, and "the longer it continues, the worse it is going to be", said Norman Daniels, general secretary of the Trawler and Linefishers' Union.

Daniels said yesterday that the strike had reached a stalemate. The disagreement between workers, supported by the union, and the company stems from workers' demands for an increase that "now exceeds 50 percent" said Louis Penzhorn, the managing director of Sea Harvest.

According to Penzhorn, the company has increased its offer to 21 percent.

"At those levels, we will have some of the best paid workers in the industry," he said.

According to Daniels, there has been a move by management to meet the demands, but it is not sufficient. "Both sides will have to go in and negotiate, but I do not know if they are prepared to do so right now," said Daniels.

The company also posted notices yesterday warning workers that if they did not arrive for work, they would be dismissed.

Dismissing rumours that the strike could damage profit for the second half of the year, Penzhorn said, "I think it is too early to start speculating about that, especially if the strike ends in a day or two."

The Saldanha plant, which was responsible for 90 percent of the company's fish processing, was ahead of its annual quota at the beginning of the strike.

"We have the rest of the year to catch up two weeks fishing," Penzhorn said.

"But, there is no indication as to whether the current bargaining will be resolved in the next few days."

Penzhorn said that he thought the company had been close to ending the dispute yesterday afternoon, but admitted that it was no longer certain of that. Sea Harvest, a member of the CG Smith group, which reported a 26 percent increase in profit for the six months ending in March, had expected that good winter catches would boost earnings growth in the second half.
Union slams brokers

DURBAN: Up to 35% of workers here are employed without basic worker benefits by labour brokers, the Azanian Workers' Union said yesterday.

Union secretary Mr Patrick Msuza said the union planned to agitate against brokers to ensure the brokering system did not erode workers' rights.

Workers will not be paid

WORKERS at the Sea Harvest factory at Saldanha will not be paid on Friday.

Most of them are process workers and have been out of work since last week because of the strike by farm workers and the fishermen.

Management has offered the workers options for loans or leave while the fishermen are on strike.

The proposal has been rejected by the Food and Allied Workers' Union as the strike is not responsible for the strike.

Staff clash at hospital

JOHANNESBURG: Tension ran high at Kalafong Hospital in Mamelodi yesterday when members of the Hospital Personnel Association of South Africa clashed with rivals from the National Education, Health and Allied Workers' Union.

Only the intensive care unit was operational and patients not needing emergency treatment were sent away.

Council staff plan next step

SHOP stewards representing 14,000 municipal workers in the Western Cape were due to meet at the South African Municipal Workers' Union regional office in Athlone last night to decide whether to resume their strike, as mediation had failed.

Samwu regional secretary Mr Stanley Ysaka said shop stewards would present mandates from their structures at the meeting.

He expected the meeting would result in a “programme of action.” — Municipal Reporter
Strike closes fish factory

PRODUCTION at the Sea Harvest factory at Saldanha came to a halt yesterday as a fishermen's strike entered its 16th day. Police intensified their presence at the factory amid allegations of intimidation and damage to property.
Sea Harvest
istrike ends

(18L182)

The strike at the Sea Harvest facto-
ry in Saldanha Bay has ended after
an agreement was reached on Fri-
day night between the fishermen
and management.
The strikers demanded a 50% in-
crease, but finally settled for 28% 
after striking for 18 days.

CT 21/8/1995
Company backs empowerment

By Mzimkulu Malunga

BORN OUT of an empowerment move nine months ago, the country’s leading food and catering company Kagiso Khulani Food Services, says the process of enablement is just beginning.

Directors Mr Zuzi Buthelezi and Mr Nigel Dunlop say they want KKS to break away from the normal practice where unbundling is seen as the beginning and end of empowerment. Other processes that take enablement further are then thrown out of the window.

The KKS, argues Buthelezi, wants its management not only to reflect the population demographics and the shareholding, but its suppliers must also reflect the country’s demographics.

The company was born out of a R5 million transaction when the investment arm of Kagiso Trust and another black controlled group, Khulani Holdings, bought 80 percent of Tongaat-Hulett’s subsidiary, Supervision Food Services.

In the first months of existence, the KKS has deliberately subcontracted some of its services to other black companies. Its officials use Khaya Car Hire when they go on business trips in areas where they are unable to use their own cars.

Buthelezi makes all travel arrangements for KKS employees and the premises are cleaned by SuperCare, which is a new baby in the Kunene Brothers stable.

Company cars also refuel at a filling station owned by a black entrepreneur, while some of the meat cooked in canteens comes from black suppliers.

KKS is also leading the campaign to have the black business voice heard when it comes to tendering.

Together with Enterprise magazine, the company organised a tendering conference at which Public Works Minsister Jeff Radebe was told that black business people wanted a share in the state’s subcontracting system.

But, says Dunlop, there is still a long way to go. For instance, at the moment 46 percent of the company’s management is black. Ideally, it should be 70 percent.

Another situation that needs to be addressed is to get more blacks on the company’s management board. Currently, only one of the eight executive directors is black.

He says the company is taking this factor into consideration when it recruits managers.
IQF boosts profit 33% as frozen-food sales rise
Economic recovery helps
I&J achieve a 32% boost

Edward West

CAPE TOWN — Food processing
group Irvin & Johnson (I&J) lifted
earnings a share 32% to 287,1c in
the year to end-June, due mainly
to improved frozen and prepared
food sales and higher margains.
The results showed turnover
up 19% to R2,1bn largely as a re-
sult of growth in sales of French
fries, prepared foods and other
frozen products, partially offset by
lower volumes of chicken. The re-
covered the SA economy resulted
in firmer demand. Improved mar-
gains and production yields result-
ed in operating profit increasing
26% to R10,6m. Income from
investments increased sharply to
R14,3m from R8,8m, while inter-
est paid was 4% up at R19,6m
Taxation rose to R22,6m from
R15,8m as a result of an increase
in the effective tax rate. Taxed
profit was 33% higher at R52,9m.
A R7,4m write-down of an invest-
ment to net asset value was re-
lected as an extraordinary item.
A dividend of 100c (86c) was de-
clared. Dividend cover was in-
creased to 2,9 times following the
reduction in cover over the preced-
ting two difficult trading years dur-
ing which the dividend was main-
tained. In line with a new policy at
parent Anglovaal to reflect land
and building values at valuation
as opposed to historical cost, these
were revalued at June 30, result-
ing in an increase in value of
R52,4m, credited to non-distr-
utable reserves.
The seafood division reported
improved performance in spite of
a delay in commissioning of pro-
cessing facilities and poor fishing
in the third quarter of the finan-
cial year. Fishing off Namibia de-
teriorated and catch rates fell to
levels of marginal profitability.
The prepared foods division
achieved good profit growth as a
result of greater sales volumes
and efficiencies. The new potato
products plant at Delmas was op-
erating ahead of design param-
ters, and further investment in
this facility was under way.
I&J profit boosted 33%   Year 24/8/95

BY AUDREY D'ANGELO

Higher sales in both home and export markets helped Iron & Johnson (I&J), Angovaat’s fishing and food-processing company, to lift after-tax profit by 33 percent to R52.9 million (R39.2 million) in the year to June 30.

The annual dividend is 16 percent higher at 100c (86c) a share with increased cover of 2.9 times earnings. The cover was reduced during the two previous years.

Sales were 19 percent higher at R511.8 billion (R177.4 billion).

Operating profit rose by 21 percent to R161.6 million (R133.1 million) before a substantial allowance of R50.8 million (R44.8 million) for depreciation.

Income from investments rose by 62 percent to R14.2 million (R8.8 million) and the interest bill rose marginally to R19.6 million (R18.9 million). But the tax bill was 42 percent higher at R22.5 million.

Attributable earnings rose to R32.6 million (R26.3 million) before an extraordinary loss of R7.3 million — the write down of an investment to its net asset value. Earnings at share level rose by 32 percent to 257.1c (216.7c).

The net asset value a share rose to 2042c (1903c).

Capital expenditure of R91 million (R77.7 million) during the year — of which R64.8 million was to expand operations — included new seafood processing facilities in Cape Town and Namibia and the upgrading of processing facilities in the prepared-foods division.

The directors said a substantial investment in information technology started in June this year. “These investments have ensured that I&J’s production plants are both internationally competitive and meet the standards of the European Union, without which access to these large markets would be barred.”

The recovery in the economy had increased consumer demand and enabled margins to be widened.

Real growth in frozen food sales was ahead of population growth and sales of fast foods were buoyant.
Shopsteward murdered ‘by union rivals’

Fish factory obtains interdict

ROGER FRIEDMAN
Staff Reporter

A senior shopsteward at a Woodstock fish processing factory has been murdered, allegedly by colleagues who are members of a rival union.

The Food and Allied Workers Union’s Richard Anthony was stabbed to death on his way home from work on Tuesday as rivalry between Fawu and the South African Commercial Catering and Allied Workers Union (Saccawu) for control of I&J’s Woodstock plant intensified.

Both unions are Cosatu affiliates but the country’s leading trade union federation appears to be unable to control the situation.

Fawu is recognised by I&J and has been for the past 14 years.

The union rivalry goes back to June 21 when Saccawu supporters embarked on an illegal strike which culminated in 46 of them being dismissed and another 134 suspended.

According to the company, several Fawu members were stabbed during the strike.

Yesterday, after the fatal stabbing of Mr Anthony, I&J successfully applied for a court interdict restraining Saccawu from entering the company premises and interfering with or intimidating other workers or customers.

The company said today: “Saccawu’s history in the company since January has been characterised by confrontation and unprofessional behaviour from union officials and workers alike.”

“This increased dramatically when they failed in two verification exercises to secure more than 26 percent membership of the workforce in two major Cape Town-based plants.”

In a hard-hitting statement released by Fawu last night, the union accused Saccawu of harbou ring a “different political ideology” in spite of its alignment to Cosatu.

Fawu accused Saccawu of not acting consistently with Cosatu’s “one union, one industry” policy.

Saccawu spokesmen were not available for comment.

But a Cosatu official at the federation’s Western Cape head-office said the federation “has the matter under control.”
Unfreezing profits

The long-heralded revival in the fortunes of Irvin & Johnson (I&J) appears to be at hand.

Anglovaal Industries' 68%-owned fish and food processing group saw turnover for the year to June 1995 reach R2,12bn, up 19% on 1994. A 62% rise in investment income boosted pre-interest profit 29% to R125m. EPS rose 32% — in line with at least one analyst's expectations. She predicts a 25% rise in financial 1996 EPS.

I&J MD Roy Gordon says the seafood and processed food divisions "grew significantly". But the earnings advance appears to have come more from the processed food and vegetables divisions and strong exports.

Gordon says 78% of sales are made in southern Africa, of which 15% is seafood, 12% is other frozen food and 31% is third-party distribution (chickens, margarine, meat products).

Total exports grew to 22% of output, worth about R500m, and are expected to expand further in the coming year.

An analyst says fishing conditions and the catch rate in Namibia have been off peak in the past year and the fish interests suffered accordingly. She is also concerned about the effect on I&J's joint venture hake processing factory with a Namibian company, which was forecast to be profitable only if catch rates were good.

However, Gordon expects it to come back. "We wouldn't have made the investment if we didn't have confidence in the fishery." International fish prices have remained firm and exports did well.

I&J has a strong balance sheet with minimal debt and R143.4m cash at year-end. Considerable capital investment in plant such as the new chip factory in Delmas appears to be paying off. Gordon says little further spending would be needed to double its capacity — a possible project in the next two years.

Installation of up-to-date information technology will increase competitiveness and bring the group up to European Union standards — essential for exports. Most exports go to North America, Europe and the Pacific Rim countries, which Gordon says are "very demanding markets with high quality standards.

Gains on the processing front were offset by reduced volumes of chicken, which I&J distributes for Rainbow Newcastle Disease in the first half and cheap imports plus labour troubles in the second combined to lay Rainbow low and I&J was hit in turn. Gordon says, "It is a long-standing and mutually beneficial relationship." Maybe it is time to rethink that relationship.

The share price is R4.7 on a p/e of 18.7, a year ago, it was R3.45, on a p/e of 13.2. One analyst considers the share fully priced and the p/e demanding.

But there are not many comparable counters to choose from and it is only two points off the sector average. There must be some upward potential.

Bigger fish

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Morgan-Anne Hela

112 • FINANCIAL MAIL • SEPTEMBER • 1 • 1995
RJR Nabisco poised to buy into Delfoods

By CHARLOTTE MATTHEWS INVESTMENT EDITOR

RJR Nabisco, a major food company based in the United States, could be poised to return to South Africa if negotiations with Anglo American's Del Monte Royal Foods (Delfood) to buy 30 percent of its Royal Beechnut subsidiary are successful.

Analysts said yesterday the publication of the cautionary notice — which stated that "negotiations are presently under way which could result in the company being consummated" — suggested that the talks were close to fruition.


RJR Nabisco's food subsidiary, Nabisco Holdings, is the fourth largest food company in the United States. The company earns 70 percent of its $8 billion revenue from snack food products.

Analysts said it was impossible to calculate what it would cost Nabisco to buy into Royal Beechnut as its financial details were not separately disclosed. However, one suggested the acquisition would not make a substantial difference to Delfood in the short term as Royal Beechnut was a relatively small part of the business.

In the longer term, analysts said, the South African company — already the most profitable in the Delfood stable — would benefit from technology, management input and product development.

Delfood's shares have performed poorly over the last year although they received a boost in August-October from renewed rumours that Delfood could acquire Swiss-based Hero.

The shares have since crawled steadily downwards, hit by an only marginal increase in earnings for the year to November and a fall in earnings at the succeeding interim stage. These lows were blamed on the strength of the Kenyan shilling and low pineapple prices.

At 45c a week, Delfood shares are 47 percent below their price at the same time last year and their price-earnings ratio of 6.6 is among the lowest in the food sector.

Nyati told to pay back R864 000

By ROSS HEATHER STAFF WRITER

The upshot surrounding consultant Eugene Nyati was partially resolved yesterday when an investigator Bryan Schuurman of Barnard Schuurman told Nyati to return R864 000 of R1.23 million he charged the Mpumalanga government for two months of consulting.

But the question remains whether Nyati's R540 an hour fee is outrageous or "peanuts" in the private sector as Nyati described it.

Nyati acknowledged billing R540 an hour while advising Mpumalanga about how to restructure its three development corporations. On the face of it, consultants say, R540 is high but not outrageous.

Although such professions as architects, surveyors and engineers follow a recommended fee schedule to charge the government, there are no firm rules for general management consultancy. Senior legal consultants typically charge R500 to R700 an hour while arbitrating engineers can charge more than R600.

"For a very senior guy with a lot to offer in this field (management consulting) that wouldn't be an outrageous fee," said Stephen Ashbury, the senior vice-president of Gemini Consulting. "However, it's very difficult to compare a one-man consultancy with a big international firm which must cover more physical and staff overheads."

"Management consultants are like celebrities Margaret Thatcher can pull $30 000 for one day Nyati says there are people who make a lot more than he did, but the question is do they have that kind of pull to justify it," said Johan Redelinghuys, of the executive recruiting and evaluation firm Amrop.
Export sweetener swells bakery supplier’s figures

Edward West

CAPE TOWN — Bakery and confectionary equipment manufacturer Macadamia Bakery Supplies Holdings boosted earnings to 11,2c (4,6c) a share in the six months to end-June after it doubled its export turnover.

Sales were up 42,6% to R30,7m. Financial director Kevin McEvoy said the company was exporting to more than 40 countries overseas and increased demand for the products internationally had doubled export sales to R8,2m in the interim period.

McEvoy said the company’s strong financial performance over the past two years had enabled it to resume the interim dividend payment and shareholders would receive a dividend of 2c a share.

He expected the company to produce a similar performance in the second half. Operating income during the period under review increased 86% to R2,6m, while net income after tax was 142% up at R1,92m.

The company recently won the State President’s Award for Exports in the manufacturing sector as well as the Cape Chamber of Commerce and Industry’s export award for the Western Cape.
I&J directors to ask shareholders to increase their pay by 200%

According to I&J’s annual report, it would be proposed at the AGM that chairman Jan Robertse’s pay be increased to R30 000 a year from R10 000 and the other directors’ pay be increased from R5 000 to R15 000 a year.

The board of directors had established an audit committee to which the external auditors had unrestricted access. The company had established its own internal audit function which would assess its internal control systems. To date this had been performed by the Anglovaal group internal audit function.

Roy Gordon had been appointed group MD from July 1 after CE James Williams had retired from the position at the end of June. Williams would remain deputy chairman of the company until the end of the year.

In his review Robertse commented the Reserve Bank for its recent attempts to ease exchange control regulations and supported further liberalisation of the regulations.
Cape fishing giant crippled as factory workers strike

Staff Reporter

GIANT West Coast fish processing plant Sea Harvest has been crippled by a second strike in two months.

About 1 800 factory workers — members of the Food and Allied Workers’ Union and the West Coast Workers’ Union — downed tools yesterday, demanding they be given the same wage increase granted to the company’s fishermen a month ago.

The 500 fishermen — members of the Trawlers and Linefishers’ Union — did not go to sea for 18 days, forcing the closure of the Saldanha factory eventually settling for a 28 per cent salary rise.

Sea Harvest, said to be the largest fish processor in the southern hemisphere, has offered factory workers a 10.1 per cent increase.

This is after the company opened wage negotiations with an offer of a 2.5 per cent increase. The union’s opening position was for a 250 per cent increase.

The union’s Saldanha Bay branch secretary, Gert Koenana, said the workers intended squeezing the company by refusing to offload three fully laden trawlers which returned to port yesterday.

The company’s entire 18- vessel fleet was at sea when the strike began. According to Sea Harvest, three more trawlers are due back in port today.

Mr Koenana said the company had put the remainder of the fleet on “standby”, meaning they should stop fishing and await further instructions. But late last night the company denied taking this step, saying the last instruction that had gone out to trawler captains was to keep fishing.

Mr Koenana emphasised that nobody would unload the fish, warning that the workers would not tolerate scab labour.

Mr Koenana and a Sea Harvest spokesman accused each other of negotiating in bad faith.

Workers had been prepared to go on strike on Monday after the company ended Friday’s wage negotiations with the 2.5 per cent offer. But they had been persuaded to continue working, said Mr Koenana.

The company had taken the whole of Monday and most of Tuesday to up its offer to a 59c-an-hour increase (10.1 per cent).

By that stage, “the workers were out of control”, he said.

The Sea Harvest spokesman said this was not so. The company had consistently told the unions it was willing to negotiate.

The union had reduced its offer from a “ridiculous” 250 per cent to 28 per cent, and expected the company to make a similar, substantial move. In any case, the parties had until October 1 to settle.
Empowerment plan at Premier

BY ANN CROTTY

In what is described by one trade union adviser as possibly the best empowerment scheme to date Premier Food group has restructured its South African fishing interests into a separate subsidiary and transferred 20% of the shares - at 1c a share - to employees.

The trail-blazing scheme has been several months in the planning and involved extensive discussions with the company's employees including the trade union and community representatives.

The new company, Premier Fishing SA, comprises the South African fishing and processing facilities as well as Premier Foods' fishing quotas.

All of the company's 1 000 employees will be allocated shares with some weighting for length of service. Employees will not be able to sell any shares for the first five years, thereafter they will be able to sell 25% of their individual holdings each year. They will, however, be obliged to own at least 25% of their original allocation while they are employed by the company.

Reorganisation

Early this year, Oceana fishing group announced a reorganisation of its ownership, which involved Real Africa Investments Limited (Radi) acquiring ownership from Tiger group.

These steps towards empowerment can be attributed to an urgent need to protect themselves from changes in what has been an inequitable system of fishing quota allocations, which resulted in the industry being dominated by a few large, highly capitalised players with little ownership opportunities for fishing communities.

The allocation of the highly lucrative quotas is under close scrutiny by the government. A fisheries policy development committee has been established which, marking a break from the past, involves input from employees and community representatives.

While the equity scheme therefore does not smack of more than a touch of opportunism, there is little doubt that, given the constraints under which the quota allocation decisions have to be made, Premier's scheme offers substantial advantages.
Premier Food Launches Empowerment Plan

By Karen Castle 2019/15

The new company plans to invest in training programs and opportunities to empower their employees and improve the overall performance of the organization. With the entire employee base involved in the empowerment of the company, the management expects to see significant improvements in productivity and efficiency. The company aims to create a culture of excellence and continuous improvement, where employees are encouraged to take ownership and responsibility for their work. This approach is expected to foster innovation and drive the company towards success.
2 strikers shot by guards at fish process factory

SALDANHA. — Two striking workers were shot by security guards today during a confrontation at the Sea Harvest fish processing factory.

The workers were taken to hospital with gunshot wounds, said Gert Koenana, spokesman for the Food and Allied Workers' Union (Fawu).

The incident came as hundreds of workers, striking over wage increases, waited outside the factory to be paid wages owed from before the strike.

The strike began on Wednesday after workers rejected an offer of 10 percent, holding out for 28 percent.

Mr Koenana said Sea Harvest had got a court interdict against Fawu today, restraining strikers from coming within 500 metres of the factory.

At noon the situation outside the factory was tense, with 50 heavily armed policemen looking on as workers waited to meet Sea Harvest managing director Louis Pentzhorn.
Somewhat whimsically, MD Rob Spaanjaard says the company serves up chicken in 150 different forms. The effort clearly pays. The interim reflects a pre-interest margin of 26.5% — high enough to make the opposition take serious note. On turnover of R36.6m, attributable earnings work out to a handsome R7.4m.

Sovereign is primarily involved in the Eastern and Western Cape markets, its centre of operations is Uitenhage and it is what was once the regional division of Premier’s old Farm Fair. It has settled on a system of internal vertical integration as a solution to the woes which other players in this business seem to undergo all too unavoidably.

Sovereign has separated into four distinct areas of operation: a breeding operation producing day-old chicks, none sold to outside parties, a broiler operation which Spaanjaard says has been remarkably free from disease, especially the dreaded Newcastle which dealt so savagely with Rainbow, a milling division now approaching full capacity, and, finally, a distribution business which comprises refrigerated vehicles operating throughout the country.

The balance sheet is equally impressive long- and short-term borrowings of R9.6m are more than outweighed by cash of R11.9m. Effectively, therefore, Sovereign is ungeared, in an industry characterised by heavy debt, this single factor makes it unusual. A little apologetically, Spaanjaard says he accepts it may not be the most efficient use of shareholder resources but “we prefer to be conservative.”

On 30c interim earnings, no dividend has been declared, policy is a single dividend. The prospectus projected first-year earnings of 63c a share and, on current performance, it should better that easily.

David Gleason
Innovative packaging and range means canned success for processing company

By Llewellyn Jones

Ismail Darsot, this week's Business Mover of the Week, is the driving force behind the Darsot Food Corporation, a food processing and canning business.

Darsot has distinguished itself in a very competitive environment by its innovative packaging and diverse range of products.

"Our designer packaging completely separates us from the rest of the market and is, we believe, a reflection of the quality of the product," Darsot said.

He said the quality of canned food here, and throughout the world, was generally poor.

The company's factory is designed for manual production, allowing for extra care in the preparation of the food. An advantage of this is that production lines can be changed at an hour's notice to adapt to any changes in market demand.

Darsot produces more than 300 different canned products from conventional canned foods, such as asparagus, to the spiced flavours of its Indian food division.

As a political activist, Darsot was forced to flee the country under the old regime, and sought political asylum in the United Kingdom.

While in exile, Darsot worked in the food canning and processing industry with a view to starting a business in an industry where he could help with the upliftment of his employees.

"I worked for as many canners as possible taking the time to learn from them — their functioning, strengths and weaknesses."

On his return to South Africa, Darsot and his family decided to rent a warehouse until they could purchase their own land and build a factory. Since its inception, the turnover of Darsot Food Corporation have increased significantly.

The business is family-run, each member controls a different section, with a hands-on approach. The company has adopted an open-door policy and staff are actively encouraged to contribute ideas on all aspects of the business.

Darsot firmly believes in the development of his employees to enable them to reach their full potential, and is launching a Black Education Programme to teach all aspects of business and to encourage entrepreneurship.

Darsot attributes the success of the Darsot Food Corporation to the ability of the family and staff to overcome any hurdle. "The products are competitively priced and innovatively packaged to appeal to their target market, the connoisseur, homemaker who wants the best at an affordable price."

The domination of the South African market by one major canner was, ironically, another factor that has contributed to the success of Darsot's. It gave them the opportunity to target a niche market among the independent traders as well as national exposure without incurring expensive advertising costs.

Future plans include establishing a tomato paste and cooking oil plant, setting up a distribution network with a reputable soft drink company for its carrot juice product, and to increase its exports to neighbouring countries.

The overall winner in the Fedlife Ernst & Young Business Mover of the Year contest will be awarded a trophy, R5 000 of Fedgro trust, a business tax review by Ernst & Young and a free Henley management programme from the Graduate Institute of Management and Technology.

The initial entry criteria is that the company has a turnover of at least R2 million, but less than R50 million.

The company must have been in business for at least two years, be based in South Africa, and the entrant must be involved in its day-to-day running.

To enter the competition, contact Mavis du Toit at (011) 458 1234.
Strikers simmer in pay stand-off

COLIN DOUGLAS
Staff Reporter

THE sun was out, the sky cloudless and the blue water of the lagoon lapped gently on the beach. It was a perfect day for a fight.

The usually tranquil town of Saldanha turned ugly yesterday as hundreds of striking factory workers confronted their employer, fishing giant Sea Harvest.

Scores of heavily armed policemen staked out the Sea Harvest shoreline v. c. r. y after the company obtained a court interdict restraining the Food and Allied Workers' Union (Pawu) and its members from coming within 500 metres of its premises.

Thus followed uproar the previous night, when strikers were said to have trashed the company's administration block.

The interdict also prohibited unionists from intimidating co-employees who wished to continue working.

Soon after the interdict was served, two strikers were injured — although not seriously — when security guards in the factory fired at them.

While fears that the scene would erupt into further violence proved unfounded, the police soon switched their role from law-enforcing to money-protection.

Being a Friday, it was payday and thousands of rand were on their way into the factory.

Police escorted the funds safely into the factory and strikers and non-strikers alike joined the pay queues, bringing a more relaxed atmosphere to the scene.

Meanwhile, on a hill overlooking the factory, Sea Harvest managing director Louis Penshorm chattered with advisers and fretted about a strike that he said could have been avoided and which had shut down operations.

The strike, over wage increases, erupted after management made an offer of a 10.1 percent, well short of the 28 percent demanded by the union. Negotiations are continuing.
Heinz in joint chips venture

HJ HEINZ Co said it had formed a joint venture with an SA farmers' cooperative to process frozen potato chips.

The company also announced the formation of a holding company for its interests in the country, to be called Hope South Africa (Pty) Ltd.

Heinz said it would be the majority shareholder in the joint venture with Sentralwes Co-operative, based in Klerksdorp in Northwest province, and known as Heinz Frozen Foods (Pty) Ltd.

More transactions were likely. — Reuters
Heinz sees strong growth in SA

JOHN VIJJOEN
Business Staff

THE H J Heinz Company expects the Southern African market to show strong growth in coming years, according to vice president corporate affairs Edward Smyth.

Heinz this week announced a joint venture to produce frozen potato chips with Klerksdorp-based Sentralwes Co-operative, to be known as Heinz Frozen Foods.

The group is believed to be targeting South African sales of R10 million (US$3.5 million) in 1995.

"They (Sentralwes) are clearly very reputable and well established," Mr. Smyth said of Heinz's new partner.

"They have a good position in food service in South Africa. It is a position on which we can build as partners to not only grow the market share, but to grow the whole category." In an interview from Pittsburgh yesterday, Mr. Smyth said 20 percent of Heinz's global sales of $8 billion - 9 billion this year - came from food services - supplying eateries.

"This is a trend that is growing and we intend to grow with that explosion of eating out, particularly at good value, fast food establishments."

In South Africa, Heinz Frozen Foods would supply fast food establishments, restaurants, hotels and also retail outlets.

Mr. Smyth was not prepared to disclose how much Heinz's majority share of the joint venture with Sentralwes was worth.

Potato chips will be produced for Heinz Frozen Foods at Sentralwes' Viljoenskroon production plant.

Heinz has also formed a holding company for its South African investments, Heinz South Africa.
I&J calls for global alliances

BY AUDREY D'ANGELO

South African companies would have to internationalise their businesses and forge global alliances if they were to compete with multinationals and other entrants to our domestic market, said Jan Robbertze, the chairman of Irvan and Johnson, the fishing and food-processing company, in the group's annual report.

"Investment in operations abroad is necessary to obtain access to up-to-date technology, skills and methods, and to create a global sourcing network of raw materials and consumables, all of which are fundamental to international competitiveness."

In view of this, Robbertze said, "the company commends the Reserve Bank for its recent initiative and supports further progress towards the liberalisation of exchange control."

He said the future strength of the South African economy depended to a significant degree on social stability.

"This in turn relies to a large extent on the successful implementation of the RDP. Business has a major role to play in this regard. I&J's contribution to the RDP through its capital and labour intensive beneficiation of natural resources is significant and amounted to more than R1 billion in the past year both directly in the form of job creation internally and indirectly through the purchase of goods and services.

"I&J's capital investment programme over the past five years has resulted in expenditure of R337 million in real terms," Robbertze said.

It was disappointing that representative trade unions and major commercial-fishing interests had only a minority representation on the committee appointed to formulate fisheries development policy.

"The deep-sea industry is, by its nature, both capital and labour intensive and is a large-scale provider of employment both directly and indirectly."

Discussing industrial relations, Robbertze said the emphasis had shifted with the unions focusing on the workplace rather than on political issues.

"A mature realism characterised the approach of most unions active in the group during the present round of wage negotiations," he said.
COMPANIES

Competition Board investigates Kolosus, Silveroak merger deal

Yuri Thumbran

FOOD and tanning group Kolosus’ takeover of tanning group Silveroak Industries still had to receive approval of the Competition Board, which was investigating the deal, said chairman Pierre Brooks said yesterday.

Brooks said in an interview the board had received documentation from Kolosus setting out details of the deal, but further information had been requested from the group.

Kolosus announced last month it had obtained German industrialist Klaus Drexler’s 69.9% stake of Silveroak for R94,6m. Drexler was paid 230c a share, but with the ruling price at 308c at the time, Silveroak minorities voiced their dissatisfaction.

Brooks said the board was looking at the dominance in the marketplace of the combined tanning businesses of Silveroak and Kolosus. If the deal was contrary to competition board policy, measures could be taken to prevent the merger.

He said both groups were vertically integrated, with strong leather and tanning operations. Kolosus MD Tito Vorster said the buyout was “sudden” and took a few days which did not allow him to approach the board as required. Vorster conceded the Silveroak/Kolosus leather and tanning alliance was a dominant player in SA with 85% of market share in terms of production, but its major thrust was towards the export market.

The companies jointly had a market share of 15% internationally, but were faced with stiff competition — notably from companies in the US, Germany, Italy and Australia.

Vorster said the whole issue was sensitive, especially for not obtaining board approval before the buyout announcement, but said the issue should be resolved satisfactorily.

Kolosus would furnish the additional information requested by the board shortly, Vorster said.
**Companies**

**Activities:** Procurement, processing, marketing and distribution of foodstuffs

**Control:** Anglovial Industries 68%

**Chairman:** J C Rabberztee

**Capital structure:** 28.8m ords Market capitalisation R1,33bn

**Share market:** Price 4.625c Yields 2.2% on dividend, 6.2% on earnings, p/e ratio, 16.1, cover, 2.8 12-month high, 5.000c, low, 3.500c Trading volume last quarter, 757,600 shares

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comes from the distribution of "third party" products. The rest, is from seafood, other frozen food and international sales. Third party products include large volumes of Rainbow chickens in various packed formats, margarine and other products.

**Irvin & Johnson**

I&J's fishing quotas have remained almost static for years. This side of its business has become less important in the earnings mix as the company has diversified, though the fishing division remains the core operation based on capital employed. In a recent change of strategic direction aimed at raising return on capital, the fishing division introduced high-tech catching and handling methods on its vessels and invested in sophisticated shore-based processing facilities needed to obtain the product quality required by international markets. It involved large capital spending.

Overall capital expenditure for the year was R91.1m. Major items were the new seafood processing factories in Cape Town and Namibia and the upgrading of processing facilities in the prepared foods division.

This division's volume growth exceeded budget, efficiencies improved. In particular, the potato products plant at Delmas is operating well ahead of design parameters.

Competitors have noted the success which I&J is enjoying and are entering the market. I&J is investing more in this area.

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**Companies**

The food service market, specifically restaurants and fast food enterprises, is growing rapidly as owners realise the cost-saving benefits of changing from fresh and chilled to frozen products. In contrast, the retail market for frozen foods has been sluggish.

The international division of I&J fared well, with turnover 25% higher at R471m.

Export volumes rose, indicating the success achieved with value-added products. Financial director John Morrison expects the trend to continue even though fish prices overseas have recovered and stabilised.

Over the past three years, Rainbow has been beset with production problems because of Newcastle disease. The disease is now said to be under control if the result is better chicken supplies, it will materially boost profits of the I&J distribution division this year.

Primarily because of the substantial capital expenditure invested in the group over the past seven years, productivity in all the divisions is much better than in the first half of the decade. A new information system will be phased in over the next four years.

Earnings growth in the 1996 year is unlikely to match 1995's 33% Morrison agrees that an EPS rise of about 20% is realistic. That will place the share on a prospective pe of roughly 13.5. It seems reasonably priced.

Gerald Hinkson
Nabisco buys stake in Royal Beech-Nut

Beatrix Payne

US-based food group Nabisco is to return to SA with the acquisition of a 50% stake in and management control of Del Monte Royal Foods (Delfood) subsidiary Royal Beech-Nut.

Royal Beech-Nut MD Ken McArthur said yesterday Delfood would maintain a 50% stake in the group and would continue to account for it as a subsidiary.

Nabisco disinvested from SA in 1989 when it sold its stake in the company to Anglo subsidiary Delfood.

McArthur said it was too early to say what effect the deal would have on Royal Beech Nuts earnings, but Nabisco would aim for at least 15% annual growth in net sales. Earnings would show substantial growth, "more than the usual inflation plus 5%"

Nabisco was likely to initially emphasise consumer marketing investment.

Delfood has been looking for an international partner for some time and an analyst said the deal would allow it to concentrate on its international operations which had been experiencing some difficulty.

McArthur said it was not unusual for Nabisco to have taken management control. "Nabisco is expanding internationally and they are looking for established management that is in place."

Delfood chairman Vivian Isman said the deal would result in an expansion in Delfood's confectionary, biscuit and dry food sectors. "The benefits to Royal Beech-Nut are extensive. The company will enjoy access to world class technology and will be able to launch well-known international Nabisco brands such as Oreo, Ritz and Snackwells in SA." It would be able to export its branded products through Nabisco's distribution networks.

Nabisco has a $7.7bn annual turnover and invests $1.2bn a year in total marketing. It has manufacturing operations in more than 20 countries with distribution in 85 countries.
Langeberg puts squeeze on costs

Edward West

CAPE TOWN — Fruit and vegetable processing group Langeberg had halved its Bellville head office staff complement to 82 in a bid to cut costs by decentralising its decision-making processes, recently appointed MD Andries van Rensburg said yesterday.

"It was also negotiating the acquisition of a premium international brand to allow it to export products to the European Union (EU) at more favourable prices," he said.

Van Rensburg said Langeberg's EU exports faced a 50% price disadvantage compared with Spanish, Greek and Italian producers. It was unlikely that SA producers would be granted general system of preference benefits currently being negotiated, or that the SA government would replace the general export incentive scheme (GEIS) with other incentives.

"When GEIS disappears, it will be difficult for us to continue exporting," he said.

The 58%-held Tiger Oats subsidiary is scheduled to publish results for the year to end-September in November.

An analyst who did not want to be named said it was performing well operationally, and pre-tax profits were expected to have risen by about 50%.

However, tax rates were expected to increase significantly due to reduced GEIS benefits, and earnings were likely to increase only slightly.

SA ranks fourth in terms of canned deciduous fruit production volume, with 8% of world production. The US produces 39%, none of which is exported, followed by Greece, the world's largest exporter, with 19% of world production. Italy has 10%, and Australia and Spain with 7% each."
Plans for new plant, improved capacity

The group's president, Mr. Williams said: "This year, we're focusing on improving our production line. We've identified two key areas for improvement: efficiency and capacity. By doing so, we aim to increase our output by 20% and reduce our production costs by 15%."

"We believe these efforts will not only enhance our competitiveness in the market but also position us for future growth."

"Our investment in new technology will also help us achieve higher quality standards. We're looking forward to seeing the positive impact this will have on our customers."

"This year, we've allocated $5 million to our research and development budget. We're focusing on developing new products that will cater to our customers' needs."

"In addition, we're also investing in employee training to ensure they have the necessary skills to meet the demands of our customers."

"We're confident that these investments will pay off and help us achieve our growth targets."
Foodcorp hopes to save R5m tax

BY CHARLOTTE MATHIES

Food group Foodcorp has decided not to declare a final dividend, potentially saving R5 million in tax, on recent hints from Finance
Minister Chris Liebenberg that Secondary Tax on
Companies could be cut or eliminated in the next
budget.

Shareholders are told that they will be compen-
sated by a bigger pay-out at the interim stage in the
new financial year.

Foodcorp, which is
76 percent held by Malbak,
grew attributable earnings
by 17 percent in the year to
August, to R124.3 million,
compared with the same period last year — a credi-
table performance in view
of food price inflation of
around 8 percent, chief
executive Dave Kennealy
said yesterday.

Group turnover rose by
12 percent to R3.1 billion.
On a like-for-like basis,
stripping out the effect of
the sale of 50 percent of
snacks business Sumba to
PepsiCo Foods, turnover
was 14 percent higher.

Operating income
increased by 17 percent to
R201.9 million, show-
ing a slight easing in the operating mar-
gin to 6.5 percent (6.8 percent), mainly because
of the decline in protein prices

The tax rate was slightly lower at
33 percent from 34 percent, but includes a
provision for secondary tax, in the event
that it is not abolished next year.

An extraordinary profit of R84.3 mil-
lion was made, against last year’s charge of
R20 million. This represents the R150 mil-
lion profit made on the sale of 50 percent of
Sumba, less about R40 million incurred on
the c. of the fish canning plant in
northern Chile.

Earnings a share were
17 percent better at 257.3c
on an undiluted basis and
16 percent higher at 233.1c
fully diluted.

Kennealy said condi-
tions in the food industry
had been difficult over the
past year. Protein prices
were affected by imports of
chicken and red meat. Red
meat prices dropped fur-
ther than expected, from
an average of about R9 a
kilogram in mid-July to R7
a kilogram at present
which had cost Foodcorp
about R5 million in earn-
ings over the final six weeks of the finan-
cial year.

However, there had
been excellent perfor-
mances from Sumba, Rato,
Nola and Marne Products.

Within Marne Pro-
ducts, good results from
the fisherys in southern
Chile had offset the closure
of the northern operations,
where activity had been
tapering off over the past
16 months.

The plant in the south
was expanded last year and
there was scope for
further expansion. Food-
corp has also been explor-
ing the possibility of a fish
processing venture in Peru.

The group plans capital expenditure of
R200 million in the current year, which will
include upgrading Sumba’s three plants
into line with PepsiCo Foods Inter-
national’s technology, as well as further
investment in Chile.

CRISP PROFIT Foodcorp’s Dave Kenneally reports a 17 percent climb in
bottom-line profit in the year to August.

THE TIMES
20/10/95
Nabisco takes a bigger bite

BY CHARLOTTE MATHEWS

Nabisco plans to increase the size of its recent investment in Royal Beech Nut to between $150 million and $130 million by 2003, as its experience and product technology will enable it to offer South African consumers a greater variety of products, Nabisco International president and chief executive officer James Postl said yesterday.

Nabisco is a $7.7 billion multinational food business which makes more than 200 brands in 67 countries and sells them in more than 83 countries. Its brands include Oreo and Chips Ahoy! biscuits, Ritz and Premium crackers and Life Savers confectionery.

Earlier this month Nabisco said it had bought 50 percent of Delfood's wholly owned subsidiary Royal Beech Nut for $23 million.

Postl said South African consumers could expect to see products such as Oreo, Chips Ahoy!, Ritz and Snackwells low-fat products. "The entire process will bring new energy to the company," he said.

Asked about competition in the local snacks market, Postl said Nabisco was used to operating in highly competitive markets.

Nabisco expected to expand its market, both in South Africa and through using this country as a base for exporting into the rest of Africa and other parts of the world.

As far as export products were concerned, the local company, Royal Beech Nut, had potential with its Manhattan range, Super C and Beechies, especially with some of the sugar-free flavours.

Delfood chairman Vivian Imerman, said with South Africa opening up, the face of business was changing and the company needed an international partner.

Nabisco was the natural partner since it had been in SA before and at one stage had owned Royal Beech Nut.

Lower tax benefits Altech

BY CHARLOTTE MATHEWS

Altech, which is 56 percent owned by Altron, grew attributable profit by 13 percent to R41.1 million in the six months to August compared with the same period last year, as an easier tax rate offset a decline in margins.

Group turnover rose 13.2 percent to R714.9 million on which operating margins declined to 7 percent from 8 percent, resulting in a 7 percent fall in operating income to R54.9 million. Lower interest and dividends received were offset by a 29 percent tax rate compared with 35 percent previously.

Earnings a share before an exceptional charge of R1.3 million last year were 8 percent better at 406.3c and after the exceptional item were up 12 percent.

Group cash deposits and marketable investments dropped by R70 million.
**Foodcorp grapples with opening up of markets with Hilary Joffe**

"The Empire Strikes Back" is the way one JSE analyst characterises the current state of staple foods giant Tiger and its Premer Foods unit.

With a government representing the mass of consumers freeing up markets, food prices have been coming down for the first time in many years. However, while this may bring cheer to consumers, things have been less comfortable for the manufacturers.

There has been chaos in the maize industry, before and since deregulation last year, a battle for market share in baking and tur- moll in the chicken and meat industry as a result of cheap imports.

Manufacturers have been reporting to operate in a tougher environment, with long overdue trimming under way.

Both Tiger and Premer Foods have been restructuring, with Tiger's efforts far advanced but the outlook for Premer is still murky.

The third of the major milling-based groups, Malhak's Foodcorp, has some advantage in that it went through the restructuring process two years ago.

**Snacks**

Despite adverse conditions in staple foods markets, it last week reported earnings growth of 16% for the year to end-August and CE Dave Kennedy forecasts a further 15% or so for financial 1996. Not spectacular, but much better than the compound annual 8% recorded in the period 1990 to 1994.

The hottest growth market for the group is in its salty snacks business, where Simba has 58% of the market to rival Willards’ 32%-35%. Simba has a joint venture with US multinational Pepsi, following a R380m deal which took effect on 1 June.

In the year to August, Simba, with a turnover of R500m plus, contributed 16% (15%) of the group’s sales and 22% (23%) of operating profit.

Why did the group sell off 50% of the best of its businesses? Because, Kennedy argues, it had no alternative. The group has come under fire from analysts for selling part of the "crown jewels" too cheaply, especially compared to the price paid by Anglovaal's National Brands for Willards a while ago. The Simba deal was on forward of 20 against the 32 at which the National Brands deal valued Willards.

Kennedy concedes Foodcorp would have got more for Simba on the open market. But, he says, the group has turned a potential competitor into a partner. The group believes PepsiCo would otherwise have entered the SA market itself, cancelling its R55m a year technical know-how agreement with Simba and launching a high-powered battle for market share.

Kennedy, who recently resigned from the board, says the group’s view is that its strategy was to improve the quality while keeping prices constant for more than two years, one Willards was probably obliged to follow. The result has been a 20% volume growth in small chips and overall market growth in the mid-teens.

SA’s principal consumption — excluding the white population — is less than 1kg a year compared to 8kg in the US and 3kg a year in markets like Turkey and Brazil, and leaving plenty of scope for growth.

The joint venture deal also gives Foodcorp rights to participate in expansion with PepsiCo in Africa and at least one new venture on the cards.

The PepsiCo deal helped to reduce Foodcorp's gearing to 17% (25%) at end-August (on a net bas- is gearing is nil). Keenly says the group could spend R300m on expansion without taking gearing above 30% but he would be uncomfortable at levels over 40%. There are not a lot of quality food acquisitions in SA, he says, so the group is likely to look to Africa and South America.

Meanwhile, proteins (meat and fish) and grums remain the core of the group, contributing over 70% of operating profit in financial 1995.

And while Keenly is worried about developments in the meat industry, to which the group is heavily exposed, he is fairly unconcerned about the milling side of the group.

One of Foodcorp's earnings growth would have been 4%-5% higher but for a sharp dive in red meat prices in July, which saw prices fall from R26/kg to R18/kg. Driving the prices fell were huge volumes of cheap imported chicken and red meat imports — especially of "factory type" beef and lamb — and the pressure is unlikely to abate in the coming year.

In milling, Foodcorp is the smallest of the majors, with 8% of the market, but it has been outgrowing its rivals Good growth came from Ruto, which last year commissioned its new maize and flour mill. Despite the chaos in the maize market, Foodcorp has had no problems sourcing local maize — by the middle of this year it had locked in supplies for the crop season to May next year, at what Kennedy says are very attractive prices. The group claims the view is that it is important to build up long-term relationships with farmers as it would be with any suppliers.

Keenly says maize imports are not the panacea some make them out to be — landed cost of imported maize on the reef is R910/ton, while local farmers can deliver mill-to-door at prices rang- ing from R720/ton to R980/ton.

Kennedy warns that SA farmers cannot be expected to compete with subsidised imports (EC beef, flour from Europe, US and Cana- da) unless they are able to pay pro- duced prices for their inputs. He warns against totally free importation which could kill off the farming system.

"Ideally we should end up with 60%-65% local and 30%-40% im- ports, to keep the local guys honest," he says.

The group’s grums and edible oils division increased its contribution to operating profit to 21% from 16% in financial 1995. The group’s shares of the market on the reef (the only area Sunbake operates in) is 23%.

Keenly says "This is not a market in which we would want to expand".

The PepsiCo deal is the third of the joint-venture arrangements negotiated by the group over the past three years, following its partnerships with ICS in chilled prepared meals (Renown and En- terprise) and the Cold Chain, and the joint venture with US-based Pillsbury to create Pillsbury Brands Africa in frozen vegetables and baked goods.

The group’s prepared foods division — including PBA and En- terprise Foods — contributed 13% of sales but only 6% of operating profit in financial 1995.

Company officials have hinted that its US imports had an impact on Enterprise’s business, which may also be being held back by continuing problems at the Cold Chain, managed by ICS En- terprise and PBA together account for 35%-40% of the throughput of the Cold Chain, which in turn merchandises, sells and distributes 100% of Pillsbury’s products. Although Foodcorp is not thinking of pulling out of the Cold Chain arrangement, it is building a "strategic rethink" about its role.

**Meat**

Growth in the year ahead is expected in both prepared foods and at Simba. The main negative factor is a new meat tax.

Meat and fishing, which increased its contribution, accounted for 41% of operating profit in financial 1995. August. Some analysts focus on the dependency on a risk red meat as a factor in Food- corp's relatively low rating in the JSE food sector, though meat is probably not more risky than chicken, in which Tiger and HLH have interests.

The Foodcorp price has risen 29% to May, giving it a new historical p/e of 14 against Pre- mer's 21 and Tiger's 22.

The other groups, Premer in particular, have better meat and fish interests. Foodcorp argues it has the plus of being a pure food group. The market, which is view- ing the food sector with mixed favour lately, apparently contin- ues to see this as something of a minus.
Nabisco to take bigger bite of SA market

By Charlotte Mathews

Nabisco plans to increase the size of its recent investment in Royal Beech Nut to between $120 million and $130 million by 2000, as its experience and product technology will enable it to offer South African consumers a greater variety of products, James Postl, the president and chief executive officer of Nabisco International, said yesterday.

Nabisco is a $7.7 billion multinational food business which makes more than 200 brands in 67 countries and sells them in more than 133 countries. Its brands include Oreo and Chips Ahoy! biscuits, Ritz and Premium crackers, and Life Savers confectionery.

Earlier this month Nabisco said it had bought 50 percent of Delfood's wholly owned subsidiary Royal Beech Nut for $23 million.

Postl said South African consumers could expect to see products such as Oreo, Chips Ahoy!, Ritz and Snackwells low-fat products. As well as products, there was a real opportunity for the transfer of information and people. "The entire process will bring new energy to the company," he said.

As far as export products were concerned, the local company, Royal Beech Nut, had potential with its Manhattan range, Super C and Beeches, especially with some of the sugar-free flavours.

Vivian Imesman, the chairman of Delfood, said it had been clear that with South Africa opening up and other international companies entering the market the face of business was changing and the company needed an international partner.

Nabisco was the natural partner since it had been in South Africa before and at one stage had owned Royal Beech Nut.

186 (CT 26/10/95)
Irish butter
Kerrygold in local launch

By STUART KELLY

CT(82)29/10/95

Johannesburg — Kerrygold, one of the world's top dairy brands, was launched on the South African market yesterday.

The launch of the Irish product, well known for its connection with Independent Newspapers' major shareholder, Tony O'Reilly, and as prescribed reading as a textbook marketing case at Harvard University, was introduced in association with local importers and distributors, The Cold Chain.

Speaking at a Kerrygold trade and press reception in Johannesburg yesterday, Fergus Kelly, regional manager of the Irish Dairy Board, said "The launch was an opportunity for the Board to celebrate the arrival of Kerrygold in South Africa in what augurs to be an important new era for a major imported dairy brand in the market."

"Working closely with our partners, The Cold Chain has meant that Kerrygold will be carefully positioned to ensure a meaningful share of butter sales without disturbing the existing market."

Kerrygold Butter has become available in 80 countries since it was launched in 1982 and has been followed by other products such as cheese and tinned milk powders.

Ireland's biggest exporter, the Irish Dairy Board produces a wide variety of branded dairy foods through a network of subsidiary companies, overseas sales offices, agents and distributors.
Foodcorp’s Kennelly some superb performances

Foodcorp’s Kennelly some superb performances

A good balance of interests in diverse food markets helped Foodcorp to weather the general malaise in that sector — particularly in the last six months.

Results for the year to August 1995, though unexciting, do show real growth of 9%, and financing costs dropped 15%, along with borrowings. Though turnover rose 12% to R3.1bn, operating profit growth of 8% to R202m lagged inflation, margins dropped from 6.8% to 6.5%.

Nonetheless, CEO Dave Kennelly contends these results are “most satisfactory” in view of the hardships suffered industry-wide from drought, deregulation and increased competition.

But analysts were disappointed, observing that earnings were below market expectations — though acknowledging that in a commodity business, problems such as meat price fluctuations are beyond management’s control. Foodcorp’s business profile ranges from staples to value-added products, with about 20% of earnings coming from meat.

The meat operations were hardest hit as local prices crashed, pulling income down. Enterprise Meats also suffered from the high cost of importing pork to cover a shortfall in local supplies. However, tough competition in the meat industry is almost certainly here to stay. Kennelly considers imports will “become a feature of life and meat prices will tend towards import parity.” The Cold Chain lost ground too, Kennelly points out: “We don’t manage them.”

Miseries aside, the group “did well in fishing and snacks, flour and maize milling,” says Kennelly. “We had superb performances from Symba (snacks), Nola (edible oils) and Ruto (grain-based foods).”

The strong cash flow is reflected in the balance sheet, where interest-bearing debt was cut from R218.3m (1994) to R165.6m and cash deposits have mushroomed from R600 000 to R160.8m in a year.

The sale of Symba to a joint venture with PepsiCo Foods International produced two benefits: an extraordinary profit of R130m — which helped cover losses from the discontinued northern Chilean fishing venture — and an alliance with “the largest salty snacks company outside the US.”

This agreement extends to joint participation in any undertakings in Africa south of the Mediterranean bordering countries. That, as Kennelly observes, offers greater prospects than sub-Saharan Africa.

In recent months a flurry of activity in the food sector has boosted ratings and analysts are divided on whether the higher ratings are justified. One considers not, “especially with only 16% growth in earnings in the middle of an upswing.”

Kennelly contends there has not been an upturn in the food industry. Another believes the sector looks relatively cheap and offers value.

Food stocks have traditionally been considered defensive for their counter-cyclical properties, but one analyst observes that this no longer seems to be true as they “were hammered in the last downturn.” If the Foodcorp counter, on a p/e of 14.4, can deliver its predicated growth of 6% above inflation for the next few years, it would be worth the R37 price.

Margaret Anne Hafe
Nabisco joins old friends for a slice of SA food trade

By MARCIA KLEIN

NABISCO'S investment in Royal Beech-Nut, which will see the RBN business double in size by the end of the decade, is not so much a new investment as a rekindling of old ties.

In April 1998 the Imberman family's Lovasz Chemicals bought RBN from the then RJR Nabisco when it disinvested. Nabisco has now chosen to re-enter the South African market through its old partner.

Ken McArthur, RBN's deputy managing director, said Nabisco's re-entry would involve "a genuine investment of funds" of about R5.1-million to take 50% of RBN.

RBN's holding company, Del Monte Royal Corporation, which had been looking for a strategic alliance for some time, had found "a most perfect match", he said.

The companies knew each other well and both were customer-driven. Many of RBN's systems were put in place under the previous Nabisco tenure.

Perhaps most importantly, RBN already had many Nabisco products, including Care-Free, Beeches, Lifesavers, biscuit ranges and baking powders.

"From our point of view, we will get critical mass as Nabisco is a major player in the world food industry," Mr McArthur said.

"We will also have access to its technology and to new products."

He said about 17% of Nabisco's total sales last year came from products less than two years old.

Jim Postl, chief executive of Nabisco International, said the group's ability to create new business was crucial to its success.

"SnackWell's, a new health snack product, which was launched four years ago, now had sales of over $300-million (about R1.85-billion). We see this new business rejuvenating and continuing well into the future."

Mr Postl said Nabisco could bring product ideas from around the world to enhance RBN's portfolio. RBN would soon introduce some Nabisco products like Oreo, Chips Ahoy!, Oreo, Chips Ahoy!, Ritz and SnackWell's.

Mr Postl said the joint venture would give RBN export opportunities from South Africa.

Nabisco had entered the agreement with the objective of doubling the size of its South African business by the end of the decade from its current turnover of about R300-million. This would require "substantial amounts of capital", but Nabisco and Del Monte had not yet discussed sourcing of capital.

He expected RBN's bottom line profits to grow at an even faster rate than the expected increase in sales. The joint venture was expected to bring "substantial profit growth opportunities for both of us", Mr Postl said.

The investment represents a renewed focus on the part of Nabisco on its international markets. When Nabisco bought itself out of RJR Nabisco, it sold off a portion of its international investment to get returns.

John Greenmaus, Nabisco's chief executive, has said one of Nabisco's key goals is to rebuild overseas sales and operations. It has already built a strong presence in Latin America, Canada and Europe and is investing in China and Indonesia.

In 1994 Nabisco's sales were $7.7-billion (about R28-billion), of which international sales were $2.6-billion (about R7.3-billion).

Mr McArthur said Nabisco executives had been to South Africa to look at capacities and executive staff, and they saw in RBN a company which could expand.

"In expanding so rapidly internationally, management could become stretched, so they were keen to meet the executive and have been assured of their calibre."

Although the structure of the board of directors might change, Mr McArthur expects the management team to remain in place. Some less profitable products may be streamlined.
COMPANIES

Langeberg in Dole Food link-up

Edward West

CAPE TOWN — Cape-based food processor Langeberg, which yesterday reported negligible growth in earnings for the year to end-September, said it was concluding a strategic alliance with Dole Food to allow it access to an established global brand in Europe.

The phasing out of the general export incentive scheme (GEIS) and the continuing high trade barriers in export markets had necessitated action to improve competitiveness, it said.

Langeberg's international marketing division would in future operate out of Europe, which would further advance plans to grow exports.

The group, controlled by Tiger Oats, posted static earnings a share of 37.6c as a result of a sharp hike in taxation after a reduction in GEIS benefits and strong growth in pretax profit.

Softer demand on the local market reduced domestic sales volumes, but the group's brand leaders — Koo and All Gold — maintained market shares, it said. Margins also improved, in spite of price increases remaining below inflation for the third consecutive year.

Turnover was 5.5% ahead at R802m and operating income was 20.4% higher at R89.6m, but taxation surged to R34.1m from R3.7m, leaving attributable income only 0.3% higher at R80.2m (R69m).

A final dividend of 8c brought the full dividend for the year to 12.5c, unchanged from the previous year.

A R5.9m extraordinary charge reflecting costs on discontinued operations was charged below the line.

The group said certain operations were rationalised in the second half, and substantial savings were expected from these actions in future.
Langeberg's profit rises 20 percent

By Maggie Rowley

Cape Town — While operating profit of Cape-based food processing company Langeberg was up 20 percent at R86,6 million for the year to end September, a sharply higher tax bill saw earnings virtually unchanged at 37,6c (37,5c) a share.

Good growth in export sales volumes, particularly in newly acquired markets, was offset by weakened domestic demand which curtailed turnover growth to a 5 percent improvement at R862 million.

An unchanged dividend of 12,5c was declared.

In spite of the expected reduction in GEIS benefits, further substantial rationalisation costs were incurred to improve the group's international competitiveness.

The operating margin was lifted to 10,4 percent, from 9,1 percent. This was due in part to prices having stabilised on international markets and the company being able to redirect sales into more profitable markets and reap the benefits of the decline in the value of the rand, particularly against the major European currencies.

The company, which is controlled by Tiger Oats, increased net cash and deposits to R84,3 million from R7,6 million last year, which generated net interest income of R4,6 million against last year's R3,7 million.

However, the tax rate increased from 13 percent to 36 percent — a differential of R25,3 million — due mainly to GEIS becoming taxable in 1995.

Chairman Nick Denuss said the group was in the process of concluding a strategic alliance with the Dole Food group which would provide access to an established global brand in Europe. The international marketing arm of the group would also operate out of Europe in future.

Denuss said a contraction in the international supply of fruit appeared likely in the coming year due to adverse climatic conditions in Europe. This, supported by expected stronger local market demand, augured well for future prospects.
Cafes and corner shops do not seem to worry much about the industry’s long-term future — and who can blame them if they now net R300 a day from the sale of 1,200 loaves, compared with R80 a day before deregulation?

“The shopkeeper — while much better off in the short term — is shooting himself in the foot and driving away customers by adding excessive margins,” says Gradidge.

For example, while Sunbake increased its price by only 13c/loaf (white and brown) from November 6, compared with Premier Foods’ 17c/loaf increase from November 1, shops sell both loaves at the same price. Premier Foods chairman Gordon Utian confirms the “tragic” downward trend in bread consumption, which is putting margins under pressure as large bakeries operate below capacity. “We have also rationalised by closing several bakeries.”

Chamber of Baking executive director Nic Alberts says this year’s 15% wheat price hike was largely the result of the huge spike in global wheat prices, which means that there will be no benefit from cheaper wheat imports such as were enjoyed in previous years. The domestic wheat subsidy has also now largely fallen away.

With quantitative restrictions being phased out, farmers are therefore in a stronger bargaining position as the market is freed. “No wonder they accepted an agreement with the six big milling groups to sell the whole local crop (latest estimate 2,16 Mt) at a slight discount to world prices,” says one industry source.

This week, Gulf fob wheat prices reached US$220/t, which boils down to almost R1.100/t, landed in Gauteng. And it could take up to 18 months for world prices to drop significantly, even with good US and European crops.
Spice the bright spot for HLH

Beatrix Payne

FOOD and timber holding group Hunt Leuchars & Hepburn Holdings (HLH) posted an attributable loss of R40m (R3.4m profit) for the six months to end-September after losses at most of its operating subsidiaries and a higher interest bill.

Losses a share — including losses incurred by non-subsidiary companies — amounted to 26.7c compared with earnings of 2.3c in the comparable period last year.

HLH CE Neil Morris said yesterday that the group lifted sales 7.7% to R767.4m on the back of a strong performance from spice merchant Robertson's.

Margins were under pressure from the poor performance of the sugar operations, with operating income slipping to R45.6m (R55.9m). The division incurred heavy losses as the drought depressed sugar cane volumes and quality. Mabelane and Komati mills operated at 45% capacity.

As a result, financing costs increased sharply to R56m (R47.9m) as the sugar mills' poor performance hampered the group's ability to pay off costs. "There is little we can do except hope for rain," Morris said.

Pre-tax losses came to R12.6m (R8m profit), but Robertson's strong performance saw the tax bill up at R4.6m. The group's share of associated companies' losses rose to R22.9m (R7.5m loss). No dividend was declared.

Morris expected to see profit in the second half on an improved performance from Rainbow Chicken, but year-end results would reflect an overall loss. Shure losses for the year should be below 10c.

Morris said the sale of the group's timber operations would help ease its interest-bearing debt, which rose to R272.2m (R264.7m) during the six months. Parent company Huntcor, which had as its sole investment its holding in HLH, posted a loss of R30.5m (R2.6m profit) and waived dividends for the period.
ICS cuts loss makers and boosts earnings  

Beatrix Payne

FOOD group ICS Holdings reshaped its operations and cut costs to lift attributable earnings 44% to R183.6m for the year to September.

The CG Smith-owned company lifted sales 3% to R2.9bn, after closing its struggling businesses and the sale of its loss making Clayville Dairy.

The elimination of Clayville's losses combined with strong contributions from its fishing, poultry and other dairy businesses to lift operating income 44% to R170.2m.

Finance charges rose 47% to R18.6m, but the income figures were further swelled by investments' income climbing 71% to R21.2m, buoyed by Sea Harvest Pre-tax income came in 46% higher at R181.8m.

Share earnings were 44% higher at 284.7c, while the full-year dividend was 43% up at 86c.

The group also took a R64.9m charge below the line, with R46.1m stemming from closure costs within its meat division, and the remainder on goodwill stemming from Sea Harvest's investment in Namhun operations.

MD Roy Smuther said the results were "pleasing" as favourable first half conditions had been followed in the second half by a flood of cheap imports which knocked red meat and poultry prices. Tariff loopholes had been closed and illegal imports were now lower.

Earnings for the 1996 financial year were unlikely to match the 1995 level of growth. ICS would be underpinned by continued cost controls and the benefits of recent mergers. But government decisions on fishing quotas and import tariffs could have an important bearing on the performance.

The group's Earlybird poultry operation was affected by the cheap imports, but a strong first half performance had cushioned the blow.

In the red meat division, feedlots

Continued on Page 2

came under pressure from low auction prices but the retail and wholesale operations had a "reasonable" year.

Earnings at Sea Harvest rose 22% on firm prices on international markets. The milk products and juice division produced satisfactory results following the Clayville sale.

Results from the Cold Chann improved but the company had still not reached its full potential. Fedica continued to perform well amid higher tourist activity which helped its airline and airport catering operations.

Enterprise Foods' performance was disappointing after the division's margins and stock holdings were hit by the need to import costly pork.

The Dairymaid/Nestle joint venture also had an unsatisfactory year. Smuther said earnings should improve in 1996 as a large capital expenditure programme was virtually complete.

During the year the group bought Tongaat Hulett's 50% stake in OKK Food's meat and dairy operations, so taking full control of the business. ICS also sold its 50% stake in Chandung International to Ronnie's.
Earnings surge 44% for ICS

By Llewellyn Jones

Johannesburg — Food group ICS Holdings continued the improvement started last year by reporting a 44 percent surge in earnings to 284,7c (197,5c) a share for the year to September.11

Roy Stocks, the managing director, was pleased with the results which he said were achieved in a period of varying market conditions. While prices were firm in the first half because of protein shortages, trading conditions in the second half were more difficult as prices were lower as a result of imports which flooded the market via tariff loopholes. Although problems still existed, the loopholes had largely been attended to and illegal imports were at a lower level.

There was a 2.8 percent improvement in turnover to R2.9 billion because of the disposal of loss-making Clayville Dairy last year and improved production and cost control efficiencies saw operating profit soar 43.6 percent to R100,6 million.

Interest paid rose 47 percent to R18,6 million while income from investments showed by far the largest increase, rising 71 percent to R21,2 million.

After tax of R68,8 million (R43,8 million), the company's attributable earnings rose 44 percent to R108,5 million.

ICS bought Totigata's 50 percent interest in OKX Foods' meat and dairy operations this year, taking full control of the business.
Earnings surge 44% for ICS

BY LEMELA JONES

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ICS bought Tongaat’s 50 percent interest in OIK Foods’ meat and dairy operations this year, taking full control of the business.
**Baking industry slumps**

Louise Cook

THE baking industry had lost 3,000 jobs since the lifting of controls four years ago had seen the industry scale down operations, Chamber of Baking executive Nic Alberts said recently.

He said nearly 25 large plant bakeries had shut down outside major urban areas where in-house bakeries had taken a sizeable slice of their business.

Inhouse bakeries had provided more than 1,000 jobs for retrenched workers.

Sasko director Joeff Penny confirmed that the industry was under pressure since government had lifted controls on the bread price. This had been aggravated by a drop in consumption.

"The full effects of deregulation were felt only now. We had to close one bakery in Port Elizabeth," he said.

Sunbake MD Dave Gradidge said nine of the company's bakeries had to shut down over the past five years. "Bread consumption was 7% down on last year." He believed the industry as a whole could have lost 12,000 jobs in the past five years.

Genfood was more upbeat, saying although competition had become more intense, the company was not considering closing bakeries.
Tiger Oats boosted by food operations

A STRONG performance from the core food operations, tighter margins and cost containment pushed food and pharmaceuticals group Tiger Oats's attributable earnings 27% ahead to R466.6m for the year to September. Finance director Wallace Holmes said at the weekend slow consumer spending and increased input costs had capped the CG Smith-owned group's turnover, which was up only 9% at R11.5bn.

Operating income rose 20% to R85.1m after margins increased to 6.8% from 6.1%.

Interest paid fell to R1.1m (R39.3m) after gearing fell to 30% (44%). Net surplus cash increased to R398m.

The tax bill increased 33% to R288.2m leaving net income higher at R392.2m (R445.2m).

The group reported an extraordinary profit of R8.2m (R144.9m loss) following the sale of investments, losses on discontinued operations and goodwill and trademark costs. Earnings a share rose 27% to 310c and a dividend of 108c (85c) was declared.

Holmes said despite the highly competitive market, margins had improved and reflected the benefit of the restructuring introduced after MD

-- Continued on Page 3

Tiger Oats

Continued from Page 1

Nick Dennis joined the group early last year. The group was only about a third of the way through its rationalisation programme and there was scope for improvement in margins.

Over the past year "quite a few thousand" people had been retrenched by Holmes and could not say what level of staff cuts were expected during the current year.

The food division's contribution to earnings rose 34% to R308.3m despite changes to tariff and duty structures and the deregulation of the maize price. In the branded consumer products division, Beacon Sweets and Jungle Oats performed well but Fosti's and Momi's was affected by higher durum wheat prices.

The staple foods division improved profits although the Queenstown and Petersburg mills were closed. Bakery volumes were affected in the second half after the suspension of school feeding schemes.

Poultry operation County Fair was affected by Newcastle disease but strong demand for eggs helped Golden Lay Retail chain Spar produced a strong performance while containing costs below inflation.

The pharmaceutical division through Adcock Ingram saw its contribution to earnings rise 18% to R140.1m. The fishing division's contribution to earnings fell 5% to R18.2m.

The group reduced its holding in Oceana Fishing to 43% from 70%.

Without the distortion caused by the change in the accounting treatment of Oceana Fishing, overall turnover rose 11%.

The group's markets would remain competitive particularly with the increasing involvement of international food companies. As a result, Tiger would focus on brand development and cost competitiveness. Real growth in earnings was expected this year.
Food division helps Tiger lift earnings

B. CHARLOTTE MATHEWS

Johannesburg — A good performance from its restructured food division enabled food and pharmaceutical group Tiger Oats to lift attributable earnings 27 percent to R466.6 million in the year to September compared with last year.

Group turnover rose 9 percent to R11.9 billion but, excluding the effect of the disposal of a large proportion of the stake in Oceana Fishing, turnover was 11 percent higher. This also affected operating income before interest, shown as 20 percent better at R815.1 million but excluding Oceana, 25 percent higher.

Tiger Oats reduced its 70 percent stake in Oceana during the period to 43 percent and now jointly controls the company, with Real Africa. Figures for 1995 are proportionately consolidated while in 1994 Oceana was fully consolidated.

As gearing dropped to 30 percent from 44 percent previously, the interest bill dropped to R15.1 million from R39.5 million. However, the tax rate rose to 35 percent from 33 percent, mainly reflecting higher tax in the food division as the tax status of GEIS changed and assessed losses were exhausted.

An extraordinary profit of R8.2 million was made, mainly on profit on the sale of investments, compared with last year's R144.9 million extraordinary loss.

On earnings of 310c (24c) a share, the dividend for the year was 108c (85c). The food division contributed two-thirds of attributable profit as it grew earnings by 34 percent to R308.3 million. The pharmaceutical division grew earnings by 18 percent to R140.1 million while fishing's contribution dropped by 5 percent to R18.2 million.

Nick Dennis, the managing director, said the food division achieved its good results in the face of difficult trading conditions, deregulation of the maize industry, the phasing out of the general export incentive schemes, changes to tariff and duty structures, the drought and increased competition.

In the international food businesses, the Minneapolis trading office has been closed but a 19 percent stake in Van de Kamp's Inc, the market leader in branded boxed-fish products in the United States, was acquired for $14 million (about R51 million) since year-end.

Wallace Holmes, the financial director, emphasised that growing the food business globally was a major strategic objective. This growth would be primarily in branded consumer products, not necessarily similar to the brands already established in South Africa.

In the pharmaceuticals division, listed Adcock Ingram grew earnings 17 percent and Logos performed well. The contribution from fishing activities dropped because of the sale of part of Oceana but all Oceana's divisions produced strong results and its earnings improved 21 percent.
CG Smith expected to see at least 30% growth

Beatrix Payne

Diversified protein food group ICS lifted earnings 41% to R108m during the review period and Illovo saw earnings surge 68% to R92.2m, based largely on a recovery from the drought in KwaZulu-Natal.

As their growth had come off a low base, neither was likely to maintain its earnings performance this year, which meant CGS might show earnings growth in the region of only 20% to 25% during that period, analysts said.

Packaging group Nampak, one of the biggest single contributors to CGS's earnings, reported a 31% rise in attributable earnings to R48.8m Tiger Oats, which through CGS Foods was responsible for about 50% of CGS earnings, posted a 27% hike in earnings for the 12 months to September.

But results from Tiger and Nampak came in at the high end of most analysts' expectations and few expect the companies to maintain that level of earnings growth in the coming year.

One analyst said the key to maintaining growth in SA's food industry was to adjust cost structures and exit unprofitable operations so that growth was possible in the face of below inflation price increases.

Tiger was fortunate in that it had a number of very strong brands which would help maintain earnings growth, he said.
If they did anything, Tiger Oats results for financial 1995 wrong-footed most analysts.

Curiously, it may have taken management by surprise too — at the time of the interims. Tiger's managers let it be known they didn't expect great shakes from the second half. And it was a rough time the maze industry has come through a stressful deregulation, the poultry business was clobbered by imports on a vast scale and Tiger had to put up with high charter rates in its island View Shipping operation.

The preliminary results make it difficult to glean much, but what is clear is that the substantial cost-reduction exercises put in train by MD Nick Dennis have borne exceptional fruit. Of course, Dennis is well known in the industry as Mister Cost-Cutter and the results from Tiger suggest the organisation certainly was a fat cat. "You have to hand it to him," says Ed Hern, Johannesburg analyst Syd Vianello. "He really has done it.

Moving with speed in the company's food division, Dennis closed plants in Queensdown and Petersburg and concentrated increasing volume production where economies of scale would have the best impact. In the process many people have been retrained though numbers aren't available.

The results speak for themselves on improved earnings of 27% overall, the food division contributed the biggest increase — 34% up to R308m. Pharmaceuticals grew 18% to R140m and fishing declined 5% (because of the sale of 33% of the holding in Oceanic) to R18m.

All this leads to a re-examination of Tiger's vulnerabilities and strengths. First, the successes international food giant Mars arrived with Uncle Ben rice branded for an easy fight. The outcome is clear. Tastic swelled and occupied the available space.

Any challenge Mars posed to local confectioners was met by other local producers though it is worth noting in passing that Beacon's dominance of sugar confectionaries (non-chocolate, nougum) is probably unassailable (about 45% market share).

The strengths lie in some well-established brand businesses. Tiger must be invulnerable in products like oats and peanut butter, its Spar supermarkets are making market share even dreams. Langeberg has found an international partner and may produce some spark in the next year. And despite the problems, Tiger has definitely shown how to run a poultry business.

However, challenges may lie in wait. Mars is hoovering again, this time with its famous brand of pet foods. The pasta business is crowded and more competitive. Pick 'n Pay's internal restructuring may make growing Spar more difficult.

Tiger's balance sheet is a model of underlying strength. The group has no debt and net surplus cash of R380m. Though the numbers are not provided, since there are long-term liabilities of R473m and a gearing of 30%, this points to short-term borrowings of R380m and cash in hand of R12bn.

This is supported by powerful cash generation of R846m. Even after taking R75m into working capital and forking out R258m for future operations, the net surplus for the year is R420m.

Dennis's problems down the line are that cost-cutting is laudable but can't go on forever. He says he is only a third the way through restructuring, so what is to follow will be watched with unusual interest. Organic growth is now necessary, never easy in a mature business though Tiger is demonstrating real signs of initiative by building the shelves with new products, variations of old ones and new formulae recipes.

At R61 the counter is near its 12-month high of R62.50 (registered just a few weeks ago) and is on a p/e of 19.7 (which compares strangely with competitor Premier's 21). The range of broker expectations is wide, from as little as 14% growth next year to a massive 37%; 20% is probably a safe bet.

At this level the counter is fully priced though good companies are always expensive to buy anyway.
Trimmer Tiger Oats embarks on food operations shake-up

Beatrix Payne

TIGER Oats is to embark on a shake-up of its mainstay branded consumer food operations following staff cuts which reduced overall group numbers by nearly 10% in the year to September, finance director Wallace Holmes said yesterday.

The group shed about 3,000 employees during the year in the initial stages of its restructuring, and by the end of September its staff complement was down to 29,400.

While the staff numbers had been cut across the board last year, most of the losses had been in the staple foods division.

The branded consumer products division — which was responsible for about 40% of group profits — would come under the spotlight this year as operating margins there were not what they could be, Holmes said.

"The operating margin (in the division) is less than 10% and that is not good enough. International branded food companies would not consider a 15% margin too bad," he said.

However, he could not say how many employees would be lost in the current year as the group did not have specific quotas.

"We will look at each business and identify what is required. In some cases that may mean no-one is retrenched," he said.

Tastie Rice, for example, was trading at a large premium compared with some of the competing house brands. Margins could be improved either by not raising prices or by milling rice in SA on a smaller scale, he said.

Tiger Oats' shares closed unchanged on the JSE yesterday at R61 after the group had reported a 57% increase in attributable earnings for the year to September.
Call to curb illegal food imports

ACTION had to be taken to eliminate illegal and fraudulent imports of a broad range of food products, Tiger Oats chairman Robbie Williams said in his annual review.

The extent of these imports was of great concern as they constituted unfair competition and a serious threat to local industry.

He said the phasing out of both the government’s general export incentive scheme and SA tariffs judged to be excessive, and the lifting of the few remaining import quotas, would put prices of locally produced products under pressure. Although Tiger had the resilience to react to normal competitive pressures, the local market had to be protected against dumping and illegal or fraudulent imports.

“SA needs a less complicated tariff system and, most importantly, an effective customs monitoring and surveillance system administered by sufficient numbers of trained staff capable of quick investigation and prompt action when contraventions occur.”

Tiger achieved record results in the year to end-September with earnings up 27% to R466m, earnings per share up 27% to 310c and dividends increasing 27% to 108c.

While the country saw a welcome return to economic growth it was lower than expected. “Certainly the economy will need to grow at a faster rate if the level of unemployment is to be reduced and jobs created.” — Sapa.
Call for new tariff system on oil cake

Louise Cook  PD 5/12/95

THE Animal Feed Manufacturers' Association called for a new tariff system on imported oil cake, which had resulted in government creaming off R13m a year from the industry. Association spokesman Hanne Becker said yesterday:

Oil cake is the raw material used for the manufacture of animal feed products. He said an unreasonably high tariff had been charged on imported soya oil cake, with the tariff rising to R241/ton in January 1995 from the previous R100/ton.

The association called on the Board on Tariffs and Trade (BTT) to decrease the duty to R165/ton as a temporary measure, but a permanent solution will see tariff on soya oil cake fall to R30/ton. This rate should be fixed for an indefinite period and adjusted only if major changes occurred.

Becker said in terms of the current system, the BTT reviewed the tariff on imported oil cake every three months, but it took government nine months to implement any changes.

"The process took too long — tariff adjustments have to be approved by three ministries. The high tariff has now pushed production costs up to R1.144/ton instead of R900/ton, costing the country R37.5m a year."

Becker said consumption was 500,000 tons of oil cake, and about half was imported from Argentina. The BTT was not available for comment.
'Many job advertisements flout interim constitution'

BY FRANCOISE ROTHA

Cape Town — More than 50 percent of job advertisements are discriminatory and illegal in terms of the interim constitution and the bill of rights, says Elizabeth Milne, co-founder of the Affirmative Action Alliance.

"They typically fall into two categories — those that are obviously discriminatory where an applicant's race or sex is stipulated and those that are plainly bad in terms of their wording," she says.

Milne said that advertisements now had to include details of the inherent requirements of a particular position.

"Terms like 'Xhosa-speaking' have come to mean African and often have nothing to do with the requirement of the applicant to speak the language," she says.

She said that employers should be aware that the constitution had made provision for legal action if an applicant felt that he or she had been unfairly discriminated against in the selection process.

In terms of the interim constitution, if someone can supply reasonable evidence of discrimination, the case will be assumed to be proved, unless the person or organisation accused can produce evidence to the contrary.

The fact that the onus of proof lies with the employer has sent a shock wave through local industry since organisations are now forced to disclose their selection processes if challenged on reasonable grounds of unfair dismissal.

"This is quite reasonable because the individual generally would not have access to the documentation and evidence necessary to prove his or her case in the usual way," says Milne.

For the purposes of determining unfair labour practice, the Labour Relations Act includes an applicant as an employee.

Milne said, however, that the discrimination had not yet been challenged in the courts, but that it was just a matter of time.

Commenting on discrimination on arbitrary grounds, Milne said that while it had been outlawed, the righting of past wrongs through corrective or affirmative action was still acceptable.

"Affirmative action could be problematic if one regards it as being in conflict with equality. It is less so if seen as a means of establishing a society based on equal opportunities for all.

"Most South African employers are likely to experience far more difficulty accommodating the practical requirements of non-discriminatory selection. That is apart from the fact that many organisations believe that their present practices are non-discriminatory," she says.

Foodcorp looking to buy assets

BY CHARLOTTE MATHEWSON

Johannesburg — Substantial acquisitions must be made to complement organic growth in its existing operations if Foodcorp is to become a world-class, internationally competitive business, chief executive Dave Kenneally said in the group's latest annual report.

Bearing in mind the group's plans for Foodcorp, the group has aimed at forming alliances with global food groups. Two years ago it formed a joint venture with The Pillsbury Company, and during the past year has formed a company with PepsiCo Foods, which owns Sutheba.

In addition to the value these companies have added locally, Pillsbury and PepsiCo Foods have opened new export doors to Foodcorp and its products.

The link with PepsiCo Foods included a first-option right for Foodcorp to co-invest in any future African ventures.

In the year to August, the group reported a 17 percent improvement in shareholders' profit to R201.9 million compared with the previous year.

Foodcorp chairman, Grant Thomas, said most of the group's businesses, with the exception of Marine Products, which enjoyed reasonably favourable operating conditions, had had to buck industry trends in the past year and, in the circumstances, achieved "very creditable" results.

Kenneally said the short-term outlook for the food industry remained mixed. However, the group expected to achieve further real growth next year owing to its market position, management team and healthy balance sheet.
Tiger Oats confident of real growth

By Charlotte Matthews

Johannesburg — The markets in which Tiger Oats operates are expected to become even more competitive than before as international activity in South Africa increases, chairman Robbie Williams said in the group's latest annual report.

Tiger Foods, Adcock Ingram, Logos and Oceana Fishing have been anticipating this challenge for the past few years and have been working to establish their brands and become more competitive, both in cost and against international companies.

"Against this background we are confident of producing real growth in earnings in 1996."

Williams said South Africa's return to economic growth in the past year had been welcome, but lower than expected. The economy needed to grow faster if unemployment was to be reduced.

The phasing out of the government's general export incentive scheme faster than initially expected would put the prices of locally produced products under pressure.

Tiger Oats could react to the normal competitive pressure of the marketplace. However, the local market had to be protected against illegal or fraudulent imports.
ICS showing depends on tariffs

Beatrix Payne  B7 7/12/95

NEW tariffs for agricultural imports would need to strike a balance between cheap food and job security, ICS Holdings said in its annual review.

The food group procured most of its raw materials from the local farming community, linking its own prospects to those of SA farmers.

Group margins had come under pressure during the year following a flood of cheap imports of meat and poultry. Chairman Robbe Wilhams said the situation had been aggravated by shortcomings in the SA customs surveillance system. This had created opportunities for goods to enter the country fraudulently.

The CG Smith-controlled group reported a 44% rise in attributable earnings to R108,5m for the year to September on sales up at R2,9bn from a previous R2,8bn.

The current year's performance would depend largely on the size of import tariffs and the outcome of negotiations over agricultural policy.

It was disappointing that the group only had minority representation on the fisheries policy development committee as the deep sea trawling industry was highly capital intensive and a significant provider of employment.

Trading conditions in the year ahead would be "challenging" and margins would continue to come under pressure. It would continue to direct its focus away from commodity products to higher margin branded products.
ICS expects tough trading conditions

(Cape Town — A slowdown in consumer spending and high levels of crime and violence, which had a significant effect on investor confidence, were likely to affect on the results of Imperial Cold Storage (ICS) Holdings over the next year, says the chairman of the food group, Robbie Williams.

Saying his expectations for the year ahead in the company’s annual report, Williams said that trading conditions were likely to be challenging.

Operating margins would continue to be under pressure.

He attributed some of this pressure on the economic upswing being restrained to some extent by effect of the drought on agriculture and the fact that weather and soil conditions in the country meant

and shortages

These were influenced by weather conditions and the extent of imports, he said.

He said, however, that the benefits of strategic mergers, improved efficiencies and cost competitiveness and further product development should result in real earnings growth over the next year.

Much would also depend upon the government’s attitude towards the imposition of protective tariffs to regulate the volume of imported proteins, and upon the effect of its competition policy, he said.

Commenting on tariffs, Williams said that it is important that the new tariff policy should provide an appropriate balance between the importation of cheaper foods on the one hand, and the need for job security in agriculture on the other.
Activities: Production, manufacture and distribution of food
Contrab: Malbaks 76%
Chairman: G Thomas CE D Kenneally
Capital structure: 48,1m ods Market capitalisation R1,73bn
Share market: Price 3.600c Yields 0.8% on dividend, 7.1% on earnings, p/e ratio 14.0, cover, 8.5 12-month high, 3.700c low, 2.060c Trading volume last quarter, 466,159 shares

Year to August 31 '94 '93 '92 '91
ST debt (Rm) 240 297 112 99
LT debt (Rm) 24 54 108 67
Debt equity ratio 0.41 0.19 0.28 0.55
Shareholders' interent 0.62 0.53 0.56 0.57
Int & leasing cover 4.5 3.7 3.9 11.2
Return on cap (%) 14.1 14.1 13.6 11.8
Turnover (Rm) 1 705 2 675 2 755 3 088
Pre-int profit (Rm) 118 183 108 202
Pre-int margin (%) 6.9 6.9 6.8 6.5
Earnings (c) 160 211 221 257
Dividends (c) 53 60 60 27
Net worth (c) 1 190 1 391 1 501 1 919

is chalk up some steady achievements, despite what he terms a "roller-coaster ride" in the past year.

On the negative side, he cites a slower and weaker economic recovery than expected, plus high cost and volatile supply of "agricultural inputs". Competition, mainly as discounting, was aggressive and the well-publicised cheap protein imports depressed margins, as did increased production costs and the loss of 50% of Simba's contribution for the last three months.

Counterbalancing these are the "exceptionally good results" from operations such as Marine Products, which "enjoyed reasonably favourable operating conditions," says chairman Grant Thomas Ruto and Nola, on the other hand, had to "back adverse industry trends" to deliver

Kenneally considers that Foodcorp's diverse product range, embracing staples on the commodity side and value-added products in the branded goods sector, has stood it in good stead

Turnover rose 12.0% though margins fell from 6.8% to 6.5%, and attributable earnings grew 17.0% to R124m, or EPS of 257c. Immediate reaction on seeing no final dividend shock, but the reason, says Kenneally, is to save on STC in expectation of it being "abated or at least reduced in the next Budget." Covenants in the Debenture Trust Deed preclude a scrap dividend, so the 1996 interims should see a higher dividend in compensation.

The effective tax rate dropped to 31.5% as the transitional levy fell away, and net interest paid shrank to R13m as total borrowings dropped to R166m (interest on debentures was steady at R5m). Gearing is low, further offset by R161m in cash and deposits — overall a strong balance sheet.

Capex of R53m for 1996 was low, but major spending is planned for 1996 — mostly at Simba's three plants, into which PepsiCo Foods International (PF1) technology — considered world-class in manufacturing circles — will be introduced.

Foodcorp, maintains Kenneally, has as one of its "principal strategic objectives" the formation of alliances with "global food groups". So far it has concluded joint ventures with Pillsbury Africa to manufacture frozen foods and PF1 in Simba. Benefits include export opportunities and the option to invest with PF1 in future African ventures — several of which are being considered.

Of the existing joint ventures, Simba performed well in the wake of its restructuring, gaming market share and boosting volumes. Enterprise and Pillsbury were less successful, hit by raw material shortages (pork and peas) and a chicken glut.

Pillsbury now has a new management team, "and the business has improved considerably," says Kenneally. It is reiterated that the quality of management cannot be emphasised enough. Though the market expected more of Foodcorp, it did produce good real growth and appears to have the fundamentals in place for an even better future performance. The shape of the food industry is changing in the "New SA," however, and continued vigilance is in order. The share is probably fairly priced.

Margaret Anne Hobbs

FOODCORP

Eating better

CE Dave Kenneally landed in an unenviable situation when he took charge at Foodcorp. A group in shock after the sudden loss of its previous CE and an economy staggering unsteadily to its feet after years of recession could not have been his first choice. But he
Premier Foods to offset good group results

BY CHARLOTTE MATHIES

Johannesburg — A poor return from Premier Food is expected to offset good performances from Premier Group's other listed and unlisted investments in interim results, for the six months to October, due tomorrow.

Analysts said this week that they were forecasting an increase in earnings a share for the group of about 20 percent for the full year to April, but that would be earned mostly in the second half.

The listed subsidiaries and investments that have recently reported interim figures have improved earnings by between 14 and 29 percent.

Premier Pharmaceutical, 57 percent owned, lifted earnings 14 percent to 63.2c a share. This was marginally below the 15 percent rise in earnings reported by 47 percent-held Clicks to 6.3c last Friday.

Also on Friday, Bonita Holdings, in which Premier retained 61 percent, reported a 20 percent rise in earnings to 12.5c.

Premier's 32 percent-held CNA Gallo, reporting for the six months to September, lifted earnings by 22 percent to 5.5c. The star performer has been Metro Cash and Carry, 68 percent held, which grew earnings by 29 percent to 31.4c in the six months to October.

The group has a 50 percent stake in unlisted Teltron, a photographic and consumer electronics business, which was likely to have been underperforming ahead of the scrapping of surcharges in October.

Analysts said the first half had been hard on Premier Food, the 100 percent-owned wheat and maize milling, baking, margarine, edible oils, peanut butter, petfoods, cotton ginning and fishing operation.

A number of factors were mitigating against a rapid turnaround in the subsidiary, which reported a 44 percent drop in attributable earnings in the year to April after an ill-executed attempt at restructuring.

In the past six months, Premier Food has had to contend with upheavals in the maize industry, including drought and deregulation, while pressures on input costs arising from those upheavals met with consumer resistance.

☐ See Background&Analysis
Subsidiaries shore up Premier's earnings rise

BY CHARLOTTE MATHEWS

Johannesburg — The Premier Group reported an marginal improvement in sustainable earnings in line with market expectations in the six months to October compared with last year but the core food business has shown signs of turning around and is forecast to show a significant improvement in the second half.

Attributable earnings after exceptional items rose by 56 percent, but the current year benefits from the comparison with the last interim period when there was an exceptional loss of R35.9 million on the restatement of results at United Pharmaceutical Distributors.

Excluding that item, sustainable earnings were R100.4 million this year from R100.1 million last year.

On a higher number of shares in issue, earnings before exceptional items were 12.0c (12.1c). Capitalisation shares or an interim cash dividend of 4.0c, unchanged from last year, have been declared.

Group sales were 13 percent better at R8.6 billion on which trading profit surged by 26 percent to R81.5 million, mainly because of a good performance from the listed subsidiaries — Metro Cash and Carry, Premier Pharmaceutical, Boneta Holdings, CNA Gallo and Clinks — and encouraging progress from the unlisted companies. The interest bill rose to R92.2 million and total borrowings on the balance sheet now stand at R1.1 billion from R915 million a year ago.

The increase in debt arose mainly from a greater investment in maize stocks in Premier Foods.

The group said it was planning to reduce its borrowings.
IC's achievements over the past few years add considerable weight to the premise that recession and/or negative trading conditions in a particular industry are vital components of any business cycle.

The rationale for this is as simple as it is logical. Faced with adversity, companies are more inclined to take a long, hard look at themselves and to implement what may at the time be painful strategies to enhance their long-term potential.

This was the situation facing ICS a few years ago when it realised it was going nowhere. For a variety of reasons, it was having no noteworthy success in recovering the ground lost in 1990's 35% earnings fall. Its answer was to embark on a two-pronged programme, which has changed the face of the business by concentrating on higher value-added products in its turnover mix and investing from activities which had shown consistently poor returns.

Some of these decisions cannot have been easy — and might not have been made under more favourable business conditions. There must have been much soul-searching before ICS decided to enter into joint-ventures with rivals, such as the Early Bird chicken operation (with OTK co-op) and the Cold Cham and Enterprise businesses, both jointly owned with Foodcorp. The same considerations apply to the dicing of man (but unsuccessful) operations, such as the Clayville dairy faciliy in Gauteng.

Moreover, the transformation that has taken place must be a source of considerable satisfaction to management. Comparing 1995 with 1991, group turnover in real terms has declined 13%. But there has been a fourfold increase in trading margin from 1.5% to 6.2%, while gross return on total assets has jumped from 3.9% to 14.3%.

There has been a proportionately smaller improvement in ROE, but it has climbed from a substandard 11% four years ago to almost 28%, despite a current effective tax rate of close to 38%.

The high effective tax rate underlines another point not all of the steps taken so far have made their full impact on the income statement.

Last year's attributable profit still included R16.2m in losses from both subsidiaries and joint ventures which, as corrective action works its way through, will provide a further source of profit improvement. This is one reason why chairman Robbie Williams and MD Roy Smither can forecast with some confidence that 1996 will be another year of real earnings growth.

One of the disappointments of the year was that ICS failed to get any recognition from the market for its achievements. Though the current 3 750c share price is a historic high, the 36% gain (from 2 750c) since the J.M.'s review of the 1994 annual report did not keep pace with the improvement in earnings and dividends. Yields are higher than a year ago and the share, by implication, is relatively cheaper.

Two possible reasons for this are the slow-down in growth during 1995's second half (the gain in EPS, for example, declined to 27% for the April-September period from 66% in the first half), which was op-
New energy drink for release

BY LEONARD JONES

Johannesburg — Another product in the highly competitive energy drink market is to hit South African shelves at the end of this month.

Guv, the European market leader, will be imported from Germany and is the first of several speciality food products to be introduced to the local market by Cape Town-based Brain Wash Marketing.

Newly formed Brain Wash represents a joint venture between German-owned Henness and Henness and Thumb Trading, which holds the exclusive agency in South Africa for various prestige food brands, such as HERSHEY'S Chocolate and Campbell Soups.

Initially introduced to the German market last year, Guv sold out its entire 300,000 unit run during its February launch phase. By the end of the year, Guv had sold more than 15 million cans. This year, the company is expected to capture 30 percent of the 150 million can-a-year market in Germany.

Guv's distributors aim to capture 80 percent of the local energy drink market and nearly 250,000 cans have been ordered for the South African launch phase.
Chiclets scoops 10% market share

BY FRANCOIS BOTHA

Cape Town — Warner-Lambert has scooped a growing share of the R100 million South African chewing gum market and, according to product manager Eric Hardy, strong growth of its brands will boost the company’s confectionary arm.

Hardy said that Warner-Lambert, the company which invented chewing gum earlier this century, had concentrated its efforts on establishing chewing gum brands on the local market.

South Africa’s contribution to Warner-Lambert’s total turnover was “fairly small” at the moment, but substantial growth was expected from the products.

“As a result, they are likely to outpace the growth in contributions of pharmaceuticals. We are expecting that chewing gums will be among the top four or five brands of the company.”

Hardy attributes the company’s success to the launch of Chiclets in July, which has gained significant market share from rival brands, Beeches and Stumrol.

Chiclets currently holds 10.1 percent of the South African market. Together with the company’s other chewing gum brands Dente, Trident and Clorets, Warner-Lambert holds about 25 percent of the South African market, ahead of Stumrol.

Beeches is still market leader; despite having lost about 8 percent during the past year.

Growth figures for the year to the end of December will be available within two months.
I&J to build new R20m head office

BY MAGGIE ROWLEY

Cape Town — New R20 million headquarters will be built in Cape Town for I&J, the fishing company in the Anglovaal stable.

Work on the new headquarters, which will provide a total of 10,500m² over three floors, with two additional parking levels, will start shortly.

Completion is scheduled for December this year.

The block will be built on a vacant lot bordered by Prestwich, Bennett and Cardiff streets near the Victoria & Alfred Waterfront, giving easy access to Cape Town docks and I&J's fishing activities.

Gnicker Projects & Properties, a division of Gnicker Construction, which is also in the Anglovaal group, has been appointed project managers.

Roy Gordon, the managing director of I&J, said the building would allow the group to relocate its activities under one roof. He said activities were presently housed in various buildings in Cape Town's city centre.

Financing options were still being finalised, he said.

The new building has been designed by architects Douglas Roberts and Peter Loebenberg. Quantity surveyors for the project are CP de Leeuw. The structural engineers are Walden & Colussi.

Partnership de Villiers are the mechanical engineers, and GH Marais & Partners are the electrical engineers.
Food manufacturing behind PPI rise

Staff Writer

Johannesburg — South Africa's producer price inflation rate increased marginally to 8.3 percent for the 12 months to November from 8.2 percent in October, the Central Statistical Service said yesterday.

The increase came in the wake of a sharp 1.5 percent month-on-month rise in food at the manufactured level. Food at the agricultural level declined by 0.7 percent.

The local component of the producer price index (PPI) rose by 0.3 percentage points month-on-month, while the imported component was flat.

The subdivision of the PPI shows that for the 12 months to November last year the increase in prices of locally produced commodities was 9.0 percent, while the rise in the prices of imported goods was 5.5 percent, the reason for the hike in the total index being contained to 8.3 percent. This was, however, the second consecutive monthly rise. The PPI was 7.6 percent for the year to September.

On the basis of the rise in the PPI, some upturn in the consumer price index (CPI) can be expected when the December figure is released later this month.

But economists generally are confident that the annual rise in the CPI for this year will be less than 10 percent. Some forecasts range as low as 8 percent, although an accelerating trend in the closing months is also widely expected.

Standard Bank yesterday forecast producer inflation would average 9.5 percent last year and between 7.0 percent and 7.5 percent this year.

Ian Goldin offered top job at DBSA

By Duma Gqoboka

Johannesburg — The Development Bank of South Africa (DBSA) has offered the position of chief executive Ian Goldin, a senior economist at the European Bank for Reconstruction and Development (EBRD) in London.

The post was widely expected to be given to a black candidate after a palace revolt by black professionals at the bank almost two years ago.

Sources within the bank said yesterday that the board had decided to offer the job to Goldin after the last-minute withdrawal of Timothy Thabane, a Lesotho national and vice-president of the World Bank.

The Development Bank chairman, Wiseman Nkuhlu, last night confirmed that the board had met on Tuesday to discuss the appointment of an acting chief executive for the bank as negotiations with Goldin were taking longer than hoped.

The DBSA is a quasi-government agency that provides finance for development in southern Africa. It has played a key role in the development of the RDP.

Black DBSA managers said yesterday that the bank had gone out of its way to look for a suitable black candidate. They were prepared to give Goldin a chance because of his widespread international experience.

"After all, our demand is that development must reach the people on the ground. It does not follow that this will not happen if a white person is appointed," a source said.

Goldin, 40, left South Africa in 1978 and has worked as an economist at the Organisation for Economic Co-operation and Development and the World Bank. He has worked at the EBRD for the past eight months.

WHAT'S THE SCORE? Enoch Godongwana, the general secretary of the National Union of Metalworkers of SA, takes a break during yesterday's talks with the government on privatisation.

Photo: John Woodcock

Strike delays protest

FROM SAPA

Johannesburg — A march by post and telecommunications employees protesting against proposals to privatise state assets was delayed by a Putco bus drivers' strike in Johannesburg yesterday morning, a union official said.

Ali Kabay, the Witwatersrand secretary of the Post and Telecommunication Workers' Association (Putwa), said the marchers had planned to hand a memorandum to Gauteng's premier, T. J. le Seowale. However, they were waiting for members of the association from Soweto who did not have transport to the city.

About 500 Putwa members toyi-toyed and waved placards outside the union's headquarters in the city centre.
Premier Foods a big beneficiary

Edward West and Jacqueline Zaina

PREMIER Group would use some of the proceeds from a R400m-R500m rights issue and the sale of Clicks to Malbak to recapitalise recently restructured Premier Foods, Premier Group finance director John Sturgeon said yesterday.

Premier chairman and CEO Doug Band said the group was finalising plans for a rights issue to raise at least R400m, and hoped to table the proposals before March. The group’s previous estimate of a possible R800m cash call had not taken the sale of Clicks into account, Band said.

Sturgeon said Premier was concerned about its level of debt, which amounted to just more than R1bn at the end of the first half to October 31, 1995. The rights issue and sale of Clicks, expected to net more than R400m in cash for Premier, represented the latest developments in a major restructuring of Premier’s interests.

Other aspects of the restructuring were the hiving off of Premier’s food division into a stand-alone subsidiary, and the sale of the group’s half share in Epol to Rainbow Chicken. This price tag was the subject of arbitration.

Malbak CEO Grant Thomas said Malbak had been searching for an opportunity to “move more closely into the retail sector” for some time. He was happy with the purchase price.

Thomas did not foresee major management or operational changes. Clicks stores were trading well, Descom was growing fast and the Muncha chain had moved into the black.
Foodcorp to meet target

Foodcorp said yesterday that the group would achieve its forecast of a 14%-16% increase in earnings for the year to August, but growth in the first half was likely to be in the single-digit range, chairman Grant Thomas said.

At the AGM, Thomas said dumping of imported chickens and large-scale importation of lower-grade beef had reduced red meat prices. A sharp decline in prices since mid-July, had cost the group about R5,5m in attributable earnings.

Foodcorp's earnings grew 18.5%-19% in the first half of last year, but red meat prices had since fallen to about R8 from R8.50-R10.

Strong performances by Foodcorp's marine products division and its grain-based interests and branded products — Simba, Nola and Enterprise — would ensure the group attained its earnings target for the year as a whole, he said.
Oceana meeting
profit forecast

Business Editor

OCEANA Fishing is on course with profit forecasts for the first quarter of the 1995-96 financial year, managing director Dave Behrens said yesterday.

He told shareholders at the annual meeting in Cape Town that results were ahead of last year's.

Total allowable catches of anchovy for 1996 had been set at 200 000 tons, compared with 210 000 tons last year, but the figure would be reviewed this month.

Since the beginning of the season in the middle of January, Oceana had landed 5 617 tons of fish, compared with 12 452 tons last year, Mr Behrens said.

The large catches of redeye herring, which had filled the nets last year, had not been seen this year.

The total allowable catch of pilchards had been set for the industry at 64 500 tons, compared with 117 000 tons last year.

Lobster fishing was going well, with 261 tons landed since the season began in November, compared with 238 tons last year.

Demand in Japan, South Africa's main market, was steady, but prices had weakened.
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The total allowable catch of pilchards had been set for the industry at 64,900 tons, compared with 117,000 tons last year.

Lobster fishing was going well, with 261 tons landed since the season began in November, compared with 238 tons last year.

Demand in Japan, South Africa's main market, was steady, but prices had weakened.
Alcohol abuse soaring

STUART RUTHERFORD

Durban — More businesses are suffering productivity losses as alcohol and drug abuse in South Africa continue to soar.

Jan van der Merwe from the Durban branch of the South African National Council for Alcohol and Drugs (Sanca) said all three measures of chemical abuse are on the increase per capita consumption of alcohol, absenteeism at work and demand for treatment.

"Demand for our services has increased by 11 percent in the last financial year. Figures for this year will be even higher," he said.

Van der Merwe estimated that 25 percent of the average alcoholic's salary is lost to the company through the drinker not being at work or not being fully productive.

He said the self-employed, people in creative professions and those in the hotel and liquor industry were worst affected.

"Creative people are particularly high risk, the thing that makes them creative, sensitivity, also makes them vulnerable to the knocks of life," said Van der Merwe.

He said the high levels of unemployment and the increase in disposable income recently had exacerbated the problem.

"People are also being promoted to stressful positions, without being taught how to handle the stress."

Van der Merwe encouraged companies that had a problem to improve the standard of health of their employees, dispose of company bars and to get involved in the Employee Assistance Programme.

The programme, run only by Sanca in Durban, aimed to encourage employees to seek confidential help before their personal problems affected their job performance.

Van der Merwe said the programme was highly cost-effective.

"For every R1 you invest in the programme you get R4 to R5 back through improved productivity."

Sanca had trained 400 coordinators from around the country and would run eight courses this year, he said.

Van der Merwe said employees with dependency problems who worked in an unsympathetic company should approach Sanca before going to an "unpredictable boss."
Biscuit factory may close and retrench 188

Jacqueline Zaina

NATIONAL Brands' Associated Biscuits may shut down its Port Elizabeth factory because of an expected increase in competition following the scrapping last October of the 45% surcharge on imported biscuits.

MD Cliff Sampson said yesterday the company, which produces the Pyotts, Bakers and Baumann's brands, would probably close the operation in the first quarter of next year.

The move, currently being negotiated with the Food and Allied Workers Union, may result in the retrenchment of all 188 employees.

"We are being compelled to streamline operations in order to remain competitive with international brands," he said.

Nabisco's recent acquisition of a 50% stake in Royal Biscuit and the entry into SA of Danone — Europe's largest biscuit manufacturer — through a 38% share in Clover SA, would intensify competition in the local market.

Sampson said Associated Biscuits' three main brands had originally operated as separate companies with their own manufacturing operations. However, production would be rationalised in a bid to reduce overheads.

The Port Elizabeth plant, which manufactures Romany Creams and Saltcrust, would be integrated into one of the company's existing factories in Isando, Cape Town or Durban.

The company was involved in talks with the union on an incentive scheme for workers at the plant, in terms of which they would be paid a cash sum at the proposed date of closure to ensure productivity levels were maintained.

No further rationalisation was planned at present, he said.

Associated Biscuits has a technology agreement with United Biscuits in the UK in terms of which it imports McVitie products and United Biscuits distributes Pro-vita in the UK on behalf of its SA counterpart.
Kolosus reports 21.5% drop in half-year profit

BY JOHN SPERA

Johannesburg — Kolosus Holdings, the natural protein group, has reported attributable profit before exceptional items of R23.8 million for the six months to last November — 21.5 percent down on the figure for the comparable period of 1994.

The company declared a maiden interim dividend of 11c a share.

Turnover increased by 31.9 percent to R96 million and operating profit rose by 33 percent to R32 million.

Managing director Tito Vorster said gearing had been negatively influenced by the Silveroak acquisition, which had a major effect on the interest bill. Nevertheless, he expected Silveroak to make "a good contribution" to future profitability at Kolosus.

Some of Silveroak's businesses, which had been making losses before and after the takeover, had already shown some positive reversal. They had become profitable a mere four months after the takeover because of Kolosus's rationalisation, financial discipline and because it had been incorporated into the group.

Rationalisation and restructuring costs had totalled more than R20 million. These costs, together with a write-off of R6 million goodwill, had been disclosed as an exceptional item in the income statement for the six months.

Vorster said since the exceptional item was non-recurring, it was not taken into consideration for the purposes of calculating the dividend.

He said that after the Silveroak acquisition, Kolosus's main business had shifted emphasis from the fresh-meat trade to the leather industry.

"The rationalisation of Silveroak and its incorporation with the Kolosus group offers benefits and savings of more than R30 million annually."

Vorster said steps had been taken to reduce gearing among them.

- The Silveroak acquisition and the resultant improved balance in Kolosus would let management disinvest much faster from the low-margin carcass trade, which had been strategic for the securing of hides and skins.

- Stock would be consolidated in the joint Kolosus leather resources division, at Port Elizabeth. This had been made possible by placing the group's tanneries on a "just-in-time" stock system, releasing substantial amounts of operating capital to be applied towards the redemption of interest-bearing obligations.

Kolosus was first listed in December 1994. Its first interim report showed sales up 49 percent and attributable income up 60 percent.

However, the subsequent six months reflected a slowdown because of the group's entry into the vehicle upholstery export market, which required a substantial increase in stock and capacity. Earnings for the full year of R1.86c a share fell below the prospectus forecast of 99.04c.

The most recent interim statement demonstrates that Kolosus continues to struggle with burgeoning financing costs — which is probably why the share's 6.5 price-earnings multiple is well below the average for the JSE's food sector.
Del Monte posts decline in earnings (186)

Johannesburg — Branded food group Del Monte Royal International yesterday posted a 20 percent decline in earnings a share to 42.6c for the 12 months to end-November last year, from the 53c reported for the previous financial year.

The strength of the Kenyan shilling, from where much of the group's fruit is sourced, together with the reduction in the General Export Incentive Scheme exporters' allowance from 19 percent to 12 percent, was largely responsible for the fall.

A final dividend of 16c a share has been declared, bringing the total for the year to 16c compared with the full-year dividend payout in financial 1994 of 21.5c a share.

A second-half improvement in demand compared with the introduction of new products lifted turnover for the year by 19 percent to R1,838 billion (R1,546 billion). However, a sharp drop in operating margins to 10 percent (14.7 percent) saw this translated into an operating income decline of 13 percent - taking income before tax and interest down to R196.7 million (R226.9 million). A 23 percent increase in interest payments compounded the damage and, despite a R6 million kick-in from associates, attributable earnings showed a 26 percent year-on-year knock to R145.5 million (R181.1 million).

A restatement of the previous year's figures, due to requirements to bring exceptional items above the line, saved the group from having to report a 30 percent decline in earnings a share. The restatement brought earnings a share for 1994 down from the 61c announced a year ago to 55c. The 30 percent decline was in line with management's forecast at the interim.

Chief executive Vivian Inerman said he was budgeting for an increase in earnings this year.

Investors losing patience

Johannesburg — Four years ago the investment community seemed evenly divided into two camps — those who supported the Royal/ Anglo purchase of European-based food company Del Monte and those who opposed it.

Performance in the four years since the 1992 acquisition brings the evidence down firmly on the side of those who thought Vivian Inerman, the chief executive of Del Monte and Anglo were extravagant in paying Rs4.4 billion for a high-quality brand group at a time when sophisticated European consumers, who represented the bulk of its market, appeared to be moving away from up-market branded products.

Inerman said the switch to own-branded and ternary products was a temporary phase, and the group's plans to extend the application of its valuable brand name to other fruit products as well as to expand into Eastern Europe ensured the group was a good buy.

"Unconvincing" was one of the more polite responses to yesterday's presentation by the Del Monte Royal Food executives, who were hearing for the fourth successive year these same reasons as to why earnings would get better. Exposure to the Kenyan shilling, to the world pineapple crop, among others, and to sophisticated European consumers are not being viewed as bullish factors by investors. The executives may have the patience, but it seems more and more investors do not.
Genfood in Namibian venture

BY ROY CORAVNE

Pretoria — General Food Industries (Genfood), the Pretoria-based food manufacturer, has entered a joint venture agreement with a prominent Namibian businessman to establish a R25 million wheat mill in Walvis Bay.

The mill is expected to be in production during the first quarter of next year. The joint venture agreement is with Aaron Mushumba, the chairman of the newly established Namib Trading & Milling (NTM), which has been incorporated in Namibia.

Mushumba has also been instrumental in the establishment of other Namibian projects such as City Savings, Investment Bank and Muhorob Fishing.

Genfood, a major player in the milling and associated industry in South Africa, has become the largest single shareholder in NTM with an equity of about 40 percent.

Genfood founder and executive chairman Johan Roode and Mushumba have been appointed to the board of NTM. The balance of the board members will be announced at a later date. The Agronomic Board of Namibia authorised the setting up of the mill last year, but the final agreement between the main players was finalised this year.

Mushumba said the construction of the mill was an extremely important development for Walvis Bay and the Namibian economy. He said it would provide job opportunities, training for Namibians, an alternative supply of wheaten products to Namibians and earn foreign exchange from exports of basic foods from the region.
Del Monte ‘on the road to recovery’

Edward West

Del Monte Royal Foods’ attributable earnings, which fell 20% to R145,5m in the year to November, are expected to improve this year with the European food sector showing signs of moving out of recession.

CE Vivienne Limerman said the 19% sales increase to R1,8bn pointed to the recovery in the second half and the contribution of new products.

At the half-year turnover had increased 8,7% to R762,4m.

However, operating margins fell to 10,7% from 14,7% and operating income was 13% down to R186,7m. The drop was blamed on weak pineapple prices, reduced export incentives and the strength of the Kenyan shilling.

Limerman said the improving trading conditions allowed a final dividend of 10c (13c) to be paid out, bringing the year’s total to 16c (21,5c). Share earnings fell 20% to 42,6c, but would have fallen 30% and in line with the interim forecast if the 1994 results were not restated in keeping with new generally accepted accounting practice.

Interest paid increased to R54,1m from R43,8m after an increase in working capital resulted from the policy of holding back pineapple deliveries until prices improved.

The R1,3m extraordinary profit—taken into attributable income for the first time—included R3,2m written off on professional fees and other costs associated with a failed acquisition of a European business (widely speculated to be the Switzerland-based Hero group), and about R7m in restructuring costs incurred by Del Monte’s Philippines associate, Chairman Graham Boustred.

Limerman said he was not in a position to discuss the failed acquisition but the group would have continued negotiations with the European bidders of Del Monte Foods International.

Newly appointed executive director Andrew Hawkins said there were now glimmers that the European food recession was bottoming out and Limerman expected increased earnings.

However, positive factors were being tempered by the high cost of production in SA, the reduction in GEIS and the strong rand. SA’s deciduous fruit exports were becoming uncompetitive in Europe, Limerman said.

Continued on Page 2
earnings drop 20%
but confident as Del Monte bruised

COMPANIES

BY MARCIA KLEN

In the midst of recession, Del Monte Foods, the troubled food giant, is...
**Unfortunate Del Monte struggles on**

By Ann Cony

Johannesburg — The Del Monte Royal Foods share price did not fall on the release of weak results for last year largely because investors had resigned themselves to holding on to the share for at least another two or three years. The only way out of this share, without taking a massive knock, is to sell into any sign of strength that might be caused by an occasional and temporary brightening of the group's prospects.

In 1993, institutions loaded up with the group's (then Royal Food) stock when it placed shares at 880c to fund the 1992 R2.2 billion acquisition of Del Monte Foods International.

The institutions were encouraged by Vivian Inerman's bullish talk about prospects for this high-quality branded group and by the partnership with Anglo.

Three years down the track, many shareholders are probably wishing that the Reserve Bank had somehow been able to block the deal.

No doubt the need to use the finan to effect the acquisition added to the cost, but anyone prepared to pay top dollars for a business must be motivated by the belief that he can get more profit out of it than the vendors could.

Not only have the group's shareholders not seen any improvement, they have seen a dramatic deterioration.

In year one, financial 1993, earnings a share were 61c, in 1994 earnings a share were 51.5c, but stripping out exceptional items reduced the figure to 53c, and last year earnings a share were 42.6c.

The slide to those figures is a steady erosion of operating margins. Results for the 12 months to the end of November last year show the operating margin down from 14.7 percent to 10.7 percent.

Financial 1993 was tougher than expected. Among other difficulties, a worldwide oversupply of fruit depressed margins in its pineapple and deciduous fruit operations — the group grows and cans its own fruit. Sales in the important British market were hit by own-brand products and discounters.

In 1994 British margins were still under attack and profit on the group's pineapple operations were hit by weaker world prices and the strength of the currency in Del Monte's two supplying countries — the Philippines and Kenya.

Things got even worse last year. There was no let-up in the British market, the benefits of a slight improvement in pineapple prices were more than counterbalanced by the continued strength of the Kenyan shilling, and, like all other South African exporters of manufactured goods, the group suffered a knock in its allowance from the General Export Incentive Scheme (GEIS) as the incentive rate dropped from 19 percent of the value of its South African exports to 12 percent.

The way in which the group's profit has been buffeted around by uncontrollable trading factors has prompted some analysts to suggest it deserves the sort of rating that is given to commodity-related groups such as Ixar or CMI.

The average price-to-earnings ratio for these stocks is about eight to one, which is considerably below the sort of levels enjoyed by food groups such as Langberg, now on 16.1, or Premier and Tiger on 23.1. But it is in line with the group's present rating.

Some argue there is nothing on the JSE against which the group can be accurately compared. Referring to the ratings of international branded food groups may be more useful, but it does not show the group in much better light.

Hainz is on a price-earnings ratio of 19.1, Kellogg on 22.1, Nestle on 14.1, Hero on 12.1 and Danone on 13.51.

The group's income is derived fairly evenly from four sources: confectionery and others accounts for 25 percent of earnings before interest and tax, beverages 25 percent, pineapples 26 percent and deciduous fruits 23 percent.

This type of diversified portfolio often enhances a share's rating.

But for the group, three consecutive years of disappointing results have brought many analysts to the conclusion that each year something will happen to undermine earnings' growth.

If it is not an oversupply of pineapples or deciduous fruit this year, it will be problems with one or other of the currencies that the group does business in — the rand, Filipino peso, Kenyan shilling, or the European economy might remain in a slump, or activity in the British retail market may continue to be dominated by upmarket-in-house brands at one end and discounters at the other.

Even if some consumers switch from in-house brands and discounters, in future the proven success of in-house brands is likely to act as a restraint on the margins that can be earned on premium branded goods.

For the next few years there is also the prospect of the profit being earned from GEIS being whittled away.

On the positive side, the management is successfully extending its product range, particularly into beverages, and extending its geographic markets. In recent years this has cushioned other negative factors, but has not been sufficient to boost earnings.

As some of the negative factors change around, the share price will kick up.

But a sustained improvement in the price-earnings ratio will have to wait until the market sees evidence that this is not a commodity stock.

In the meantime, developments such as a R32 million write-off for expenditure incurred on the failed acquisition of Hero will not encourage much enthusiasm.

**BULLISH Vivian Inerman, the Del Monte chief executive**

Analysts say each year something will happen that undermines growth.
Thousands down tools at Epic Food plants

Frewton 27/2/96

THOUSANDS of workers at Epic Foods plants countrywide downed tools yesterday in protest against retrenchments. - Food and Allied Workers Union (Fawu) national shop stewards council chairman Mr Peter Phakathiye said the company had retrenched about 4,000 workers since 1991.
Grape quality is high, but it is still too early to predict yields

BY FRANCOISE BOTHA

Cape Town — The quality of local grapes in the early stages of the harvest has been exceptional, but it is still too early to predict what future yields will be any higher than in the past, said Paul Wallace, the viticulturist for Stellenbosch Farmers’ Winery.

The remark comes in response to reports last week that Australia, one of South Africa’s closest rivals in the British wine market, is likely to report bumper crops, estimated to be 25 percent up on last year.

South Africa’s world wine rivals are Australia, New Zealand and Chile.

Australian producers forecast a grape crop that could be as high as 850,000 tons this year. But the most recent figures released by KWV show that this is still 25 percent less than South Africa’s 1,083 million tonnes production last year.

KWV estimates that the harvest this year will be 5.4 percent up on last year at 1,121 million tonnes.

South African wine-grape production is committed only to the production of table wines. About 40 percent of the local crop is used for brandy, distilling and grape concentrate for the fruit-jam industry.

A KWV spokesman said yesterday that only some of the early-ripening varieties had been picked. It would be necessary to wait until late-ripening varieties were picked in April before harvest figures would be available.

Wallace said the Australian figures refer to the Hunter Valley. Other areas like Coonawarra and Adelaide, which are cooler than Cape Town, would not have started harvesting yet.

He said the Australian figures should be seen in the context of good rains, which have broken four years of drought. Good rains in the Cape have also ended droughts that have persisted for the past two years in some outlying regions.

“For Stellenbosch, Paarl and the Swartland we are expecting the harvest to be much the same as last year, despite good rains. Generally, the number of bunches is the same but, in some areas there is a small berry set which will reduce the yield,” he said. Another concern of some local farmers is the rain that fell in late January — a critical time for ripening some varieties.

“Some bunches are still unripe and have not ripened evenly,” he said. “The delays in flowering and ripening are making it difficult for the grape growers to predict what they can expect.”

“The good quality of South African grapes this year is likely to be more of a deciding factor in the competition with Australia than higher yields achieved by producers from Down Under,” he said.

South Africa exports a little more than 2 million cases to Britain each year and has only 3 percent of the market compared with Australia’s 8 percent.

Of greater concern is the pricing of South African wines in Britain — the wine market most sensitive to price and quality.

On average, South African wines are £1 a bottle cheaper than Australian wines. The chairman of the South African Wine and Spirits Exporters’ Association, Janie Retief, said: “This might not sound like a lot, but it amounts to at least R60 a case.”
Police swoop again on Jumbo Liquor

Nicola Jenver

DURBAN—Customs and excise officials seized another 3,000 litres of alcohol valued at R78,000 and two motor vehicles from the Jumbo Liquor Bottling warehouse in Jacobs yesterday.

It emerged yesterday that private investigator Ernest Robbertse had been hired by the liquor industry to investigate Jumbo. He declined to name the companies but said the approach had been made by a group representing most of the industry.

The seizure follows a swoop on Tuesday in which Jumbo stores across SA were raided, as part of an investigation into alleged customs and excise fraud put at about R20m.

Jumbo's owners were not available yesterday, but two companies whose offices were raided by police denied any wrongdoing.

Bookkeeping firm Baudin & Associates said it acted only as the accounting officer for Jumbo's parent Interalex Clearing and forwarding company. The G4S said police had searched its premises for evidence without success.
Irvin & Johnson hit by poor demand, lower catch rates

Samantha Sharpe

CAPE TOWN — Earnings for food group Irvin & Johnson slumped 33% to R29.1m in the six months to December amid difficult trading conditions in major markets and subdued sales volumes.

Group chairman Jan Robertse said profitability was expected to improve in the second half, although earnings for the full year would probably fall short of those achieved in financial 1995.

Lower catch rates in the seafood division and the negative impact of chicken imports on chicken prices and sales were reflected in a muted 2% rise in turnover to R1.08bn.

A 27% plunge in operating profit to R43.8m and a higher interest charge lowered profit before an exceptional item by 30% to R38.97m.

Pretax profit fell 34% to R37.1m after an exceptional item charge of R1.8m, which was the write down of an investment to net asset value.

A lower tax charge compensated for a fall in associated company-retained earnings. Share earnings after exceptional items were 34% down at 10.1c.

Robertse said the group's joint venture company in Namibia, Kuseb Fish Products, sustained a significant loss.

The seafood division had until recently experienced lower catch rates — a condition exacerbated by difficult trading conditions in Irvin & Johnson's European and Eastern markets.

"In particular, the decline of the lira against the dollar and the consequent impact on consumer markets in Italy dampened demand for the company's products."

Canned abalone prices also came under pressure in the Far East because of reduced demand, while catch rates in Namibian waters were "particularly low."

The group's abalone quota for this year was cut 10%.

Robertse said capital expenditure remained high, reflecting the number of projects in progress.
I&J reports drop in earnings

Cape Town — Irvin & Johnson (I&J), the frozen food and fishing company, was hit by a combination of disappointing catches, difficult trading conditions in some of its export markets and competition from imports in the six months to December 31.

Earnings plunged 33 percent to R29.1 million (R36.6 million) on a 2 percent rise in turnover to R1.08 billion (R1.05 billion).

Operating profit slid 16 percent to R79.2 million (R86.8 million) before a R29.4 million (R27.1 million) allowance for depreciation.

Income from investments also slipped, easing 3 percent to R5.4 million (R5.6 million).

Profit before tax, but after an exceptional item, was R38.9 million (R36 million). The exceptional item was the R1.8 million write-down to net asset value of an investment in a Namibian joint-venture company, Kushe Fish Products.

Earnings at share level were 29 percent lower at 107.4c without the exceptional item and 101c after it was included.

The directors said in their interim report that they expected the next six months to be better "although earnings for the full year are unlikely to match those achieved in the 1995 year."

Roy Gordon, the managing director, said that sales volumes were lower "as a result of lower landings and procurement in the seafoods division and lower supplies of chicken. Chicken sales and prices were also adversely affected by disruptive volumes of imports.

"Catch rates in Namibian waters were particularly low, and the joint venture, Kushe Fish Products, sustained a significant loss. Catch rates did improve in January and this, together with a cost-reduction programme, indicates better performance in the second half," he said.

John Morrison, the financial director, said that Italy was a major market for exports of fish. He said the fall in the value of the lire against the dollar had affected sales.
COMPETITION SQUEEZE

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<tr>
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<tr>
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<td>(Hurdle Rate)</td>
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<td>Earnings (R)</td>
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<td>Dividends (c)</td>
<td>5.5</td>
<td>14.3</td>
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† Including R55.5m profit on realisation of investments

referred to in the last annual report can be seen.

For example, Suncrush launched a new 1.25l glass bottle in the region to
pre-empt a similar Pepsi product. Cost write-downs on these and other new
packages will be "unusually high" for the rest of the financial year.

The near doubling of earnings is due to
investment income, which grew from
R12.4m to R63.4m, largely through the
sale by listed investment trust subsidiary
Ettington of Sakers and Saficon shares.
The holdings, acquired for about R12m,
were sold for R67m.

The importance of the investments in
Ettington and Tempora is evident from a
breakdown of EPS including profit on
sale of shares, investments account for
34.6c of total EPS of 62.3c. Excluding the
profit, EPS grew by 13%, the sort of in-
crease expected for the full year.

Fifty percent parent: Dalys increased
EPS by 11.4% to 27.4c.

Holdings in Ettington and Tempora are
soon to be unbundled, probably through
a dividend in specie, though a final deci-
sion may be delayed until after the bud-
get in case unbundling concessions are
extended beyond the original June 1995.

Once that happens, the historic p/e ratio
on bottling interests will fall from the
present 20 to about 15, which looks un-
dervalued compared, for instance,
to ABI's ratio of 17.8.

Even in its present form — where the
investment trusts account for about
40% of market cap of about R2bn — and
assuming EPS growth of 13%, the
forward p/e unwinds to around 18, not de-
manding in the highly rated Bever-
ages sector.

**Dalys/Suncrush**

**NOT SINGING IN THE RAIN**

(*86*) AM 23/2/96

Drought-breaking summer rains were
not good news for everyone. While sugar
farmers were singing in the rain, this
Durban-based soft drink bottler saw
most of its high season volume growth
wiped out by a wet, cold December.

That was the main reason for subdued
turnover gain of 10%.

Financial director
Brian Allison says volume growth in a
seasonal month like December can be
easily double a nonseasonal month's.

Perhaps of more concern, though, is
the tightening of operating margins, the
effect of increased competition. While
Allison says there has been a prolifera-
tion of new container packages, the
presence of Pepsi (Suncrush's main
product is Coca-Cola) can be de-
tected, at least indirectly.

Unlike ABI, there is little overlap be-
tween Suncrush's franchise areas and
those of relaunched
Pepsi One area
where they do meet
head-on is Vander-
biulpark, and this is
where the more hos-
tile marketing envi-
rnment chairman/
MD Robin Hamilton

Robin Hamilton prefers to do business
when the sun is shining.

**Shaun Harris**
abalone quota was reduced by 10% for calendar 1996 Hake quotas in both Namibia and SA remain the same But on a lighter note, Morrison says catch rates in January improved and those in February are “looking OK”

The Prepared Foods division continues to do well and is achieving consistent growth in both sales volume and profits Lower profits in the first half will depress earnings for the year Though MD Roy Gordon expects the second half to be much better in most areas responsible for the reductions, “earnings for the full year are unlikely to match 1995”

On a more optimistic note, a fall in the value if the rand could provide an unexpected fillip which may take earnings to the same level as in 1995

But a big question has to be answered Evidently, I&J is more vulnerable to the vagaries of fishing and its food commodity markets than was thought So does the share merit its market rating? I&J is well managed It has a strong balance sheet and will no doubt weather the current earnings storm But it would not be surprising if the market attaches a greater risk factor to the share in the coming weeks and marks it down accordingly Gerald Hirshon

In sales & distribution, volumes of frozen chickens sold were 6% down on a year ago, mostly because of continued supply problems Also, imported cheap chickens (they do, you know) took a significant share of the market to the detriment of local suppliers, Rainbow in particular The seafoods division earns substantial export income To compound other difficulties, the European and Eastern markets deteriorated Because of the stable rand and the decline of the Lira against the US$, demand in Italy fell Prices of canned abalone in the Far East had to be cut, for similar reasons

Then, to add insult to injury, I&J’s

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<th></th>
<th>Dec 31</th>
<th>Jan 30</th>
<th>Dec 31</th>
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<td>Earnings (£)</td>
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<tr>
<td>Dividends (Rm)</td>
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* After exceptional item
Food sector is likely to produce lower earnings

Jacqueline Zaina

FOOD manufacturers looking for relatively high earnings growth this year could be disappointed by the effect of short-term pressures on their profit potential, analysts said yesterday.

BoB NatWest Securities senior analyst Syd Vianello said he expected the weighted average earnings growth of companies represented on the food index to be about 13% this year, with average earnings growth in the sector as a whole likely to be below this. Earnings margins averaged about 29% last year.

The food index closed at 5122,1 points on the JSE yesterday, down from its February 3 annual high of 5163,3 amid expectations that most food companies, including Cadbury Schweppes, Premier Food, Foodcorp and Rainbow Chicken would underperform.

Vianello said Tiger Oats, which is forecasting earnings growth of more than 20% in financial 1995, was among the few companies he expected to outperform the food index this year.

Most analysts said they expected Cadbury Schweppes' financial 1995 results to be below forecasts following flat sales in its beverage sector as a result of the wet summer, and a slump in confectionery sales in the second half on the same period the year before.

The contribution from its beverage sector was likely to be static in the current year, with earnings growth even lower than in financial 1995, they said.

Premier Foods CE Gordon Utam said food manufacturers were feeling the pinch, with consumers having less discretionary spending power. While Premier might have to trim its budget expectations, the decision would depend on the maize price, which could be reduced by the good crop expected this year, he said.

Analysts said investors would remain sceptical until its R400m rights issue was sewn up.

Foodcorp chairman Grant Thomas said last month that while the group would achieve its 14% to 16% earnings growth forecast for the full year, single-digit growth was likely in the first half to end-February. This followed reductions in red meat prices which were affected by the dumping of imported chicken and the importation of lower grade beef.
No last round
Cadswep gets a fillip from growth in its key markets

Jacqueline Zaina

GOOD growth in the sugar confectionery and soft drink markets and gains in market share in its key operating sectors enabled Cadbury Schweppes (Cadswep) to lift attributable earnings 21.7% to R101.2m for the year to December.

Share earnings came to 277.9c (231.2c), and directors proposed a final dividend of 98c which, with an interim dividend of 24c, would make for total distribution of 112c (93c).

Group CEO Peter Bester said growth in the confectionery market and market share gains in the chocolate, sugar confectionery and soft drink categories had boosted turnover 20% to R11bn.

Operating profit had improved 22.7% to R112.7m, but margins remained under pressure due to high levels of competition in its markets, high raw material and increased packaging costs which had not been fully recovered in higher selling prices.

Financing costs had declined 3.2% to R7.5m due to improved cash flows from operations which reduced the average level of borrowings, leaving pretax profit 25.2% higher at R104.8bn.

A higher tax rate of 24% (22%), resulting in deductions of R25.1m (R18.4m), left taxed profit at R79.7m, up 22% on the same period the previous year.

Bester said that while a significant reduction in Russian chocolate exports due to fierce competition and the collapsing rouble had resulted in the removal of export incentives, this had been offset by tax allowances from the group’s Swiss operations and capex.
Strong market lifts
Cadbury Schweppes

By Ann Crayth

Helped by a strong domestic confectionery market, Cadbury Schweppes (Cadsweep), the food and beverage group, has reported a 20 percent improvement in earnings a share to 277.9c from 231.2c for last year.

A final dividend of 88c a share has been proposed, 20 percent more than the previous year's final.

Declaration of the final dividend has been postponed until after the Budget. The directors will decide then whether a scrip dividend will be offered as an alternative to the cash dividend.

Turnover for the period was up 20 percent to R11.1 billion from R8.4 billion. After an 8 percent price increase this represented an advance in volume of about 12 percent.

Export sales to Russia, which represented a significant proportion of financial 1994’s turnover, were down substantially last year. This was attributed to increased competition in that market as well as the collapse of the Russian currency.

Operating profit was up 22.7 percent to R112.6 million from R91.8 million, which reflected a slight improvement in margins.

Peter Bester, the group chief executive, said the improved margins was not as strong as expected because competitive market conditions prevented management from passing on the full extent of the increase in input costs.

The tax rate rose slightly to 24 percent from 22 percent with the benefits from capital expenditure offsetting the reduced tax benefits from exports.

Dividend income and equity accounted earnings, which included the income from ABI, were up 20 percent to R21.6 million, from R17.9 million.

ABI’s contribution was for the 12 months to end-September. Attributable income was up 22 percent to R101.2 million from R83.2 million.

Management expected good growth this year.
Cadbury aims to raise chocolate production

Jacqueline Zaina

Cadbury Schweppes’ new Port Elizabeth factory, representing a total investment of R150m in chocolate manufacturing capacity over 3-4 years, is expected to double production by the year 2000.

Financial director John Buchanan said yesterday the group’s recent market share gains and the healthy growth expected in the chocolate sector had necessitated increased capacity to cope with consumer demand.

While he could not forecast sales for the current year, the chocolate category had shown moderate growth last year, ending four successive years of volume declines. Between 1990 and 1994 sales volumes had declined by an average 5%.

Buchanan said historically the chocolate market had grown at a faster rate than GDP, and double-digit market growth — last seen in the 1980s — could well be achieved in the near future.

He said it was too early to establish how many jobs would be created through the additional capacity. However, the investment would boost productivity by expanding facilities, modernising operations and updating systems in line with world-class standards.

"In developing the new plant, we have benefited from our access to the expertise of our UK-based parent company, Cadbury Schweppes plc," Buchanan said.
Snack-food company is munching to success

BY FRANCOISE BOTHA

Cape Town — Baker Street Snacks, relative newcomers to the South African snack-food industry, has achieved the market's stamp of approval by increasing its turnover to more than R60 million in under three years.

Bernard Immelman, the marketing director of Baker Street, said that the growth had been achieved by regularly tweaking the tastebuds of South African consumers with new products. "When we launched Baker Street, we wanted to be a snack-food company, not simply a popcorn company," he said. The company was established in March 1993 by Immelman and Keith Elkin, two former directors of Sumba, with the Cape entrepreneur Dave Mostert.

The company launched its first four flavours of Jumpin' Jack savoury popcorn and Diddle Daddle sweet popcorn that July. Before Baker Street opened, other players in the snack-food industry warned that it would be entering a "graveyard business." This graveyard business has become one of the fastest-growing in the Western Cape and now employs more than 100 people.

As Immelman put it, this was achieved with little more than a gut feeling that the popcorn market could be larger than other snack-food companies had ever imagined and a desire to do for the local snack-food market what "Perrier did to water, Rolex to watches and Chanel to perfume."

"In the process, we broke all the traditional marketing textbook rules by, for example, using a black packet for our whole cheddar flavour—a colour not usually associated with food—strong colours for the others and not relying on the appetite appeal of showing the snack on the outside," he said. The Baker Street team went to the United States to source the biggest and best popcorn kernels available and airfreighted 10 tons into the country.

They put neither price limits nor ingredient limits on the team that developed the flavours. Immelman said the decision to launch a particular flavour was easy. "If the directors do not get goosepimples when they first taste it, the flavour does not go on to the market," he said.

Seizing the runaway market success of the popcorn snacks, Williams and Sumba, the big players in the sector, soon followed and helped to create a segment worth more than R30 million a year.

Nielsen, the market researchers, were soon forced to recognise the segment. It established a new category for the snack market Baker Street has 85 percent of the market.

The attention to detail was seen again when the company launched its low-fat Royces chrips later that year. Instead of choosing the standard route of slicing potatoes to turn them into chips, Baker Street imported potato flour from Holland.

The flour was mixed to form a dough and then cut with giant biscuit cutters to make what has become South Africa's first reconstituted crisp. "That way each chip was made perfectly and did not have those dark marks that one sometimes sees," said Immelman.

Rewarded by consumers in its first year of trading, the company turned over R30 million, exceeding its projections by 300 percent. Turnover almost doubled the following year after the launch of Royces.

Immelman said turnover this year was expected to climb another 30 percent to more than R70 million.

Baker Street sold a 30 percent share to CCP Holdings, the holding company of the producers of Robertson's, in August last year to continue developing the business. The latest product to be launched since then is Snack Dip, a range of five flavours of dips that can be added to bases such as yoghurt or cottage cheese.

"The snack dip sauce market in the US is valued at over $1 billion a year. Just like many people thought that popcorn did not have much potential in the South African market, we think there is an opportunity to create a dipping culture here too," said Immelman.

As a result of its success on the South African market, Baker Street has expanded into Zimbabwe, Zambia and Kenya and has set its sights on entering a number of Far East countries.
ALL-WEATHER STRENGTH

<table>
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<th>Year to December 30</th>
<th>1994</th>
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<tr>
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<td>Operating income (Rbn)</td>
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<td>Attributable (Rbn)</td>
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<td>Earnings (c)</td>
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<tr>
<td>Dividends (c)</td>
<td>93</td>
<td>*112</td>
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* Final 85s proposed

have the best of both worlds — an SA personality plus skills from a global network.

It also has a strategic product range "Our portfolio is working well," says Bester. The businesses come in at different times and appeal to varied markets, for example, CSDs, where Cadswep has 12% market share, sell in hot weather, chocolate in cold weather, balancing earnings. Income from associate Amalgamated Beverage Industries, also up 20%, fits in neatly.

Concentrates, sold by Bromar, are countercyclical with CSDs because consumers tend to trade down when times are hard. They also appeal to families with small children, in contrast to the teenage/adult CSD consumer.

The group is highly cash-generative and pays good dividends. After the Budget, management will decide between a final cash dividend and a capitalisation award. A proposed doubling of chocolate manufacturing capacity by the year 2000 can probably be funded internally, even though the low gearing makes debt funding an option.

Though Bester cites the key driver as gaining market share at home, exports are important and "we are actively looking to fill the gap" left by the ending of a Russian contract, says finance director John Buchanan. Sugar confectionery and concentrates have good potential, particularly in the rest of Africa.

Provided the economy keeps growing, the only risk would be the arrival of a powerful new player. But the market is competitive, margins are tight and there are no obvious gaps to fill.

The share price has risen to R66 from R55 six months ago. On a p/e of 23.7 it is the most highly rated in the food sector and deservedly so. Though not cheap, it is the next best thing to money in the bank. Margaret-Anne Hulse

Cadswep is in a strong position. Among its advantages is a global parent which provides access to the latest developments in technology and branding. Adopting global best practice "keeps us from becoming parochial," comments Bester. "And we
Sasko plans for 11% rise in earnings

BY MAGGIE ROWLEY

Cape Town — Paarl-based Sasko, which produces about a quarter of all bread consumed in South Africa, is budgeting for earnings growth of 11 percent on a 14 percent increase in turnover for the year to end in September.

Rudolph du Tost, the acting managing director, said the company produces 1.5 million loaves of bread a day at its 51 bakeries. He expected the figures would rise on the back of a 20 percent growth in turnover to R1.9 billion for the past financial year, in which earnings went up 16 percent to R80 million.

Du Tost said the financial year had started strongly but demand at wholesale and retail level had tapered off over December and January, though there were signs of this picking up.

He said the company had been hampered by heavy rains in some of the main wheat producing areas as well as violence in KwaZulu Natal.
Filipinos in Delfood deal

Johannesburg — Del Monte Royal Foods (Delfood) has increased its effective interest in Del Monte Pacific Resources from 34.9 percent to 50 percent “for minimal outlay.”

Delfood said yesterday that it had also increased its effective control and influence over a key asset and supply source.

The group achieved control by entering into a joint venture with Macondray, a major privately owned Philippine food and industrial group, and by a relatively modest increase in gearing within Del Monte Pacific Macondray invested $90 million in the venture.

Del Monte Pacific operates the world’s largest contiguous pineapple plantations. It is also one of the leading food companies in the Philippines.

“Del Monte Pacific is experiencing significant earnings growth, a trend which is expected to continue. Delfood will now be able to enjoy a larger share of this profit growth and the partnership with Macondray should further enhance the attractiveness of the deal,” said Vivian Imerman, the chairman of Delfood.

Imerman expected the transaction to enhance Delfood’s earnings moderately in the short term. “However, in the medium term it is expected to provide significant earnings enhancement.”
Kolosus in move to allay fears about beef

FEARS about "mad cow" disease struck the JSE this week as shares in beef producer Kolosus Holdings slumped. The stock was hit by fears that SA consumers would be scared away from its meat products by the furore.

Management at Kolosus, a producer of livestock, processed foods and leather, moved to allay consumer and shareholder concerns yesterday following a 7% dive in its share price since Friday. The share was untraded yesterday, stuck at an all-time low of 50c.

The beef scare follows the UK government's admission last week that scientists had discovered a possible link between "mad cow disease", a lethal brain condition, and its fatal human equivalent, Creutzfeldt-Jakob disease.

"Although we are firmly entrenched in the meat industry ... Kolosus is not a meat-only company," Kolosus said. It said 60% of attributable income came from its leather business. Although meat-related activities contributed the remaining 40% of income, only 20% was beef-related.

"About 20% of our meat business is food processing and distribution. Our processing is mainly pork-based, not beef, and distribution is a service industry," Kolosus financial director Ronne van Rensburg said.

He said Kolosus did import beef from the UK for processed products, but group policy had always been to import from herds free of BSE (bovine spongiform encephalopathy), substantiated by veterinary certificates. "All fresh and frozen beef we sell to retailers comes from our local feedlots."

Last week an agriculture ministry spokesman said SA imported 3% of its beef from Britain. SA's Federation of Meat Traders said this equated to 27 000 tons in 1996.

Although in the past a significant quantity of Kolosus's imports stemmed from the UK, it was already sourcing supplies of beef from countries such as those in South America. — Reuter
Delfood scoops 50% of Pacific Resources

Jacqueline Zaina

HONG KONG-based merchant bank Peregrine was beaten at the post by Del Monte Royal Foods in its bid for 50% of Del Monte Pacific Resources, despite its bid being about 20% higher.

The venture capital investment bank, one of the largest in Asia and backed by Indonesian and Filipino investors in its bid, was left in the cold after existing shareholder Delfood exercised its pre-emptive right to the company, in which it held a 35% stake.

Pacific Resources is a leading food company and pineapple producer in the Philippines.

Delfood CEO Vivian Imerman said the deal, in which Delfood acquired joint control of Pacific Resources with privately owned Philippines food and industrial group Macomray & Company, had facilitated the negotiation of a more favourable pricing agreement for products supplied by Pacific Resources under a 10-year agreement.

Analysts said the better pricing structure, and the fact that Delfood had gained rights to supply the Philippines market and the Indian subcontinent with certain Del Monte branded products, would have a positive effect on the group's medium-term earning potential. One analyst said the group would need to generate earnings growth in Pacific Resources to justify its high price tag.

The valuation of the company at $183.1m (K717.4m) set Delfood's 35% share at $250m, but the company had contributed only $6m to its bottom line last year.

Imerman denied that the company had been bought at a premium. "The deal has enabled us to step up our equity, without investing capital," he said. While its partners had put up the money, Delfood's $6m shareholders' loan was interest-bearing, rather than an equity instrument.

While Delfood's investment in Pacific Resources was valued at $250m prior to the deal, it was now worth $91m, he said. There had been a strong improvement in underlying performance in the business, and the different trading terms with Pacific Resources' principal trading customer Del Monte Corporation would further improve its earnings potential, Imerman said.
Tougher Markets

Difficult conditions in the food industry are reflected in the sector’s recent underperformance against the JSE Industrial Index. Foodcorp met market forecasts for growth of about 7% in EPS (before exceptional items) in the six months to end-February. But fully converted EPS (after exceptionals) rose only 3.8%. Analysts now say this Malbak subsidiary will have to achieve a better second half, with EPS rising by 13%-14%, to avoid share price weakness.

After the interim, its p/e ratio is 16.2. This is well below Tiger Oats’ 19.9 and CGS Foods’ 18, but it is better than Irvyn & Johnson’s 14.4 and ICS’s 12.4.

Foodcorp’s first-half turnover fell 3.4% to R1.53bn, partly because of the sale of Simba into a joint venture with PepsiCo. Foodcorp International Financial Director Trux Coetzter says Simba is performing well as a joint venture, it expects Foodcorp’s half of the division’s 1995 sales to double by 1998.

Turnover was also affected by lower revenues from the protein division. Sales of beef fell for two reasons: a strategic decision to reduce the Middelburg Estate feedlot and competition from imports depressed selling prices.

But this alone doesn’t account for the 14.5% fall in operating income, to R87m. Coetzter says flagging consumer spending was the main reason for the narrowing of group operating margins. This intensified competition, which further restrained product prices.

"Many analysts were basing their forecasts on unrealistic expectations for growth in the food industry, taking low food price inflation (6%) into account," she says. "Though the economy is improving, upgrading the quality of food won’t be a first priority for consumers. Results will improve only in line with real economic growth."

Most analysts expect a recovery in the second half, accepting management’s forecast of a 14% rise in EPS. This would also be significant, bearing in mind food price inflation.

Coetzter hopes better operating efficiency, particularly in two joint ventures, The Cold Chain (storage) and Pillsbury (frozen vegetables retailing), will boost the group operating margin at year-end.

The Pillsbury operation has been hit by a series of mishaps, the last was a fire on Christmas Day (caused by lightning) at the Fresh Meat Balfour plant. Foodcorp hopes the plant, which supplies hamburgers, will be back in full production by June.

In the milling activities, volumes have increased across the board. But, like other baking operations, Foodcorp’s Sunbake has suffered from bread price hikes. "This will improve only when grain prices fall," says Coetzter.

Interest-bearing debt was almost halved after the sale of Simba and finance costs should remain low for a while. Interest cover has increased to 17.

The joint ventures should help keep the effective tax rate (now 25.3%) low for the medium term.

With low gearing and cash on hand from the Simba deal, management is closing a deal to acquire an operation in Zambia, priced "at a discount to NAV."

The group wants to extend African operations and is investigating options in various countries.

At R39, the share is well above its 12-month low of R30 in April last year, and is just below the high of R40. On these figures, and given management’s cautious view on market conditions, the share looks fully priced. There is little incentive to buy now. Michelle Joubert
Cadswep shifts from exports to SA market

Jacqueline Zains

Although the company was exploring export opportunities in Europe and Africa to replace its Russian exports, volumes were not expected to regain their 1994 peak.

Peter Bester said yesterday that the upturn in SA's economy meant the company was bullish about prospects for its local operations this year, and expected the expansionary volume growth trends to continue.

A new R160m chocolate factory in Port Elizabeth would double production capacity in the next 3-4 years, to meet increased consumer demand.
Workers to act after dismissals

By DAN DHlamini

THE NATIONAL Union of Food Beverage, Wine, Spirits and Allied Workers (NUFBWSAW) is to take legal action against the owners of Darry Belle in Bloemfontein following a mass dismissal of more than 270 of its members.

NUFBWSAW’s North West regional organiser, Mosa Matela, told City Press that trouble at Darry Belle’s Bloemhof branch started on March 29 when workers confronted management over working conditions.

Matela said workers complained that management did not discuss working on holidays with them.

“The workers just saw their names on the notice board indicating that they would be working on certain holidays without management having discussed the matter with them or their union. They decided to embark on a go-slow until their problems were addressed.”

Matela said one of the issues was that the long service award would be reduced.

He said management also wanted to reduce the shift allowance.

“Instead of addressing the workers’ genuine problems – and while negotiations were on – the Darry Belle management locked out the workers,” said Matela.

He said negotiations reached a deadlock on April 12 and the workers decided to ballot for a legal strike. The majority decided to go on strike. They were informed about the mass dismissal on Tuesday, April 16.

He said management subsequently obtained a court interdict against the workers stating that they should not come within 500 m of the company premises. They were also warned not to intimidate those who were working and not to hinder vehicles coming to or leaving the company premises.

Matela said Darry Belle was now using white scab labour.

City Press was unable to get comment from management.
Workers to act after dismissals

By DHLAMINI

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Snacks get nitrogen dip

BY FRANCOISE ROTHA

Cape Town — Baker Street Snacks, the snack food company, is, literally, a breath of fresh air, thanks to a new partnership deal with Fedgas, a local gas company.

The partnership was struck to establish South Africa's first nitrogen processing plant to be used in packaging. Baker Street will use the nitrogen in the packaging of its popcorn and snack chip products.

Established in 1993, Baker Street has implemented the first nitrogen-based packaging in the South African snack food industry.

All companies that package chips, for example, flush the bags with ordinary atmospheric air before filling them, but Baker Street has opted to flush the bags with nitrogen to displace the air, which can cause the product to oxidise.

Shortly after the launch of its first product, 'Jurepion' jack popcorn, which in its first year exceeded the directors' sales expectations by 300 percent, the company's daily consumption of nitrogen has soared.

After the successful launch of Royces and Caters chips last year, the company decided to commission a new production facility and install a nitrogen-producing plant on the site.

Tony Marlewe, the sales manager of Fedgas, said that because of the large volumes of nitrogen required for the process, Fedgas would erect the nitrogen plant and sell the gas to Baker Street.

Nitrogen, which accounts for 79 percent of ordinary air, will be extracted by compressing the air and filtering out the oxygen and other gases.

The nitrogen is then directed to the flushing process.

"We decided to use nitrogen because it extends the shelf-life of the products," said Bernard Immelman, director of Baker Street.

The plant will be able to produce seven tons of nitrogen a month. The nitrogen is 99.9 percent pure and the plant is environmentally friendly because it does not use any cooling system, Marlewe said.

"It's strange for a manufacturer, but we are actually doing a hell of a lot of good for the ozone," said Immelman.
ANGRY WORKERS: Strikers at Snoek Wholesalers in Philippi today where police used rubber bullets

Police fire rubber bullets at Philippi strikers

ESTELLE RANDALL
Labour Reporter

THREE people were injured today when police fired rubber bullets at striking workers at Snoek Wholesalers in Philippi.

The employees are members of the Food and Allied Workers Union (Fawu).

A fourth worker was injured during attempts to stop a delivery vehicle. The driver was assaulted.

The officer in command, Johan Hansen, said he had ordered police to fire the rubber bullets because workers had broken a window of the truck and had assaulted the driver.

Superintendent Hansen could confirm that only one worker, Ann Fumbatha, had been injured by police fire. However, a Fawu shop steward, Violet Dzolotshi, said that she had also seen Julie Williams and Mavis Qolozi shot.

A union official had taken the three women to a local day hospital.

CONFRONTATION: A police dog handler holds strikers at bay

She said she had also been hit by a rubber bullet but that it had only grazed her arm.

The tense standoff between police and the employees was calmed after Fawu organiser Ebrahim Wagied addressed the workers.

Mr Wagied said the workers were on a legal strike after the union and the company deadlocked during wage negotiations.

Last week the union held a strike ballot which was observed by company representatives. The company had agreed with the results of the ballot which showed that the majority of workers - about 140 - backed the strike. The management was not prepared to comment.
Tiger Oats signs deal with US food firm

BY ANN CRONTY

Johannesburg — Tiger Oats has entered into a multimillion-dollar joint venture with ConAgra, the United States food company.

The deal will give the local company 50 percent of ConAgra's worldwide barley malting interests.

The US company's operations involve 15 plants with annual production of about 1.6 million tons of barley malt and annual sales of $450 million.

No details were given on the price paid by the South African company, but its management said "Obviously we've got Reserve Bank criteria to satisfy." No purchase is subject to regulatory approval in the countries in which malting operations are located.

This is the second US acquisition the company has made in the past six months. Last year the group acquired a 20 percent stake in a leading distributor of processed seafood.

"At the beginning of the month it announced it planned to raise $120 million in offshore finance through a syndicated loan," said Dennis, the managing director of Tiger Oats.

The proceeds are to be used for general corporate purposes, including refinancing existing local loan facilities.

Analysts said that given the volatility and weakness of the rand, it would only make sense to use dollar loans for the acquisition of dollar-based assets or at least non-rand assets.

They said Merck, the US pharmaceutical group, was recently repurchased by Logos from Tiger Oats. Logos, which houses Merck's South African operations, was acquired by Tiger Oats in the late 1980s in the wake of increasing anti-South African pressure on the US parent company.

Nick Dennis, the managing director of Tiger Oats, said the ConAgra deal was a continuation of the company's strategy which involved disposing of offshore assets which did not fit into the group's long-term strategy.

Funds raised through disposal of assets were being redeployed in other offshore assets.

"The deal is part of the group's strategy of building a global business. We are committed to South Africa as our base, but fundamental to our strategy is selective global expansion," he said.

"We cannot provide shareholders with an acceptable return on capital, based on South African assets," he said.

Analysts said it would be difficult for the company to grow in South Africa because of competition from local and international firms.

Dennis said the deal with ConAgra, which has an annual turnover of $24 billion, could open up additional opportunities.
Tiger Oats pounces on US food venture

Jacqueline Zaina

TIGER Oats plans to buy a 50% stake in US food corporation ConAgra’s worldwide barley malting interests in the first stage of plans to forge closer ties with the $24bn-a-year group.

The CG Smith subsidiary said yesterday that the cost could not be quantified as the deal would be finalised only at the end of May. But it will give Tiger a stake in operations in Australia, Canada, the US, UK, China, Denmark, Argentina and Uruguay, with yearly sales of $480m ConAgra’s operations supply breweries, including Australia’s Foster’s, Canada’s Molsons Brazil’s Brahma and Japan’s Kirin.

The deal would be funded offshore, partially by funds raised from the sale of non-core edible oil interests in North America over the past two years.

The partnership was not expected to have an immediate effect on Tiger’s earnings — $467m for the year to September 1995 on sales of $1.9bn — but the growth potential in the medium to long term could be significant.

A council of members from both groups would be set up to manage the new venture. Tiger and ConAgra would be equally represented on the boards of the operating companies.

Tiger MD Nick Dennis said Tiger planned to take advantage of synergies in operations between the two companies as opportunities arose. Both are involved in grain procurement and trading and wheat and feed milling.

“Our association with a group of ConAgra’s stature and our presence in a number of countries also created various opportunities for Tiger Oats to seek additional export markets for a wide range of locally produced goods,” he said. These included expansion opportunities for exports of Langeberg and Beacon products and for edible oil and peanut butter.

“We are committed to SA as our base, but fundamental to our strategy is selective global expansion,” ConAgra chairman and CE Philip Fletcher said. “We are pleased to have Tiger Oats as a strategic partner. It is a world-class company and our alliance could help us seize other business opportunities together.”
Convenience Industries

By Alan Court

Their deal marks change in strategy for SA food groups

[Image]
Langeberg reports 29% earnings rise

By Ann Colly

Cape Town — Langeberg, the fruit and vegetable canner, reported a 29 percent increase in earnings a share to 22c in the six months to the end of March, up from 17.1c in the previous six months.

The group achieved this through better operating margins because of improved profitability in its export business. It has declared a dividend of 5.5c, up 22 percent from last year’s.

The group’s turnover increased 4 percent to R499.1 million from R429.8 million. An increase in operating margins from 9.3 percent to 11.5 percent led to a 28 percent surge in operating income to R51.8 million from R40.2 million.

Andries van Rensburg, the managing director, said the group enjoyed steady growth in local sales and benefited from improved international conditions. “A contraction in the supply of deciduous fruit as well as firmer prices improved our competitive advantage on international markets.”

The recently established alliance with Dole, the multinational food group based in the United States, contributed to the good performance because “there was good acceptance of Dole deciduous fruit in the European market.”

The group also benefited from a lower cost structure and the weaker rand. The expected drop in contributions from the general export incentive scheme therefore had little effect on the results.

Though there was a bumper deciduous crop, which led to improved use of capacity, poor weather during harvesting had had a negative effect on the group’s processing yields.

Working capital needs rose from R45.3 million to R125.2 million because of the larger crop and delays in international shipments.

Van Rensburg expected favourable conditions to continue on international markets. Domestic demand was uncertain, however.

The group was also undertaking rationalisation steps that would adversely affect second-half results.

Analysts expected full-year growth of about 20 percent.
Langeberg posts earnings increase after sales boost

Samantha Sharpe

CAPE-based fruit and vegetable processing group Langeberg Holdings posted a 36% increase in attributable earnings to R37,3m in the six months to March, boosted by improved international margins and increased local sales.

Langeberg MD Andries van Rensburg said that although local market conditions were uncertain, the international trading outlook was favourable.

"This will allow the group to achieve reasonable growth in earnings for the full financial year," Van Rensburg said.

Turnover rose a muted 4.5% to R449,1m, with operating income 28.4% higher at R51,6m. A net interest payment of R3,2m brought income before tax and abnormal items to R54,8m compared with a previous R42,8m.

A R700 000 abnormal item — rationalisation costs — showed net income before tax at R54,1m against R42,8m at the same time last year.

The group had embarked on a rationalisation process over the past few years to compete favourably on the international market and reduce the effect of the phasing out of GEIS.

A R16,8m taxation charge led to the R37,3m in attributable earnings. Headline earnings were 29% higher at 22c a share, while the group declared a 5.5c interim dividend, which was 22% higher than March last year. Net income a share rose 36.6% to 23.3c.

On the balance sheet side, shareholders’ funds rose to R434,7m compared with a previous R339,8m.

A cyclical increase in stock levels during the deciduous fruit season and delayed international shipments resulted in the group’s debt to equity ratio rising to 13% from 2.7%.

Van Rensburg said that the local deciduous fruit industry had experienced a higher crop intake, which had resulted in improved capacity utilisation.

"However, the adverse climatic conditions experienced during harvesting impacted negatively on our processing yields."

He said the group had experienced a steady growth in local sales, with its Koo and All Gold brands strengthening southern African market share.

A contraction in the supply of deciduous fruit and firmer prices had improved international competitiveness. "Our recently established alliance with the multinational food group, the Dole Food Company, has taken off well with good acceptance of Dole deciduous fruit in the European market," Van Rensburg said.
ICS stocks management "exemplary"

David McKay

ICS HOLDINGS lifted attributable profit 10% to R61.7m for the six months to March despite a slowdown in consumer demand in its poultry and red meat divisions and pressure on margins. Headline share earnings for the OGV Smith-owned food group came to 15.7c from 14.2c a year before. A dividend of 30c (1995: 27c) was declared.

MD Roy Smther said the group's management of stocks, creditors and debtors had been "exemplary".

Turnover slipped 5% to R1.4bn as the group's poultry joint venture Earlybird Farm and its red meat division experienced a fall-off in demand, while operating profit declined 9% to R37.2m.

However, the group received interest of R3.5m compared with interest paid of R5m in the comparable period last year, and the tax charge declined to R29m from R35.7m due to a reduction in STC and utilisation of tax losses.

"A sharp focus on management of working capital requirements, a lower tax rate and a larger contribution from associate companies enabled the group to increase after-tax profit by 9% to R69.1m," Smithe said.

Trading conditions would remain difficult and operating margins would come under more pressure in the second half, he said.

But improved efficiencies, cost competitiveness and new products should lead to real earnings growth for the full year.

Smther said Earlybird Farm had reduced profits due to a fall in demand and higher feed costs.

Proftis were also down in the red meat division, but its feedlot and curing activities had produced good results. The division's loss-making Montsburg tannery was closed in January.

Subsidiary Sea Harvest raised attributable earnings only 2%, he said. However, fishing conditions had since improved and expectations for the full year's results were positive.
Tiger Oats raises income just 2.8% after slow trade

Amanda Vermeulen

FOOD and pharmaceutical group Tiger Oats raised net income by only 2.8% to R272.5m in the six months to March following a slowdown in trading conditions.

Headline share earnings increased 21% to R174.8c and an interim dividend of 44.5c (1995 38.5c) was declared. Turnover was up 7% at R6.5bn, while operating income before interest increased 16% to R466.7m. Income before tax and an abnormal item of R5.7m increased 21% to R479.6m.

Taxed income improved to R308.1m from R300.2m.

Tiger Foods, which contributed 68% to total earnings, increased headline share earnings 22%, while listed subsidiaries Langeberg and Adecock Ingram posted increases of 29% and 14% respectively. MD Nick Dennis said the benefits of a continued focus on production efficiencies and strong cash management were reflected in growth at the pre-tax profit level. Cash available from operations had increased to R33.9m from R17.5m in the comparable period.

He was pleased with the results, but a "disappointing" slowdown in the second quarter of the review period had made the group more cautious about performance in the second half.

"Coupled with the slowdown in consumer spending, world grain prices are now the highest they have ever been. This includes maize, wheat and protein inputs such as sunflower cakes, fishmeal and soya cake. Local maize prices are following this trend as farmers can get good prices by exporting," he said.

The effects of this trend were already evident and would prevail for the rest of the year.

Langeberg had benefited from internal efficiencies to produce good results, while the rice, wholesaling, animal feeds and milling operations had also performed satisfactorily, he said.

The poultry division had generated a profit, but it was significantly lower than in the previous year due to rising feed prices and an oversupply in the market. The bakers' results were also disappointing following a significant reduction in volumes.

Dennis said the group looked forward to opportunities which would present themselves following its acquisition of 50% of the barley malting interests of US company Conagra. The deal, which would be finalised at the end of the month, should boost earnings in the coming years, but there would be little impact on current year earnings.

US boxed fish company Van de Kamp, in which Tiger has a 20% stake, bought Mrs Paul's Kitchens during the period from Campbell Soup Dennis said he expected real growth in headline earnings for the full year, but taking into account the slowdown in consumer demand and rising grain prices, this might not be sustained at the same rate as in the first half.
Efficiency pays off for Tiger Oats

By Ann Crotty
CONSUMER INDUSTRIES EDITOR

Johannesburg — Tiger Oats reported a 21 percent improvement in headline earnings to 174,8c a share in the six months to March 31 from 144,6c last year, the company said yesterday.

But the company only achieved a 2.5 percent increase in net income an ordinary share to 180,7c from 176,2c.

The difference between the two sets of figures was that headline earnings in March last year excluded R42,5 million of abnormal items and in March there were only R4,8 million in abnormal items in both years. Net income a share included abnormal items.

An interim dividend of 44,5c was declared, 15.5 percent up on last March's payment of 38,5c.

Group turnover was up 7 percent to R$6,5 billion from R$6,1 billion. The management said that reflected a volume decline of 1 percent. With operating margins up to 7 percent from 6.3 percent, the group reported a 16 percent advance in operating profit to R46,7 million from R39,5 million.

Interest from investments was higher and there was a R19,7 million swing in the group's interest position, from payments of R6,4 million to income of R12,3 million.

This lifted the improvement at pre-tax profit level to 21 percent from R395,7 million to R479,6 million.

The management attributed the improvement to "the benefits of continuing focus on production efficiencies and strong cash management." They said the group's net cash balance at the end of the year increased to R300 million "despite seasonal upturns in working capital."

The group's tax rate increased to 36.5 percent from 31.7 percent. This was unlike most companies that have reported a reduction in recent weeks which have shown the benefits of reduced tax rates.

The higher tax charge squeezed the increase in net income level to 3 percent, up to R$72,3 million from R$65,1 million.

Nick Dennis, the group's managing director, said he was pleased with the results, but that the disappointing slowdown in the second quarter "has made us circumspect about the second six months."

Nick Dennis, the managing director.
CG Smith raises operating profit

Jacqueline Zilwa

FOOD, packaging and pharmaceuticals group CG Smith raised headline share earnings 16% to 75c in the six months to March after operating efficiencies widened margins and investments generated interest. The interim dividend was set at 18,2c (1995 16c).

Chairman Derek Cooper said consumer demand had slackened in the quarter to end-March, resulting in an 8% turnover growth to R12,8bn.

However, he said, operating profit improved by 10% to reach R1,09bn, as a result of cost containment.

Trading margins had increased to 8,5% from 8,4% in the same period the year before, which was substantial at the group's sales levels, he said.

A focus on asset management resulted in net interest income of R7,7m compared to payments of R17,7m a year before, leaving pre-tax profit before abnormal items up 19% at R1,13bn. Abnormal items of R5,7m reflected the profits on disposal of land and buildings.

A tax bill of R386,6m (R355,3m), following a reduction in the effective tax rate to 35% from 36,3%, translated into a 9% rise in taxed profit to R723m. Attributable earnings were 9,7% higher at R359,4m.

CG Smith Foods, which contributed 32% of the group's headline earnings, lifted headline earnings per share 20% to 243,6c. An interim dividend of 55,5c was declared, 18% higher than in the same period the year before.

The company, in which CG Smith has a 50% stake, lifted turnover 5% to R8,9bn, reflecting reduced consumer demand and restrained precmg by its operating companies, in some instances as a result of foreign imports.

Operating profit increased 11% to R655,2m, helped by operating efficiencies and improvements in sugar production.

Cooper said that CG Smith had cash available of R618,3m for investments and aimed to strengthen its asset base through international investment opportunities. But it had delayed its offshore investment plans following the recent currency crisis.

The weakening of the rand would affect raw material input costs in the packaging division, although not in the short-term.

However, it provided a degree of protection against food imports in particular. In addition, the group's exports through operating companies Langeberg, Beacon and Illovo offered a valuable hedge against the softer rand.

Cooper said CG Smith Foods would be hard pressed to maintain the current earnings growth rate for the full year if the slowdown in consumer demand persisted, but CG Smith anticipated real growth in headline share earnings.
Food producers at an advantage

By Ann Crotty
CONSUMER INDUSTRIES EDITOR

Johannesburg — The slump in the rand, exceptionally high world maize prices and the move to a more open market for agricultural produce make forecasting major food companies' earnings performances this year a very risky task.

On balance, analysts believe these factors will place South African food producers at an advantage over their international competitors.

Apart from the import of capital equipment, most of the inputs used by food manufacturers are sourced locally, except for Tiger's Taste business, which relies heavily on imports.

In general, the weaker rand puts local produce at a dramatic price advantage over imports.

This is good news for manufacturers, but not so for consumers. When the threat of imports was on the horizon, producers were under pressure to keep prices down.

This threat has been considerably reduced, and analysts believe local companies will use the opportunity to increase prices, thereby lifting margins.

The industry feels the situation allows them to pass on their cost increases for the first time in a few years. In any event, as long as the market can withstand the higher prices without too much resistance, earnings will be enhanced.

The poultry industry should do especially well. The weaker rand has made the dumping of chickens and chicken prices from United States and European sources an unprofitable exercise.

In addition, international poultry producers are facing a 40 percent hike in world maize prices and output will probably fall significantly. There will consequently be a considerable reduction in what is available to dump on the international market.

Local producers will thus enjoy a double bar of protection from the imports which have been blamed for decimating the local industry.

Industry sources believe South Africa will be a net exporter of poultry in the next 12 months.

The weaker rand will also provide a considerable boost for fruit exporters Langeberg, a fruit canner in the Tiger fold, stands to reap substantial benefits.

Its balance sheet at the end of March, which was just released, showed stocks of R27 million, an increase of 36 percent on the previous March. These stocks will be shipped at a much weaker rand exchange rate, so Langeberg's dollar receipts will translate into considerably more rands.

Nick Dennis, the managing director of Tiger, warned recently of the effects of the "highest-ever world grain prices" and said that maize prices are following this trend as farmers find they can get good prices by exporting.

However, other industry sources point out there are restrictions on how much maize can be exported. The maize board has set a ceiling of 2.8 million tons on exports. It will carry out only 1.8 million tons itself and the other 1 million will be done by a permit system.

Even without this restriction, however, South Africa does not have the infrastructure to export more than about 2.8 million tons. The crop is estimated at 9.5 million tons, so this will leave enough to cover domestic requirements of about 6 million.

Analysts believe white maize prices will drop about 10 percent this year because there is no world demand for the cereal. Yellow maize prices are expected to increase about 10 percent to an import parity level. This is a far less traumatic increase than South Africa's trading partners have had to cope with.
No belt-tightening for serious beer drinkers

SOUTH African Breweries expects further real growth in earnings and dividends for the current financial year provided that consumer demand does not weaken significantly — comments made before Friday's increase in interest rates.

Consumer demand can confidently be expected to grow, the real point is whether disposable income will permit demand to be met and paid for. What will happen to all the Edgars accounts and furniture instalments if and when the people start to pay their lights and water bills?

Nevertheless, consumers found the money to boost SAB's turnover by 17% to R3.3-billion in the financial year to March 1996. SAB notes that real private consumption expenditure (excluding an inflation factor) increased by 4% during the period under review, so the group experienced real growth.

Trading profit was 18% higher at R3.47-billion, and dividend income climbed R2.4-million to R130-million. The improved trading margin is attributed to productivity enhancement and cost containment.

The cost of financing borrowings for maintenance, expansion and acquisition jumped by 30% to R603-million, to leave profit before tax of R3-billion. A lower rate of corporate tax meant that the Recover's slice, R622-million, was almost the same as in 1995. Profit after tax and equity-accounted earnings were 26% higher at R2.29-billion, of which R2.11-billion is attributable to outsider shareholders and R1.06-billion to ordinary company members.

Beer still provides the bulk of the bottom line, chipping in 71% this year. Its domestic contribution topped R1.1-billion and the international operations R1.72-billion almost a third higher than in 1995.

SAB has invested in breweries in Africa, parts of central Europe, and in China, and has become the world's sixth largest brewer of beer.

The balance of group income comes from its investments in many leading consumer-oriented retail and manufacturing companies: Edgars, Plate Glass, Amred, Afcoil, Lion Match, Amalgamated Beverage Industries, Cosmhu, Da Gama and unlisted hotel and retail interests Southern Sun and OK Bazaars, the last pair showing improvement.

The group invested a record R2.2-billion in capital expansion and acquisition, yet gearing declined from 55% to 39%. Liquid resources almost doubled to R1.2-billion.

SAB's shares edged up to R123 this week from R120 a year ago, but were down from January's R145 peak. On attributable earnings of R66c a share, SAB trades at fewer than 22 times earnings and on a dividend yield of 5%. 
Food firms hit by higher costs and reduced spending

Jacqueline Zaina

The JSE's food index, which has lost 25% of its value since the beginning of August, is expected to decline further this year as a result of higher input costs and additional constraints on consumer spending.

The index, which touched an annual high of 10 420 on March 29, closed at 7 838.5 yesterday.

Bob Nat West Securities senior analyst Syd Vinnello said consumer-related shares, which usually grow in line with population growth, were not expected to perform well following the two recent interest rate hikes. The fall in these sectors, which included stores, was a function of the weakening of the economy.

While lower grain prices on the world market could strengthen the index by boosting food companies' foreign earnings, they would increase pressure on already constrained consumer spending, he said. Thus, together with the threat of growing unemployment, further restrict growth in the food sector.

Shares with strong export revenues such as DelFord, Tiger Oats and Limpopo Sugar were expected to perform better, but Tutu, a maker of most foreign producers, would not improve until interest rates started falling, he said.

Another analyst said increased competition from importers and foreign food companies, which held much of the market share, were also squeezing margins. Whether that was a long-term issue was unclear, but it had tarnished investor perceptions of local food companies' ability to grow.

Premier Food CE Gordon Utsun said last week that it was too soon to quantify the effect of the interest rate hikes, but that the outlook for the food sector was positive. Inflation was gathering, interest rates and the petrol price were up, and the implementation of the new Labour Relations Act would add to costs.

"Consumers will be hit by higher prices and companies are squeezed at the manufacturing level. We are expecting a difficult period," he said.

Utsun said consumers at the lower end of the market were losing out, and a fall in inflation was better than the general 7.8%, because a greater proportion of their income was spent on transport and basic foodstuffs.

While it was too soon to quantify the impact of recent economic developments on Premier's earnings, Tutu's growth in foreign earnings, the company was "not an island", he said. Although it was in a recovery phase, he remained close to the vicissitudes of the SA economy.

Division MD is replaced

Jacqueline Zaina

Ernst & Young is to reshuffle its management consultancy arm, replacing the division's MD and reorganising its strategy of 200-strong workforce.

Executive chairman Tom Wipf said yesterday that the management consulting services (MCS) division had been underperforming, and the shake-up was part of a shift in focus to its information technology consulting work.

MD Gary Baron had been replaced by Jan Venter, who would lead a new executive manangement team. Wipf said that it had become clear since Venter took over on May 1 that the division's financial results had been poorer than expected.

The previous structure had led to delays in the decision-making process because of differing views.

"While the restructuring process will involve some redundancies, the MCS division will emerge leaner and more efficient in addressing client needs," Wipf said.

Baron would leave E&Y shortly, and MCS partner Paul Matlovich had also decided to leave. E&Y would build a market-driven, national practice, providing solutions to underperforming businesses and companies needing to catch up with global trends.

Anglo seeks toe-hold in Zaire

David McKey

Anglo American plans to invest $100m in mining projects in Zaire, which could be used to secure a toe-hold for future projects including gold, diamond and copper.

The central African nation has been seen as a potential gold mining country, with enormous resources of copper and cobalt, as well as deposits of cobalt and copper.

However, analysts said that Zaire had poor levels of infrastructure which, although it has a single mining company, could prevent the country from mining its rich deposits.

The company share the immediate responsibility equally and be 50-50 partners in this project and others in Brazil.

Another analyst said that the Kupola mine, which has been closed for 15 years, had not produced any copper and was not in the market for long.

The Kupola mine, which has been closed for 15 years, has not produced any copper and was not in the market for long.

Energy Africa strikes oil off Angola

Samantha Sharpe

CAPE TOWN - and gas exploration and production group Energy Africa has made a new commercial oil discovery off Angola's Atlantic coast.

The find was on Block 59/4, which Total Angola operates on behalf of a partnership (40%), Angolan national oil company Sonangol (25%), South Korean Energy company Daewoo (18.75%), Petrobras (6.25%) and Energy (10%).

Energy Africa technical director Adrian Neil said yesterday it was too early to forecast the find's full potential, although it had been declared a commercial discovery "examining the terms of an agreement with Sonangol.

He said initial testing had yielded a cumulative flow of 9 100 barrels of light crude a day, with further technical work needed before any development costs could be made.

Neil said Energy Africa was well resourced to finance the 10% share of its discovery. The group recently raised $25m on the NASDAQ exchange and said it was confident it would be able to finance its drilling programme.

Its Energy Africa MD John Bentley said he was pleased with the discovery, only three months after announcing an agreement on the find.

"This is an exciting discovery, which reinforces our confidence in the highly prospective west Africa region, where the group's exploration is primarily focused," he said.

Energy Africa's interests in Angola also included a 15% interest in Block 3, with a 60% interest in Block 7, pending formal government approval.
Brenner Mills pushes up its share earnings

By Peter Gull

Johannesburg — Brenner Mills, the food group, posted an increase in earnings a share yesterday to 24.6c in the year to February 29 from 22.1c a share in the same period last year. No dividend was declared.

Turnover surged 31 percent to R137.77 million from R105.27 million last year and operating profit grew 25 percent to R9.64 million from R7.57 million.

But an interest bill of R834,000, compared with R1.27 million received last year, pushed pre-tax profit down to R8.8 million (R9.13 million).

A tax bill of R3.07 million (R3.99 million) saw a taxed profit of R5.73 million (R5.14 million) being declared. The company said this, the first full year of deregulation in the maize industry had seen a sharp increase in the price of maize and maize meal. However, short-term borrowings were necessary to get bulk maize at favourable prices, which had resulted in the interest costs.

"Although recent interest rate hikes are not expected to have a direct impact on group earnings for the coming year, conditions in the food industry in general are expected to come under pressure due to anticipated reduced consumer spending and rising costs. Modest growth is forecast at this stage," it said.
Last year, ICS management's strategy of concentrating on higher-value products and divesting from activities showing consistently poor returns seemed to be winning market favour.

But midway into 1996, enthusiasm for the food sector seems to be fading. And tougher trading conditions — because of less consumer demand for perishable food and increasing pressure on margins — are not likely to improve this year.

In response, ICS's share price has shed almost 26% to R30 in four months. The retail sector's vulnerability to a floundering economy is clearly cause for concern. ICS is not the only food company affected. But the drop seems an overcorrection in the light of longer-term prospects — the balance sheet is strong and the risk profile has been reduced.

Sales dropped slightly in the interim to March and operating margin narrowed to 6,1% from 6,4% in the comparative year-ago period. But earnings increased by 10% to R61,7m. Lower interest-bearing debt and a growing cash pile resulted in net interest earned. Assessed tax losses, lower STC and lower profits in taxpaying entities such as Sea Harvest reduced the effective tax rate to 32% (37,8%) and will keep the tax rate low for a while. The group seems in a position to expand through acquisition or organically.

Investments now include fishing interests (a 72% stake in Sea Harvest), poultry (Earlybird), dairy and fresh meat operations. There are also investments in Fedics caterers and DairyMaid-Nestlé, and stakes in Enterprise Foods and Cold Chain distribution facilities through joint ventures with Foodcorp.

MD Roy Smither says Fedics, Enterprise and the dairy subsidiary did reasonably well. But fresh meat operations performed worse than last year, mainly because of lower meat prices.

Sea Harvest was hit by poor summer fishing conditions and lost R1,7m on recently acquired Namibian operations. These have since been turned around and financial director Tom Pritchard notes that the season picks up in the winter months. Results from Earlybird, the broiler joint venture, were hit by lower retail prices and high feed costs.

ICS's historic p/e ratio of 9,9 is well below the sector average of 18,9. At this price, there is probably medium-term growth in the counter.

Michelle Joubert
MAKING UP FOR LOST GEIS

Headline interim EPS, up 20%, are on track for the 28% increase for financial 1996 the FM suggested (Leading Articles February 16) But it has clearly been no easy road for MD Andries van Rensburg and his managers

The headline earnings reconciliation statement shows that the rationalisation programme put in place by Van Rensburg's predecessor continues It cost R1.3m in the first half and there's little to suggest a similar cost won't be incurred in the second six months as the company fights to reduce costs in the face of diminishing Geis proceeds (there will be none in 1997)

Commendably, margin rose to 11.5% compared with 9.4% a year ago Paring costs and increasing volumes to achieve higher margin is the only way to survive the end of subsidisation

As Van Rensburg predicted, local markets improved Volumes grew as the strong brands gained market share The large crop usefully increased capacity utilisation But that's only half of it

At least 40% of products are exported, mostly to Europe but also to the Far East And a contraction in the international supply of deciduous fruits meant better times for the canned product in these markets and margin improved from firmer prices abroad as well as the rand's weakness

Langeberg's rand hedge aspect should not be overlooked In particular, its alliance with brand leader Dole Foods in Europe should ensure good export volume growth

R64m cash balance has disappeared Hopefully, the stockpile is strategic and will soon disappear, or interest receipts, which have helped shore up pre-tax profits, could turn negative

Not surprisingly, due to the unexpected slackness in the economy, Van Rensburg says the outlook for demand at home is uncertain But international markets should remain favourable and full-year earnings growth should be "reasonable"

With the fall in the rand, the stockpile could prove a much needed export bonanza And continued rationalisation should help to diminish costs, in the short term as well as for the long haul With sound management in place, there are good reasons to believe headline EPS for the year will reach the 48c proposed by the FM

At 560c, the share is on a prospective p/e of 11.7 Given all the uncertainties, that seems fair for the moment But I can't help wondering about the effect of rand depreciation on earnings in six months' time, hindsight may make the share underpriced now Gerald Harshon

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### CANNED PROFITS

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<td>Pre-tax profit (Rm)</td>
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<td>Cash dividends (c)</td>
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The balance sheet shows some interesting developments At R477m, stock is 38% higher than at the same time last year and almost double that at end-September Accordingly, interest-bearing borrowings have risen from zero six months ago to R57m and September's

FINANCIAL MAIL - MAY 10 - 1996
Union to challenge Ayob

By THEMBA HLENGANI

PRESIDENT Mamelodi's lawyers, Ismail Ayob and Partners, are to enter a round of legal battles in the Labour Court after an application for the establishment of a Conciliation Board by Saccawu on behalf of six employees who were retrenched last month.

According to documents in possession of City Press, Saccawu had declared a dispute with Ismail Ayob and Partners after the "unfair" retrenchment of six of their members. It lodged its application with the Gauteng department of labour this week.

Muku Macozoma and the other five were retrenched at the beginning of last month.

Elias Mothoa, a Saccawu official, said that they had tried to arrange a meeting with Ayob's office with a view to reaching an agreement but unfortunately Ayob did not respond.

"Our legal department is busy preparing an application for interim relief on this matter and it will be submitted next Tuesday to the department," Mothoa said. Mothoa said that the relief would seek that Ayob reinstate the retrenched workers while talks to resolve the dispute continue with the union.

According to Saccawu, the six workers were unfairly retrenched as they were not given enough notification time before retrenchment and they should be reinstated.

Ayob could not be reached for comment on the Saccawu Conciliation Board application.
There are two reasons for buying Premier Group shares — to get exposure to its wholly owned Premier Food and to get exposure to its wholly owned United Pharmaceutical Holdings.

According to analysts, neither is a good reason.

By buying Premier, investors are also getting exposure to Bonnita, Premier Pharmaceutical, Metro, CNA Gallo and Teltron — all of which are good to excellent investments. But each of them is listed separately, so investors can pursue the more efficient strategy of buying them direct and avoiding poorly performing United Pharmaceutical and Premier Food messages.

Doug Band, the Premier Group chairman, gave an impressive presentation last week of this financial year's results, but analysts are not impressed. The most enthusiastic recommendation they appear to be making is "neutral". Working through broker’s sensitive terminology, this tends to be interpreted as a sell order.

There is little doubt that the management made significant progress during the year, but brokers feel that the progress related to operational and administrative issues more than operational and market factors. The food division did report modest gains in market share, but certainly not enough to excite the analyst community.

"I do not believe in the long-term potential of the food division because of its heavy reliance on staple foods," said one analyst.

That sector of the industry covers maize, wheat, milling and baking, and is now highlighted by intense competition and low margins. The food company could struggle to move into value-added goods as the other large food groups have already set up the more obvious and attractive opportunities.

During this financial year, trading margins at Premier Foods increased from 3.7 percent to 4.7 percent, largely because of a substantial improvement in the milling and baking operations. Milling and baking improved its trading profit from R51.5 million to R94.7 million.

But analysts are not impressed. They point out that the financial services division reported a trading profit of R88.7 million. Competition in the market is much fiercer and is compounded by the deregulation that has led to the setting up of hundreds of small-scale mills, which can open and close depending on the attractiveness of the market. There is an estimated 40 percent overcapacity in the South African maize and milling industry, which means there is little scope for margins to recover significantly in the short to medium term.

Making things even tougher for Premier Food is the deregulation of the maize and wheat sectors, which has made pricing a competitive factor. Previously the maize and wheat boards set the price, which meant millers and manufacturers had no scope to get the edge on the competition. Maize pricing has been opened up this season and wheat will be significant from next season. This means that by clever use of the futures markets, one or other of the food groups can establish a significant advantage.

Market sources say that last year’s depletion of Premier Food’s experienced senior management team has left it at a significant disadvantage.

Adding to the woes of the milling and baking division, analysts believe that much of Premier Food’s R336 million debt is attributable to it. That means a hefty interest bill has to be paid out of its stretched trading profit.

The balance sheet for the food company after the rights issue will include a gearing of about 40 percent, which is regarded by analysts as hefty given the operational circumstances. Analysts feel that the interest bill is likely to mount at a more reliable pace than trading profit, which does not point to an exciting long-term earnings prospect.

Epic Foods, which reported a R14 million trading loss this financial year, recorded a small profit for the first two months of next year and is expected to break even for the full fiscal year.

Analysts are generally bullish about the fishing operations and the cotton division, but regard these as too small to have an effect on the larger negative trend.

Ian Heron, the food division’s newly appointed chief executive, is understandably much more upbeat about prospects. He challenges analysts’ tendency to write off the maize and milling industries as commodities or low margin staples.

"When properly run, staples can make a lot of money. We have the market leaders in a number of flour and maize products which means that we are protected from the effects of overcapacity."

Part of properly running the industry, says Heron, involves ensuring product prices are in tune with market demand. Poor management has meant that the lattice brand, which is one of the group’s most important, has been frequently out of stock in the past. Heron believes margins can be improved by tightening up on this sort of controllable factors.

On the issue of the competitiveness of the pricing of maize supplies, he points out that the executive team has been beefed up over "the past few months our procurement has been the best we’ve had in a long time."

On the value-added front, Heron believes there are plenty of opportunities in the grocery division as well as in pet food. And he notes that the company is looking at punt ventures as an independent operation. Analysts believe that the most attractive aspect of this operation is its assessed to loss. But accessing this will require the injection of a profitable asset. Though the company has recovered from the really dismal days, industry sources believe that significant changes in the industry — including the all-important role of government — means there is little room for an independent distributor.

Overall, analysts are far from convinced of the need to buy Premier. However, given the promised support from the major shareholders, the upcoming rights issue is guaranteed to be what some might call a success.
Cadbury's new boss chewes on tough task

Investors are eyeing a year of acquisitions sends debt soaring

By Peter Fothergill

Cadbury Schweppes (LSE: CRYL, NYSE: CRY) 3/1/86

The company with a long tradition of excellence in the confectionery and beverage industry is facing a challenging year ahead. The new boss, John Cadbury, is under pressure to deliver on the company's growth strategy, which includes expanding its product lines and entering new markets. The company has a significant debt burden, which has led to investors being cautious.

The confectionery industry is highly competitive, with companies such as Mars and Nestle holding a strong market position. Cadbury will need to differentiate itself through innovative product development and strong marketing to remain competitive.

The beverage industry is also facing challenges, with increasing consumer awareness of health and sustainability. Cadbury is exploring ways to incorporate healthier ingredients into its drinks, while also expanding into new categories such as premium sodas and tea.

The company is looking to acquisitions to drive growth, with a focus on expanding its presence in emerging markets. However, the high cost of acquisitions and the need for integration into the existing business model will be significant challenges.

Cadbury will need to balance its growth strategy with financial responsibility, ensuring that it can meet its debt obligations while also investing in the business for long-term growth.

In summary, the new boss at Cadbury Schweppes faces a tough task in delivering on the company's growth strategy while managing its debt burden. The company's success will depend on its ability to innovate, differentiate itself, and make strategic acquisitions.
Chillers Group applies for listing in food sector

Cape Town — The Chillers Group, a R33 million-a-year food seller and distributor, is the latest contender for a JSE listing.

The company has applied for a listing in the food sector on June 19; after a private placement of 5 million shares at R1 a share. The share offer closes next Wednesday.

The prospectus showed that 21.5 million shares would be issued, the bulk of which are held by Shaun Curran, the company's chairman, and his fellow directors.

Chillers, which has been operating since 1988, conducts a warehousing operation in Turffontein and operates a fleet of refrigerated and insulated trucks.

The Turffontein cold storage depot has the capacity to store about 1,200 tons of frozen food, 500 tons of chilled food and 600 tons of dried food.

The company's Western Cape facilities also boast a storage capacity of 200 tons of frozen and 100 tons of dried food.

Chillers distributes food to chain stores, one a large national chain.

The prospectus showed that the company posted net profit of R1.2 million from turnover of R33 million in the year to February.

Profit forecasts for the year ahead were R2.3 million from turnover of R36 million. A dividend of 3c a share was also envisaged.

Directors believed increased demand would result in Chillers' distribution services growing by about 20 percent. They said enquiries had been received from another large national chain store.

The company had also identified the potential to distribute poultry to the informal sector, with Chillers' Turffontein depot being ideally located for the supply of frozen products to Soweto.

The opening of distribution centres in KwaZulu Natal and the Eastern Cape were also among the cards, as well as an expansion of the facilities in Johannesburg and the Western Cape.

Funds raised through the private placement would be mobilised to repay certain borrowings a short-term loan of R500,000, R1 million for trade finance, and a R1.5 million overdraft.

Funds from the private placement would strengthen the balance sheet considerably with R6.5 million in shareholders' funds comfortably covering long-term liabilities of R2.4 million.

Expected price rises drive...
Small bakers get a helping hand in city

Staff Reporter

A NEW organisation has been established in Cape Town to address the business needs of South Africa's growing number of small bakers.

The Bakers' Guild is the first of its kind and aims to provide small bakers with technical information and assistance to meet the challenges of this rapidly expanding sector of the food industry.

Sponsored by Sasso, a national food group with headquarters in Paarl, the Guild aims to serve the more than 4 000 small bakers.

Sasso trade director Kennes Löw said there was a great need for small bakers to exchange knowledge and expertise.

"Deregulation and consumer demand for fresh bread and confectionery has led to a dramatic upsurge in small enterprises in the past 10 years. These factors, as well as the entry of international players, have prompted bakers to upgrade their technical skills."
Sasko moves into Zambian market

Edward West (13b) 800 2116

MILLING group Sasko is to provide technical and marketing support for a R45m wheat mill, operation at Kitwe on the Zambian copper belt. It is to be financed by the Commonwealth Development Corporation (CDC).

Apart from the construction of the mill — a R17m contract was been awarded to LTA — the project also includes buying the Kitwe distribution centre of the Zambian National Wholesale and Marketing Corporation. Sasko said the CDC is  requiring finance through equity and loans.

Sasko had an option to buy up to 25% of the equity. Wheat would be supplied to the mill from CDC-owned farms near Lusaka.

From the mill the new company will market and sell flour and bran to the 2-million people on the copper belt, as well as bakery products from the Sasko range,” southern Africa director David Morley said.

Provision has been made to double the capacity of the mill at a further cost of R20m by the year 2000.

The R2bn-a-year Sasko produces about 500,000 tons of flour and wheat products a year.
Del Monte earnings expected to improve

By Ann Croft

CONSUMER INDUSTRIES EDITOR

Johannesburg — Analysts are forecasting an improvement in Del Monte's financial earnings for the six months to May 31 when they are published at the weekend.

But investors who have held on to the shares during the past two years of disappointing performances will have to wait until the second half of this financial year to reap the full extent of this year's improvement.

The 12 months to November 30 this year are expected to produce an earnings improvement of about 30 percent, equivalent to earnings a share of 55c. Some analysts are seeking an increase of as much as 48 percent, or earnings of 63c a share.

This higher forecast would result in management picking up much of the ground lost since financial 1993 when it recorded earnings of 61c a share. The following two years were a nightmare for the group as a variety of factors, such as crop availability, market conditions and exchange rates, battered the bottom line.

Whatever happens between now and the end of November, it seems certain that the company's fortunes will hinge heavily on the average exchange rate for the rand this financial year.

This year things are looking up on a number of fronts. Europe's food market is stronger, the pineapple market is stronger, which will help Del Monte's Philippine-based operations, in which it recently exercised a pre-emptive right to increase its stake, and cushioning it will be the expected benefits from the rand's slump.
Delfood’s half-year figures well on way to meeting predicted 30% rise

By Ann Crothy

CONSUMER INDUSTRIES EDITOR

Johannesburg — Del Monte Royal Foods (Delfood) reported a 25 percent rise in earnings to 22.1c a share from 17.7c for the six months to the end of May. An interim dividend of 7.5c a share has been declared.

On the basis of the half-year figures the group is well on course to meeting analysts’ expectations of at least a 30 percent rise in full-year earnings to 55c a share from the 42.6c earned last financial year.

Vivian Imerman, the group’s chairman, said that the group traditionally achieved about 40 percent of its year’s earnings in the first half and 60 percent in the second half. However, there is likely to be a stronger second-half kick-in from the weaker rand, stronger pineapple prices and improved operational efficiencies.

Comparison between the interim income statements of last year and this year was complicated by a number of factors, including the first-time consolidation of Del Monte Pacific Resources (DMPRPL) and the first-time inclusion of Italy-based Confruit in Delfood’s interim results. Turnover was up 90 percent to R1.4 billion from R782 million of which DMPRL accounted for R370 million. Confruit also accounted for a hefty chunk of the increase.

In addition, the weakening rand increased reported turnover by about 7 percent. According to Imerman, the benefits of the weaker rand only affected the last six weeks of the reporting period.

If the impact of DMPRL is excluded, overall group sales volumes are up 33 percent. Management said that virtually all key categories were ahead in volume and value terms compared with the first half of last year.

The 75 percent rise in operating income to R155.2 million from R87 million again reflected the benefit of the inclusion of DMPRL and Confruit, as well as the depreciating rand.

Encouraging news for shareholders was that an improvement in the pineapple price helped to underpin a stronger profit performance. Weak pineapple prices had held back performance last year.

Imerman said that the stronger prices evident in the first half would continue for the second half and way beyond. The benefits of this were considerably compounded by Delfood’s acquisition of a controlling stake in DMPRL, in which it previously had a 35 percent stake and a pre-emptive right.

The previous controlling shareholder was the US Del Monte operation, which is completely independent from Delfood and, when it was known to sell off non-core assets, Imerman would not be specific but indicated that the purchase consideration was the low side of “reasonable.”

Western Europe remained the group’s most important single market, but management was enthusiastic about prospects in a number of emerging world markets, such as Eastern Europe and parts of the Far East.

One of the additional benefits of the acquisition of control of DMPRL was that Delfood was able to extend rights for use of its brand name to parts of the Far East.

The two acquisitions also had significant effect on the group’s balance sheet where there was a substantial increase in the asset base and the level of borrowings.

On the home front, Imerman was cautious about the group’s South African deciduous fruit operations. “The combination of lower GEs and the current punitive rates of duty on imports into the European Union are bound to have an adverse impact on the competitiveness of our fruit operations.”
Premier's results dump p-e rating at bottom of food sector

By Ann Crosty

Johannesburg — Premier Food's price-to-earnings rating slumped to nine times after the release of last week's mixed bag of results for its financial year.

The share price was on a rating of just more than 20 times ahead of the release of this year's results, at nine times it is close to the bottom end of the ratings in the food sector.

Investors who rely on the JSE figures that are published in the media might be tempted by this sudden slump in the rating to take one or two courses of action sell the share ahead of those left holding it or, buy it in expectation of an equally dramatic rating back to a rating of 20 times.

The slump in the price-earnings rating reflects that the JSE's listing committee uses a company's published attributable earnings figure as the base for its calculation.

Premier reported attributable earnings of 66.1c a share for the 12 months to the end of April this year, up from 3.4c in the previous financial year.

It also reported headline earnings of 30c a share, up from 25.2c. This year's headline earnings excluded profit on the disposal of Clicks, Epol and the head office property.

It also excluded losses on write-offs relating to debtors of a year ago.

In a recent report on the confused situation, John Moses, a Franklin Polak analyst, referred to the JSE's unsuccessful efforts to reduce the degree of confusion.

"The inescapable conclusion to be drawn is that earnings-per-share figures, whether headline, attributable or other must be treated with great circumspection. Comparisons are often, perhaps usually, invalid due to differing accounting policies or differing applications of the same policies," he said.

"It would appear obvious that a reliable standard is required and that the need for sensible definition is urgent," Moses said.

"The JSE is not doing the investing public any favours by opting to settle for an attributable earnings number, however, they make the point that headline earnings has not yet become a South African Institute of Chartered Accountants standard."

"The JSE maintains that it therefore is in no position to enforce a requirement which the majority of quoted companies has not accepted," Moses said.
Acquisitions boost Del Monte earnings

Del Monte Royal Foods lifted earnings to R7,65m (R6,1m) in the six months to May
Trading was boosted by the inclusion of Del Monte Pacific Resources, Confrut and the Philippines operation for the first time. Share earnings rose to 22,1c (17,7c) and a dividend of 7,5c (6c) was declared. Turnover improved to R1,63m (R762,4m), partially assisted by the weakening rand.
Operating income rose more than 75% to R155,2m due to the acquisitions of Pacific Resources and Confrut, and improved pineapple prices, but this was offset by higher spending on advertising, promotion, and increased interest costs of R63,3m (R31,9m).
Delfood chairman and CEO Vivian Immelman said borrowings had risen sharply to R833m (R727m) due to the inclusion of the two new acquisitions and taking account of the depreciating rand. "The depreciation of the rand had a positive impact, following a 7% decline in the average exchange rate at which the group's overseas profits were translated in the period. Some of the benefit of this was eroded by lower GEIS rates."
Imelman welcomed the return to better trading conditions, improved pineapple prices and gains from production efficiencies.
The integration of Confrut was proceeding, and the transfer of manufacturing from Lascote to Sen Pelico was largely complete and should be finalised by October.

Continued on Page 2

Del Monte

The acquisition of a controlling interest in Del Monte Pacific Resources in March was a major step forward for the group. "The growth prospects in the Philippines market, combined with improvements in the pineapple prices and the trading terms with Del Monte Corporation in the US, should ensure that the business will continue to grow.
Imelman said the outlook for the deciduous operations in SA was cautious. "The combination of lower GEIS rates with the current punitive rates of duty on imports in the EU will have an adverse impact on the competitiveness of our fruit operations.
"The duty is damaging consumers' interests in Europe, and it is anti-competitive and prejudicial to SA fruit growers and canners."
The group expected medium-term growth to be achieved from new markets, including Eastern Europe and the Indian subcontinent.
A small operation had been established in Moscow and imports of beverage and canned products into Russia had started. Other areas of interest would be Poland and Turkey.
The group's improvement in underlying performance should be reflected in the year end results.
New Age well on right track

By Mzimkulu Matunga

Beverage company survives turbulent 18 months even after retrenching staff

Growth is not always rosy. This is what Pepsi's producers in South Africa, New Age, says it has learnt.

After its company started like a whirlwind 18 months ago, New Age chairman Khelaia Mhembu says early this year the company went through "a painful but necessary process".

Three months ago the company retrenched 20 of its staff, eight of whom were from managerial and supervisory positions.

"When we launched we had to produce particular volumes for three years," says Mhembu, adding that once operations commenced the demand exceeded projections.

"That resulted in our having a company different from what we had planned."

As a result, he argues, management had to go back to the drawing board to assess whether it had the right people and strategies to manage the growth.

"Unfortunately some of the people were found to be inappropriate and were asked to leave."

"It was a painful process and it affected staff morale when it happened."

However, some time has passed since the turbulence brought by the restructuring process and Mhembu believes New Age has "now outgrown that in the past three months."

He dismisses allegations that the company's problems could be more serious than they appear. "Some people have been looking for skeletons in the company and I wish them well."

"There is no manufacturing company that invests heavily in machinery, property and other things that can show a profit in its first year. We are well ahead of our projections and our shareholders are extremely happy."

Mhembu adds about Pepsi's market share since re-entering the South African soft drink market, choosing only to echo his competitors' claim that the market has grown since Pepsi returned.

Last week, New Age made its first appearance in Durban and the official launch is scheduled for this week.

More than R50 million has been invested in the Durban plant and Mhembu believes New Age is on course to reach its target of becoming a national company by the end of next year.

Initially, when the company was launched one and a half years ago, New Age was capitalised for R40 million covering a period of three years and it received a major boost last year when the investment arms of the National Union of Mineworkers and the South Africa Clothing and Textile Workers Union invested R50 million in it.

Mhembu says there are also talks with investment groups throughout the country to join Kayasa, a local consortium which is in partnership with African American investors and jointly controls 75 percent of New Age.

Kayasa increased its stake in New Age last year by an undisclosed percentage and talks are also in progress with Pepsi Cola International to sell part of its stake to the consortium as part of the process of transferring the company's ownership to local black business people.
Confectionery strength lifts Cadbury’s income

Edward West

CADBURY Schweppes lifted attributable income to R53.7m for the six months to June, 22.4% higher than the same period last year, as a strong performance from its confectionery interests offset regional growth from soft drinks associate Amalgamated Beverage Industries.

Share earnings rose 21.1% to 146.6c and the interim dividend was lifted to 29c (24c).

CE Peter Bester said the factors driving the performance had continued into the second half, and he expected further “satisfactory” earnings growth.

Turnover increased 17.8% to R544.5m, with sales volumes increasing just less than 10% over the interim period.

Bester said the company was experiencing good market share gains against its competitors, due in part to the launch of new products.

Operating profit rose 26.9% to R53.7m and finance costs were slightly lower at R2.6m (R3m).

Tax increased to R13.4m from R11.1m leaving taxed profit 32.9% higher at R57.7m.

Equity accounted earnings and dividends from ABI increased only 3.1% to R16m, which had the effect of limiting Cadbury’s attributable profit growth.

ABI, a main bottler and marketer for Coca-Cola, had a “difficult” period in the six months to March due to the rainy season and competition.

Capital expenditure approved by directors increased sharply to R113.8m (R35.5m), mainly due to the construction of a confectionery factory in Port Elizabeth which was expected to double capacity in three to four years time.

Capital expenditure was expected to continue at a relatively high level in the next two to three years, but this would be funded by internal cash resources and was not expected to add significantly to debt levels.

Interest bearing debt as a net percentage of total shareholders funds fell to 15.7% from 26.2% at the same time last year and 2.7% at year-end. Bester said gearing at the interim stage was artificially high and the group was in fact virtually ungeared. Improved cash flows in the interim period had resulted in lower borrowings and finance costs.

In the six months the confectionery and carbonated soft drink businesses continued to perform “particularly well”.

Bester said that the feedback from retailers and some other businesses which the group dealt with was that consumer demand was not as buoyant as had been expected.
MANUFACTURING - FOOD

1996 - 1997
Cadbury has some features in common with everyone's favourite aunt. It's reliable and consistent in its delivery of sweets — of the edible variety to consumers and in the financial form to investors. An analyst observes that compound earnings growth in the past five years — not the kindest of times to SA companies — has been about 23%.

About the harshest comment that can be made of this food-sector blue chip is the illiquidity of its shares. UK parent Cadbury Schweppes holds tightly to the feathers of its SA golden goose. The 1996 interim dividend continues to please, with turnover up 18% on the previous period and attributable income up 22%. CE Peter Bester believes that "satisfactory growth" can be delivered for the year.

Financial director John Buchanan is quick to comment that observers tend to forget inflation is falling. That means real earnings growth rose more than 16%. "In view of what we hear elsewhere in the retail trade, we're very pleased," he says.

The slowdown in consumer spending seems not to have hit confectionery — perhaps because it's a low-cost item in the scheme of things, besides being a comfort food when times are hard. Buchanan says that the demand for both chocolate and sugar confectionery is strong, and in the absence of the projected capacity expansion to both

Cadbury Schweppes

If you can get it

Peter Bester

chocolate and sugar manufacturing lines, would soon exceed supply.

Cadbury plans to double its chocolate capacity by 2000. It has taken a larger market share of a growing market, due in part to new products such as its hugely successful Astros line. Buchanan says that additional consumers are entering the market, though it's difficult to say in what numbers.

Costs have been contained this half. Raw material and packaging charges jumped last year, but haven't grown to the same extent this year.

The big season for income is still ahead. Buchanan says much of the annual performance hinges on the last two months of the year, which makes earnings predictions notoriously chancy. However, provided that the weather and the economy hold up, the company should make its budget.

The share is priced at R65.75 on a p/e of 21.7. It offers a neatly diversified range of products which address the four seasons, and its management is "conservative and experienced," says an analyst. In her opinion, it's a buy up to R75 — but only if you can lay hands on some of its scarce scrip.

Margaret-Anne Halsey
Mining house will invest R45m in Mozambican operation

Anglo to rehabilitate nut factory

By James Lomont

INDUSTRIAL EDITOR

Johannesburg. — Anglo American is undertaking a R45 million rehabilitation of the Mocita cashew-nut processing factory at Xai-Xai in Mozambique that it recently regained control of.

The factory has lain dormant for the last six years. It will go into operation in the first quarter of next year with an initial capacity of 8,000 tons of raw nuts a year. The factory will export 1,500 tons of processed cashew nuts a year, worth about R35 million, principally to European markets.

Capacity can be increased to 11,000 tons without significant further expenditure, depending on crop availability. The factory is the largest of the four active cashew plants in the country. Mozambique exported 25,000 tons of raw cashew nuts in 1995-96.

The South African mining house is the majority shareholder of Mocita. It will receive a R13 million loan from the Commonwealth Development Corporation to revive the plant.

David Morley, the development corporation's southern Africa director, said that the organisation would not lend money to Anglo American for its operations in South Africa, but was happy to support Anglo's first venture in Mozambique.

"Our issue is not the size of the balance sheet, it is whether we can add value from covering the political risk," he said.

Mozambique joined the Commonwealth at the end of last year. During Mozambique's civil war the Freimo government wrested control of Mocita from Anglo But Anglo American resumed management responsibility in 1994 after a decade of state control.

All the production from the factory will be exported, at first as a commodity to European markets, but consumer pack sales will later be targeted at the South African retail market. A kilogram of unprocessed cashew nuts costs R3.25. A processed kilogram costs R22. It takes 5 kg of unprocessed nuts to produce 1 kg of processed nuts.

Morley said that buyers in export markets were insisting on cashew nuts being traceable to the production source.

"The issue is becoming particularly important in the European market as restrictive legislation relating to health and safety is being put in place.

"Mozambique will have a distinct competitive export advantage compared with Indian producers, who process nuts taken from a wide range of sources, which are often not identifiable in the final product.

"The idea is to use the factory as a name of origin and guarantee consistent quality," Morley said.
Board launches a new probe of Kolosus deal

Jacqueline Zaina

THE Competition Board has launched a formal investigation of food and tanning group Kolosus Holdings' takeover of Siverock Industries — almost nine months after approving the deal.

Group MD Tito Vorster said yesterday it was disconcerting that the board had not requested his response before launching the investigation, particularly as it had approved the deal in January, after a four-month probe.

He said that the takeover was now "irreversible" with businesses merged, plants closed, and almost 600 employees retrenched.

"The board's decision is surprising considering its initial judgment that the deal did not unduly impede competition," he said.

The regulator had given Vorster 30 days to respond, but had failed to forward a copy of the complaint, which had come from a player in the automotive leather industry.

The board said it would look into whether Kolosus constituted a monopoly and whether any act or omission on the part of the group subsequent to the takeover — involving actual or potential competitors — could be regarded as restrictive practice in terms of the Competition Act.

It invited the public to submit written representation on the matter within 30 days.

Vorster said he failed to see how the situation could be remedied if the board now reached a different finding.

He said it was odd that the complaint should have emanated from the automotive leather industry, which was one sector to have remained unaffected by the takeover.

Vorster suspected, however, that the complaint had been lodged by a disgruntled business partner within the industry.

The group was one of six players in the sector, and although it had recently decided to increase its production of car seat leather, it could not be said to enjoy an unfair competitive advantage in this area, said Vorster.

It expected to earn 60% of its income from its leather business in the current financial year, after having divested itself of its fresh carcass business.

Kolosus's attributable earnings shipped to R14m (R46.3m) for the year to May, on sales of R1.8bn (R1.4bn).
Kolosus strips and sells Silveroak

Adrienne Gliomee

FOOD group Kolosus has quietly stripped Silveroak Industries of assets and sold it after the subsidiary was landed with a $100m damages claim from its former US partner.

MD Tito Vorster said yesterday that the R1.8bn-a-year group, currently facing a Competition Board probe of its takeover of Silveroak, had taken most of the leather-making subsidiary’s assets and sold what remained to a consortium led by his brother Henry, who chairs Mercantile Bank.

The move — which Vorster dubbed “strategic” — followed the lodging of a claim against Silveroak by US automotive leather group Seton four months ago in the International Court of Arbitration in Paris. Seton claimed that its joint venture with Silveroak’s Lady-smith Leathers in 1994 faced competition from Kolosus subsidiary King Tanning. The two groups had agreed, when Silveroak was owned by German investor Claus Daun, not to compete. However, Kolosus bought 89.9% of Silveroak from Daun last August.

The US group, which supplied leather to Chrysler, Mercedes-Benz and General Motors, complained to the Competition Board, prompting the new probe. It also lodged a civil suit against Vorster as director of Lady-smith Leathers and MD of Kolosus.

Vorster said stripping Silveroak was not linked to the damages claim. “Silveroak and Kolosus were mirror images of one another. We had to close some plants and move business to others. In most instances the technology was more advanced at Kolosus and this made the move to incorporate the assets with Kolosus an obvious one.”

The remnants of Silveroak were thought to be worth about $12.5m. Seton still had an option to buy it.

Nine months after clearing the Silveroak takeover, the Competition Board said last week that it would investigate the deal. “It is not so much the acquisition of Silveroak that is of major concern but certain of the downstream activities affected by it,” board chairman Pierre Brocks said.

Vorster said Seton had not yet submitted documentation to back its $100m claim. Silveroak had negated contractual agreements. “Lady-smith had not made a profit before our involvement but moved into the black when we became involved,” he said. “It would be unfair of Seton to argue that we inflicted any damage on Lady-smith’s performance.” Kolosus had proposed merging the joint venture into Kolosus, but Seton had blocked this.
US company accused of trying to stifle international competition

Kolosus-Seton war hots up

By Stuart Rutherford

Durban — Kolosus Holdings, the South African food group, yesterday claimed that the international row between it and the US automotive leather company Seton was the result of Seton's attempts to keep it out of the international market.

Tito Vorster, the managing director of Kolosus, said Seton was not aiming to protect its local business, but to stop Kolosus from competing against it internationally.

That claim is the latest blow in an international battle between the two. The clash stems from Seton's allegations that Kolosus-owned King Tannung is deliberately destroying co-owned Ladysmith Leathers in order to take its share of the automotive leather industry.

Last year, Kolosus took over Silveroak, the company that jointly owned Ladysmith Leathers together with Seton, for R108 million.

"South Africa's competitive advantage as a result of the weakening rand and the influx of new car manufacturers has made the country a threat to Seton's international trade," said Vorster.

Robert DeMajestre, the vice-president of Seton, yesterday dismissed these claims as nonsense. He said Seton was one of the two largest automotive leather suppliers in the world and did not consider Kolosus a threat.

He said their primary concern was to protect their state-of-the-art technology from Kolosus because it was substantially better than that used by the local group.

Vorster based his claim on Seton's alleged proposal that Kolosus should "donate" a 70 percent interest in Ladysmith Leathers and a 50 percent interest in King Tannung to Seton without compensation and on the understanding that the local company should not compete with Seton internationally.

In turn, Seton would withdraw its fierce assault upon Kolosus, according to the alleged proposal.

"Seton's attempt is clearly aimed at preventing Kolosus from competing against it internationally and its main aim is not to further its local business, but to protect its American business," DeMajestre said.

DeMajestre said the proposed settlement was for a 50 percent stake in both Ladysmith Leathers and King Tannung, after which the plan was for two companies to be merged.

He said the only reason for this proposal, which was subsequently rejected by Kolosus, was that it made "economic sense".

Seton is one of the two biggest suppliers in the world of automotive leather and its projected turnover for this financial year is $450 million.

Concerning Kolosus' claims that it was not aware of the agreement between Silveroak and Seton in terms of which Silveroak would not compete with Ladysmith Leathers at the time of the takeover, DeMajestre said it was incumbent on Kolosus to have found out what agreements existed before they took over Silveroak.
Irvin and Johnson's profit gets a battering

by Audrey d'Ange

Cape Town — Irvin and Johnson's (I&J), the fishing and frozen foods company, posted yesterday a 31 percent fall in earnings in the first half of the year.

The directors said that improved supplies and export sales resulted in a stronger performance in the second half of the year.

The dividend has remained unchanged at 10c a share, but on a reduced cover of 1.8 times earnings. Operating profit fell 9 percent for the year after falling 27 percent in the first half.

Earnings were 15 percent lower at 24.3c a share before exceptional items from 28.7c for the same period last year. After the exceptional items, earnings were 31 percent lower at 18c (26.2c) a share.

The exceptional items included a write-down of R14 million on the investment in the Namibian Kusob Fish Products and a loss of R3.6 million on the sale of the Australian subsidiary.

The interest bill rose by 4 percent to R20.3 million (R19.6 million) and income from investments fell by 24 percent to R10.6 million (R14.1 million).

The tax bill eased 8 percent to R20.7 million (R22.5 million) but after-tax profit fell to R31.9 million (R75.4 million).
**SKINNED ALIVE?**

From Kolosus, we tried to settle this fight outside the courts and only a small amount is still outstanding.

In a final twist, it appears that Kolosus has quietly disposed of Silveroak. When they met in Paris at the start of the arbitration case on July 30, Vorster told DeMajistre that Silveroak, whose only asset is the Ladysmith joint venture, had been sold to an unidentified group of investors that includes Tito Vorster's brother, Henry, who apart from chairing Mercantile Bank, is attorney to Kolosus.

Though much was made of the Silveroak takeover by Kolosus when it announced disappointing results on August 5, news of its apparent disposal was not imparted to shareholders.

As the FM went to press, Tito Vorster maintained that Kolosus sold Silveroak to an investment group in May.

"Silveroak is not a subsidiary company of Kolosus and Kolosus is not affected by this $100m claim," he says.

Why was the sale not disclosed to shareholders or mentioned in the Kolosus results? "It was a small transaction. We had stripped all the businesses out of Silveroak, apart from the joint venture, and incorporated them into our own businesses."

Vorster declares that Seton's allegations filed in the Supreme Court are "patently untrue" and of "no substance." He adds: "They want to take a controlling interest in our business in the automotive industry in SA and they're trying to prevent the joint venture from competing against them worldwide. I'm not going to be bullied by these people."

Seton responds: "As far as we are concerned, Silveroak was and remains a subsidiary of Kolosus."

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**Silveroak**, the company acquired last year by meat and leather group Kolosus, faces a US$100m-plus claim for breach of contract in a bitter row for dominance in SA's R900m/year automotive leather industry.

The action is being brought by US automotive leather giant Seton at the International Court of Arbitration in Paris. The major portion of Seton's annual revenue (projected $450m in financial 1996) comes from the sale of automotive leather. One of the two biggest players in the world, the company supplies all global leather requirements for Chrysler. Other customers include General Motors, Mercedes-Benz, BMW and Nissan.

Pennsylvania-based Seton bought into a 50-50 joint venture in SA in 1994 but found itself in a nightmare situation when the joint venture's parent, Silveroak, was sold to JSE-listed Kolosus last September. Kolosus owns 100% of one of Seton's main SA competitors, King Tanning.

Seton is also preparing an action against Kolosus in the US courts.

Seton came to SA in September 1994. Four months earlier, the company entered the European automotive upholstery business with the acquisition of Lindgens, a German company which is one of the largest upholstery suppliers to Mercedes-Benz. Mercedes, hit by 61% duty on vehicles it imports into SA, wanted to reduce its by building up export credits from components made in SA. In the 50-50 joint venture, Seton bought into Silveroak's upholstery facility, Ladysmith Leathers, spending $5m in its purchase and upgrading.

When the venture was formed, Silveroak and Seton signed reciprocal covenants restraining them from competing with each other.

However, in a boshbshell development in late August 1995, German investor Claas Daun sold his 89.9% stake in Silveroak to Kolosus for R94.6m.

Kolosus Group MD Tito Vorster and King Tanning MD Pieter Brand were appointed to the Ladysmith board. Both are also on the board of Ladysmith's rival, King Tanning.

At the time, the Competition Board approved the takeover. But last week the board announced it was launching a new investigation to establish whether the Kolosus acquisition of Silveroak had created a monopoly.

In a separate action, Seton has filed affidavits in the Transvaal Supreme Court, charging Vorster and Brand with being in breach of their fiduciary duties, by sitting on the boards of competing companies.

Seton is applying to the court for an order to prevent Kolosus from:
- Passing on confidential Ladysmith pricing and cost structure information to King Tanning.
- Operating a secret two-tier price structure whereby hides supplied by a Silveroak subsidiary were sold to King Tanning cheaper than to Ladysmith.

Seton vice-president and Ladysmith director Robert DeMajistre says: "Despite assurances by Vorster that he would never compete with the joint venture, King Tanning started engaging in various restrictive practices which amount to unlawful competition. These intensified, involving the main customers and prospective customers of Ladysmith such as Mercedes-Benz, BMW, Opel and Rover."

Papers filed by Seton with the Supreme Court recount how Ladysmith's marketing director was instructed by Vorster to share confidential price information relating to its major customer, Mercedes-Benz, with King Tanning. Thus, claims Seton, enabled King Tanning to put in a lower quote for Mercedes business.

In Germany, Claas Daun, who chairs furniture group Morkels, reveals that he has had a "bit of a struggle" getting the R94.6m payment for his Silveroak shares from Kolosus. "We tried to settle this fight outside the courts and only a small amount is still outstanding."
Competition Board to consider laying charges of price collusion

Nampo accused of price fixing

By Nancy Myburgh
MARKETS EDITOR

Johannesburg — The Competition Board and officials from the Animal Feed Manufacturers’ Association (AFMA), which includes the Tiger Quix group, will meet next week to discuss the possibility of laying charges of price collusion against the National Maize Producers’ Organisation (Nampo).

Pierre Brooks, the board’s chairman, said yesterday that he would have a “preliminary, exploratory” meeting with AFMA.

Allegations of collusion made by the association will be a crucial test for the board.

Recent charges of collusion against banks, which were later unsuccessful, have led to criticism of the competition legislation.

New allegations of collusion raised with the board could influence any contribution it may make to the new competition legislation. This is expected to be tabled in parliament next year, according to Brooks.

Feed producers have been angered by what they saw as Nampo’s efforts to drive up prices of maize.

“We have copies of speeches and press releases by Nampo stating that farmers must deliver all their maize to the maize board export pools (rather than sell it on the domestic market), so the market can be in short supply and domestic prices can be kept higher,” said Graham Ebedes, the chairman of AFMA.

The government allowed private exports of maize for the first time this year, in addition to exports by the maize board from its “export pools.” Farmers could deliver maize to the pools for export later by the maize board itself, and the board guaranteed a floor price that farmers would realise.

Though South Africa recorded a bumper maize crop this year, there was a shortage of locally produced maize to be sold to the domestic market, according to John Wildey, the head of the agricultural markets division at the South African Futures Exchange (SaFex).

“There was definitely a shortage of yellow maize. There is also a small shortage of white maize,” Wildey said.

The maize season is currently underway, and producers are facing challenges due to the drought conditions in the country.

Nampo officials have denied collusion “Suddenly now there is not enough cheap maize available and (maize buyers) want to complain to someone. They are looking to the government to force prices down,” said K. LeClue, the manager of research at Nampo.

World maize prices skyrocketed earlier this year as a result of a record-breaking drought in the US and a shortage of maize in that country.

Japie Gribele, chairman of Nampo, said there was no case for collusion against the producers’ body, as it was a farmers’ representative and advisory organisation.

“Nampo doesn’t buy or sell any maize,” Gribele said.

SA’s biggest sugar producer expects substantial profit growth

KLM and SAA do
I&J to give employees 9% stake within 10 years

Jacqueline Zaina

IRVIN & Johnson plans to implement a share incentive scheme which could result in about 9% of its share capital, worth R100m at current market value, being held by employees within 10 years.

Financial director John Morrison said yesterday the first tranche of 6.4-million shares to be issued in November would give employees a 2.2% stake in the group worth about R25m.

Anglovaal Industries' interest would be reduced 1.5% to 26.8% in the first phase of the offer, but could be cut by up to 5.6% over the next 10 years.

Morrison said the share issue — still subject to shareholder approval — would be repeated at three year intervals and depending on whether the employee profile remained the same, could see employees increasing their stake to 9% over 10 years.

Employees who have been with the company for over two years qualify for shares which are held in trust for five to ten years at which time they can be bought at a 5% discount to the market price on the day of the offer.

Morrison said I&J wanted to give its employees an incentive to become involved in adding value to the company and benefit from any increase in the value of the shares. "The main reason for the scheme has been to align shareholder and employee aspirations more closely and to establish a reward system for loyal employees."

The company has increased its authorised share capital 19.3% by issuing 77-million additional shares to accommodate the scheme. Several fishing companies have recently launched similar schemes to raise their black empowerment profiles. Premier Group subsidiary Premier Fishing last month transferred 20% of its shares to employees.

The industry is waiting for new fishing policy from government which is expected to reduce the quotas of established companies in favour of those previously excluded on racial grounds.

Employee share schemes are seen as a proactive way of safeguarding fishing quotas by incorporating "previously disadvantaged groups" into the shareholder structures.

I&J chairman Jan Robberse said in the group's annual report that it was important that government implemented a policy that would encourage long-term investment in the industry.

I&J reported a 31% drop in attributable earnings to R62m in the year to June on turnover of R2.2bn, 5% higher than the previous year.

Earnings before exceptional items fell 15% to 24.3c a share.
Small exporters can food giants for delays

Cape Town — Irregular and obstructive trading practices by South Africa’s food giants have cost South Africa billions in exports, the Independent Exporters’ Association (IEA) said yesterday.

Ebrahim Malle, the association’s spokesman, said that key listed and unlisted fruit and food companies had cost the country dearly through irregular and obstructive trading practices.

The IEA, which is calling for free market competition, claims that the companies involved include Langenberg Foods, Unifrusto (Cape Fruit Juice), I&J, Ceres, Royal Delmonte, Fisco Foods and Bonita.

Malle said the companies had inflated prices to such an extent that South African produce could, in some cases, be bought 44 percent cheaper from wholesalers overseas than from the local producer.

Export deals which have been scotched include an order for 1.7 million tons of frozen vegetables worth more than R6 billion, a more than R40 million fruit juice order placed by the Malaysian government and orders for fruit juice, canned fruit and vegetables by the ministries of defence of Oman, Saudi Arabia and Jordan, collectively worth more than R70 million.

The exporters have also had a potential order, worth more than R2 billion over a five-year period, to supply cooking oil, maize, frozen fish and chicken, milk powder and red meat to Jordan.

While the IEA had offered to deal through the various companies’ agents, the names of the foreign agents had been withheld, Malle said.

"Because of the hold-ups by Koo Langenberg, it took us four years and six months to export one container of canned fruit to the Middle East. Prior to the container leaving, Koo Langenberg changed the letter of credit four times and then delivered 68 cases short.

"They did not have the decency to call us and tell us this. Instead, we had to hear it from the importer," said Malle.

Andries van Rensberg, the managing director of Langenberg, said the company, which exports about R400 million of fruit a year, had borne the costs of the changes to the letters of credit, which were required because of mistakes made by the importer.

Speaking about the price differentials, Van Rensberg said, "I am not aware that there are any big differences in prices. I cannot comment because a dumping charges case is in the process of being reviewed."
IRVIN & JOHNSON

DECLINING PROFIT MARGINS

CHALLENGE MANAGEMENT

Major decision looms on Namibia

Irvin & Johnson (I&J)'s disappointing results over the past four years has dispelled the blue-chip image it earned for itself until 1990. At about that time, I&J's management realised the company had to change its fundamental strategic direction. Whereas fishing had been seen as the core activity, the emphasis had to move towards becoming an added-value food supplier.

Since then, I&J management has made much progress in creating this strategic change. Earnings are again poised for sustainable growth.

For I&J to create investor confidence that it is on the road to recovery, it has to surmount four major challenges:

The first involves its stake in the Namibian fishing industry. I&J absorbed a R24m loss from this source in 1996.

Next, because I&J's sales and distribution division is its largest turnover division, it is vital that Rainbow Chicken, its most important customer, recovers the market share that it lost in the past four troubled years.

Volumes of chickens delivered by I&J on behalf of Rainbow have dropped significantly. I&J needs to reduce its reliance on Rainbow.

Third, I&J's drive to become an internationally accepted, value-added supplier needs to be strengthened.

The fourth challenge embraces the first three. Since the beginning of the decade, profitability has been falling. Return on equity is down to 8% from 30% in 1989, return on capital to 10% from 22.6% in 1989. Pre-interest margin fell from 9.4% in 1989 to 3.7% in 1996. Management has to arrest these declines and improve margin and overall returns.

Until the end of the Eighties, I&J caught fish, processed the catch and traded locally and internationally. During the Eighties, the company had to develop innovative approaches to build up national trade. The then group MD Jim Williams proved resourceful and his efforts paved the way for I&J to make the strategic changes he helped conceive with current MD Roy Gordon.

In the early Nineties, a prepared food division was producing value-added products but it was in its infancy. These products were considered to be good but much progress was needed before economically significant volumes of quality could be produced to compete on international markets.

Implementing the value-added strategy involved having the foresight necessary to plan the changes and courage — huge capital expenditure over a protracted period was necessary. Holding company Anglovaias Industries supported the proposals.

Upgrading the group's fleet and its other-based food processing factories started in 1994, along with new developments (the R40m French fries initiative started in 1993) and the upgrade and expansion of its vegetable processing plants. From then until the end of the 1996 financial year, capital expenditure absorbed R441m.

During the difficult years of the mid- to late-Eighties, I&J established a European marketing office in Monte Carlo, bought, through a pyramid company, a controlling interest in a fish and food marketing organisation in Australia, increased the company's stake in the white fish industry in Namibia and reorganised I&J's farming and vegetable processing in SA.

Williams retired and MD Roy Gordon took over in early 1995.

Problems at Rainbow Chicken continued to frustrate I&J's revenues. Cheap chicken imports captured market share when gross domestic product growth was low and consumer disposable income even lower.

Hake prices in Europe fell sharply and export revenue from European sales dropped as bargain was squeezed. In SA, hake prices fell because of plentiful supplies from Namibia.

I&J's margin — and operating profit — deteriorated. In 1992 operating profit was R107m, almost the same as 1989's R109m. The following year, operating profit fell 22% to R842m, only marginally higher than in 1988 (R822m). One difficulty after another has since curbed profits.

This was reflected in the falling share price. From 1978, for 15 years, I&J's price had risen at a compound growth rate of 37% a year. It went from the equivalent of 4C at the start of 1978 to 470C at the end of 1992. It reflected a solid earnings growth record and the enthusiastic support of JSE investors.

In February 1993, that trendline was broken and the price fell to a low of 280C by the year-end. By early 1996, it had re-
covered and peaked at a new high of 530c. But since then it has slowly declined to the current 360c — zero growth for four-and-a-half years
In this period, investor uncertainty about the company's prospects is aptly demonstrated by the share price's volatility between 530c and 280c. EPS were also capricious. They fell from 25.8c in 1992 to 18.7c the next year, advanced to 21.7c in 1994, 26.2c in 1995 and then collapsed to 18c in 1996
The latest earnings slide is attributable in part to an abysmal fishing season in Namibia and to a loss on disposal of a wholesale business in Australia
I&J's seafood division is supplied almost entirely by the group's large fleet of trawlers in Namibia, it is involved in a joint venture with Kuseb Fish Products which lost R24m in 1996. As a provision, I&J accounted for 100% of the loss while holding 49% of the equity
Kuseb is the only Namibian hake fishing company with a major factory that does not have a freezer quota. Catch rates for wet fish trawlers out of Walvis Bay were poor and because the company was not permitted to freeze its catch, it was unable to fish farther afield — hence the large loss. In spite of multiple assurances from the authorities that a freezer quota will be granted, nothing has yet been forthcoming
I&J is now faced with the option either of selling its fishing interests there and getting out of Namibia or getting even deeper into the industry by way of expansion or acquisition. Remaining in seems the sensible option particularly if, as they must do, the authorities value the returns from the industry's participants
The 1996 Namibian hake season was a disaster. On the whole, though, the state of the hake biomass in Namibia is good and thought to be improving. Larger quotas are a possibility in the future in SA, though, the hake resource is not expected to grow much, nor are future quota sizes
At face value, because of its large, continuing capital expenditure on its fishing fleet, I&J's motivation to change its strategic emphasis may seem like lip service. But it still needs the raw material to process and produce its main added-value food — fish
Instead of catching fish for trading, it is now catching it to supply its conversion process. And because management believes I&J can catch fish efficiently, control its supply and obtain the commodity more cheaply than it could buy on the open market, it makes economic sense to pursue fish catching rather than exit from it
Aside from other good reasons to do so, I&J Foods has been an important export client for hake from I&J in SA and has made substantial improvements in the Australian prepared foods market. It holds about 26% of the frozen seafood market and about 40% of the frozen hamburger market at retail level. Turnover was A$112mn
I&J's Foods' range of frozen products, packaged with the same logo used in SA and including many prepared dishes, is familiar throughout Australia. In SA I&J also increased its holding in I&J Zimbabwe to 77.5% with a view to increasing its activities in that country
The sales and distribution division (1996 turnover R1.15bn) substantially improved performance on the supply side in the last quarter of 1996
I&J has repositioned its productive assets. New product ranges made possible by the latest technology will enhance earnings potential. Its strategies are more focused. Its overseas trade, particularly in branded, added-value goods, offers exciting international opportunities with hard currency earnings
As chairman Jan Robbertze says "Subject to fishing quota stability, a recovery in Namibian operations and improve in chicken supplies recently evident, the company is well positioned to grow its profits in the current year"
Because I&J's EPS base is now so low, its immediate recovery potential is high EPS (after exceptional items) in 1997 should be at least 20% better — probably more. Also, strenuous efforts are being made to achieve a 20% return on shareholders' funds. Margin must rise to about 8%
That is unlikely to be attained in one year. But management's enthusiastic pursuit of the goal suggests results could improve for some time. Gerard Hirsbon

FINANCIAL MAIL. OCTOBER 11 1996
I&J introduce limited share incentive scheme

Maggie Rowley

Cape Town — Shareholders of Irvin & Johnson, a fishing and food group, have approved a share incentive scheme. Employees will be given a 9 percent stake in the group over the next 10 years. At current market value this stake will be worth around R100 million.

The first tranche of 6.5 million shares to be issued next month will put 2.2 percent of the share capital in the hands of employees. This is worth about R23.2 million.

The scheme is less generous than similar schemes that have been introduced.

Shareholders at the annual meeting on Friday approved an increase in the authorised ordinary share capital from 323 million to 400 million shares. This would facilitate the implementation of the scheme.

The scheme, which follows the 10 for 1 share split in June, is open to all employees with more than two years’ service.

Roy Gordon, the managing director, said conditions had improved in the first quarter on both the supply side and international markets.

Exports and the value added sector on the food side were growing, he added. This puts the group on track to show real earnings growth for the year.

Kunub Fish Products, a joint venture, posted a R24 million loss last year. Negotiations were under way with the Namibian government to convert its wetfish quotas to more profitable freezer quotas.

"A lot will however depend on timing," said Gordon.
SA chocolate sold to Saudi Arabia

SALES of Kit Kat chocolate bars soared dramatically yesterday when 2-million bars were flown from Johannesburg International Airport to Saudi Arabia.

A Saudi Airlines jet, with a constant internal temperature of 12°C to 15°C, was specially chartered for the trip.

Sauids are among the world’s leaders in per capita consumption of chocolate. The consignment was described as a major breakthrough for trade relations between SA and Saudi Arabia.

REPORTS: Business Day Report, Reuters, Sapa
**PREMIER GROUP (786)**

**From 18/10/96**

**FOCUSING ON TRADING**

Much progress has been made since chairman Doug Band released the bleak results of 1996 about 15 months ago. These revealed severe deterioration in the trading performance of unlisted subsidiaries Premier Foods and United Pharmaceutical Holdings (UPH) as well as the huge rise in borrowings at the centre.

In the 1996 year, Premfoods' trading profit recovered — off a low base — by 70% or R63.8m and UPH made a R9.4m profit after losing R15.6m the previous year.

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**FINANCIAL MAIL - OCTOBER 18 - 1996**

**ACTIVITIES** Food, pharmaceuticals, wholesaling and distribution, retail, entertainment and leisure.

**CONTROL** Liberty Life and Johnnie’s.

**CHAIRMAN** D. Band

**CAPITAL STRUCTURE** 8.325m ordi * Market capitalisation R6.15bn.

**SHARE MARKET** Price 665c Yields 1.9% on dividend, 4.6% on earnings, price ratio 21.8, cover, 2.4 12-month high, 7.22c low, 510c Trading volume last quarter, 15.8m shares.

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**Year to April 30**

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* Before R451m rights issue held after year-end.

Premier with a 27% stake in the merged entity which would have a combined market capitalisation of about R5.6bn (see Leading Articles).

With borrowings slashed, management is able to concentrate more on trading. If the group is to produce sustainable and attractive earnings growth, there will have to be continued improvement in returns from Premfoods.

This company accounts for roughly 27% of Premier's total assets but after interest payments made no contribution to headline earnings — though its trading profit was 20% of the group total.

After its rebound in the 1996 year Premfoods achieved a trading margin of 4.7%, giving an operating profit of R154.3m on sales of R3,258m. That was still well below the 5.3% achieved only two years ago, when the profit was R182.9m.

On the group's own figures, Premfoods' return on capital employed last year was a thin 12.1%, less than the targeted 14.1% and far below the figures attained in all other divisions. While this continues it weakens any argument for investing in Premier Group rather than in its listed subsidiaries. It also lends support to those who contend that now the group has been recapitalised it should be unbundled — as happened at the end of the Eighties when the 36% interest in SA Breweries was removed.

Numerous steps have been taken in Premfoods Policy differences with Rainbow Chicks resulted in the investment in Epol being sold for R102.4m through the exercise of a put option.

Edible oils division Epic Foods, which has long been losing money, saw the closure of the Isando oil refinery and the Western Cape crushing plant, the dissolution of the National Margarine joint venture, elimination of loss-making or unacceptably margin products, and introduction of new, higher-margin branded products.

Premfords CE Ian Heron says Epic Foods is now breaking even after a trading loss of R165m in 1996 and he expects its profitability to continue to rise.

Two other areas of management focus at Premfoods are new products and distribution costs and efficiencies. The company has been slow to introduce new products in the past,” says Heron.

"We are being more innovative and paying more attention to niching our products and adding value to our existing ranges."

Premier Milling has reduced its business regions from 11 to four and Heron says its “whole distribution structure is in the process of rationalisation.” He adds that “challenging targets have been set and are being continually reviewed.”

There is overcapacity in some markets such as baking. That is partly why management is concentrating heavily on costs as a route towards improving margins. Heron says Premfoods is now "well on the way" towards an improving trend in its overall margin.

Most of the other group companies performed well. Listed food company Bonnita provided R37.9m or 15% of group headline earnings. The largest contributor was Prempharm with R81.8m (33%), followed by Metcash with R76.1m (30%), CNA Gillo R29.1m (12%), UPH R15.3m (6%) and Teltron R11.5m (6%).

Aside from the work being done at trading level, the retirement of group debt will mean a huge boost to attributable earnings. Thanks to the high liquidity in the listed companies, the group net interest cover is a comfortable 5.8 times — but gross interest paid was R217m. Against this, EPS will be calculated on greatly enlarged share capital.

The market has already recognised the favourable developments. Last month the share price reached 722c. well above the 460c seen in July last year.

However, at the current 664c, the earnings multiple is above 21, which makes the stock look fully priced for now. Andrew McNulty

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**Doug Band**
Foodcorp results 'should be in line with forecasts'

Edward West The MALBAX-controlled Foodcorp would report earnings growth of 12%-14% in the year to end-August, in line with earlier forecasts and in spite of weakening consumer demand, analysts speculated at the weekend.

The branded food and commodity group's share ended at R37 on Friday, having gained 43c or 13.3% so far this month. It peaked at a 12-month high of R40 in February, and has recovered from a low of R25.40 reached on May 8.

Foodcorp reported its year-end results this week. Analysts attributed the higher share price this month to expectations of good results, which, one commented, were relative to market conditions. At the interim stage earnings rose only 4% to R60.8m compared with the corresponding period the previous financial year.

Analysts expected the milling businesses, including the Ruto flour and maize mill in Pretoria and Sunbake bakeries, to have performed well over the 12 months. Results from the Cold Chain division and Enterprise, both partnered with ICS Group, were also expected to be good.

Foodcorp's meat operations had been scaled down "dramatically", while Simba was expected to show good growth despite the sale of Simba in a joint venture with PepsiCo Foods International. Comment could not be obtained on speculation that Pepsi could be vying for a bigger stake in the group.

Malbak acting CEO Peter Benningsfield said a number of "interested" had registered to buy stakes in the unbundling of Malbak, particularly in the unlisted companies, but shareholdings of more than 35% would probably be offloaded to Sanlam.
Restructuring gets going at Tongaat Hulett

Shirley Jones

Durban — The sale of Tongaat Foods Distributors for R16 million to CIC Holdings, the investment holding company which was listed on the Namibian stock exchange in May, was part of a much wider restructuring strategy at Tongaat Hulett, its former parent.

Tongaat Hulett, the consumer and industrial holding company, said on Friday that the sale was part of a strategy which would allow the group to focus more closely on its core operations, concentrate on transforming certain key businesses into core businesses and dispose of “bits and pieces” which did not fit in with the company's plans.

At an investment presentation in July after the release of the group's results for the year to March 31, Cedric Savage, the group's managing director, said the group's sugar, aluminium, starch and glucose and property interests had been defined as core businesses hosting strong market positions and with the potential for sustained profit growth.

Key businesses which had the potential to become core businesses, but still lacked one or more crucial ingredients were Corobrik, Tongaat Hulett's textile arm David Whitehead, and CPC Tongaat Foods of which Tongaat Foods Distributors was the warehousing and distribution arm.

A company spokesman said non-core businesses were those where Tongaat Hulett had decided not to invest any further as they did not fit into an envisaged future portfolio, as well as activities which could be competitively outsourced.

The investment presentation identified Tongaat Hulett's cotton ginning operation, Tongaat Food Distributors and non-strategic care farms as non-core operations.

The sale of Tongaat Foods Distributors was initiated by CPC-Tongaat Foods with the group's blessing. The spokesman said that the sale would enable CPC Tongaat Foods to become more focused on the local branded products and the international brands which it exported into sub-Saharan Africa.

The division's turnover and its contribution to group profit slumped during the past financial year, but were expected to pick up this year with the launch of new products and an international marketing and research and development expertise tool.

The rationale behind the sale was that neither Tongaat Foods, nor its 50 percent joint venture partner CPC International, was able to provide specialised input to improve Tongaat Foods Distributors's competitiveness or grow the business.
Langeberg’s bottom line shows healthy growth

Cape Town — Stronger margins helped Langeberg Holdings, the Tiger Oats fruit and vegetable canning subsidiary, to notch up strong bottom-line growth in the year to September 30.

Headline earnings a share came in 32 percent higher at 49,7c, while a final dividend of 10,5c pushed the annual payout up 28 percent to 16c.

Turnover rose a modest 11 percent to R60 million, but operating profit increased 23 percent to R110 million following improved trading margins of 11,45 percent (10,4 percent).

Nick Dennis, the chairman of Langeberg, said the company saw good growth in local sales volumes with the Koo and All Gold brands achieving further market share gains.

He said the depreciation in the value of the rand and lower cost structures had also had a positive effect on profit.

Dennis noted that Langeberg had experienced higher working capital requirements during the past year, but the company managed to stay in a net cash position at the year end.

Seasonal funding requirements, however, saw the company move from an interest receiving to an interest paying position.

He said Langeberg continued to rationalize operations in an effort to achieve low-cost production and global competitiveness.
HEMMED IN

Group MD Tito Vorster describes financial 1996 as a watershed for Kolosus as it completed its transformation from a co-op into what he calls "a leading diversified industrial group that will satisfy the demands of not only the local, but also the international markets."

It involved radical curtailment of operations in the highly cyclical wholesale fresh meat market and a redirection of resources into manufacturing activities.

Equally important was the additional R166m investment in the leather industry through controversial acquisition of Silveroak Industries. This, says chairman Hannes Besselaar, further enhanced the group's position as SA's leading leather producer, which in turn has promoted prospects for increased involvement in foreign markets.

Vorster concedes that, short-term, the Silveroak deal has impaired both profitability and balance sheet structure. Finance director Ronne van Rensburg quantifies this with the view that Kolosus without Silveroak would have increased attributable EPS by about 20% instead of the marginal 3.5% improvement reported before exceptional items (mainly restructuring costs).

In the case of the balance sheet, Vorster notes that the group immediately after the takeover had borrowings of R380m, with debt equity ratio of 1.27, up from 0.70 at the previous balance sheet date.

By year-end, and by the FM's calculation, borrowings had fallen to R290m (net of cash) and the debt ratio was under 1 — still excessive, but materially better.

Management are obviously confident the initial costs of acquiring Silveroak had largely been absorbed by year-end, and that from now on the benefits should flow as duplication of management and marketing structures are eliminated and production facilities rationalised. This view presumably influenced the decision to pay out almost all 1996's net earnings (after exceptional items) in dividends.

It is as well as Vorster and Van Rensburg have gone to considerable lengths to fill shareholders in on the effects of the Silveroak deal as the financial statements without this background are, at best, a mixed bag.

Turnover and operating profit were up 27% and 33% respectively, but the benefits here were largely absorbed by higher interest charges which left pre-tax profit only R1m higher than in 1995. Lineage earnings, as indicated earlier, reflected an improvement of only 3%.

Profitability ratios were up across the board. Apart from the improvement in trading margin, gross returns on total assets and capital employed were both higher though, at 10.7% and 14.1%, still leave something to be desired. The same applies to ROE of 14.2% based on headline earnings from 13.8% previously.

Negatives mostly relate to the balance sheet. The unsatisfactory gearing position is acknowledged by Van Rensburg who notes that a rights issue is being considered - "but only at a stage when the share price of the group justifies it."

The need is underscored by an interest cover which has dipped to a precarious two times, as well as the narrow debt cover (the ratio of cash flow to borrowings) of only 0.2.

In both cases these ratios are well down on 1995 levels though, if the benefits of Silveroak flow through as expected, the next financial statements could look better even without a capital injection.

Kolosus may well have found itself in a Catch 22 situation. The financial position has clearly reinforced the downturn in the share price which started around the beginning of this calendar year. At 365c, the price is only 5c off its 12-month low which, in turn, reflected a 46% slump from the year's high. It is also 26% below net worth which, by itself, makes a rights issue unviable unless one is desperate.

The best action would probably be for the group to concentrate on consolidating its position to maximise performance of its existing assets — with luck it could find that in a year's time the need for

FINANCIAL MAIL NOVEMBER 1 1996
Langeberg to increase its market share abroad

Jacqueline Zaina

LANGEBERG Holdings would look beyond SA’s borders for volume and margin growth in its 1997 financial year, financial director Johann Cilhers said at the weekend.

Although the domestic market was expected to grow in the next year, the group stood to benefit from increasing market share in southern African and Europe.

In line with the group’s objectives of global competitiveness, local operations had been rationalised during the past year to optimise production capacity. Plant rationalisation and the closure of the Mossel Bay facility had resulted in the retrenchment of 600 workers, he said.

Although European demand was expected to weaken slightly next year because of good fruit crops in the main EU countries, there was significant potential to grow by increasing Langeberg’s presence in the retail sector.

Cilhers said Langeberg intended to grow its 8% share of the international canned deciduous fruit market by marketing its product in Europe under the Dole brand through its recent alliance with multinational food group The Dole Food Company.

Cilhers said higher rand realisations owing to the current exchange rate had the potential to make the group’s international business more profitable. However, it still faced 20%-24% duties on exports to Europe, from which EU countries remained exempt. Duties on exports to the US and Far East were also high.

The group’s expansion into Africa was looking promising, with some of its southern African operations having yielded high volume growth in the year to September. Cilhers said the Koo and All Gold brands had been well received in these markets.

The group intended to expand into western and central Africa next year.
ICS nets headline earnings

The group's debt has declined from R131 million to R77 million

COMPANY NEW
Durban — Core sugar interests were likely to be behind an expected increase in profit at Tongaat Hulett and Crookes Brothers for the six months to September.

The two diversified food groups, due to report later this week, took significant knocks from the crippling drought which began in 1993, with sucrose production falling 7 percent at Tongaat Hulett and 14 percent at Crookes Brothers in the financial year to March.

This year, after good rainfall, the opposite is likely. Their rival sugar producer, Illovo, reported a 60 percent leap in attributable profit in the year to September.

Tongaat Hulett, which had concentrated on rationalising its mills, boosting productivity and implementing structural cost reductions, was looking to a 63 percent improvement in sugar production and a more meaningful utilisation of milling capacity, it said at its annual general meeting in July.

Earnings for the previous financial year were up 30.4 percent, boosted by Tongaat’s property, starch and glucose divisions and despite a poor showing by the sugar division.

Cedric Savage, the group managing director, said there was sufficient capacity in existing operations to provide real growth in earnings a share.

Analysts have settled on a 25 percent overall earnings increase forecast. However, while it is not unrealistic to expect core businesses such as sugar, aluminium, property, starch and glucose to deliver, a turnaround by Corebrick, which has up until now lagged expectations in a lackluster building market, may be a little too optimistic.

Similarly, it is doubtful whether David Whitehead, the group’s textile operation, will realise its planned 7 percent growth in activity for the financial year in a troubled textile sector. Its contribution to group profit during the financial year to March 31 was disappointing.

The outlook for Crookes, which is more closely focused on agriculture, is even more positive than Tongaat’s expectations.

The company’s 22 percent increase in operating income during the financial year to March 31 was based on a drop in cane earnings compensated for by the company’s banana, grain and citrus operations.
COMPANIES Restructuring programme starts to pay off

A smile on the face of Tiger

ANN CRONYN
CONSUMER INDUSTRIES EDITOR

Johannesburg — After a sluggish first-half performance, Tiger Oats, the food and pharmaceutical group, reported a 25 percent increase in headline earnings to R72,2c a share for the 12 months to September 30.

A final dividend of 87,5c a share has been declared bringing the total payout for the year to 132c a share, an increase of 22 percent on the previous year’s payout of 108c a share.

Yesterday, the share price eased back slightly to R62.50 from R62.75, which puts it on a historic price-earnings ratio of almost 17 times, one of the highest ratings in the JSE’s food sector.

The share price moved ahead strongly in recent months and reached a high of R65 in the middle of the month before easing back.

In the year under review turnover rose 14 percent to R73.6 billion and operating income increased 22 percent to R955.3 million from R851.1 million. This reflects a significant increase in margins to 7.3 percent from 6.8 percent, which is a level the group has not achieved since the early 1990s.

Nick Dennis, the group managing director, attributed much of the performance to the group’s strong brands and its high market share. In addition, he said “Our restructuring programme is beginning to deliver real benefits. This initiative, along with the launch of a world-class manufacturing and services programme, is fundamental to the group staying competitive both at home and internationally.”

Pretax income was enhanced by an increase in income from investments and a sharp turnaround in the interest situation from an interest payment of R15.1 million to interest income of R24.9 million. The group had net cash of R617 million at the year-end.

Abnormal items of R230.6 million also helped to boost pretax income. Much of this was derived from profit on the change of interest in subsidiaries, associates and other investments. The tax charge dropped to 29 percent from 32 percent.

Net income, including the abnormal profit, was up 60 percent to R132.8 million, from R81.4 million.

The merger between Adcock Ingram, which is a subsidiary of Tiger, and Premier Pharmaceuticals had no material effect on these results.

Four months’ trading from US-based ConAgra Malt, in which Tiger bought a 60 percent stake in the period, also had little material effect. Dennis said he was looking to real growth in earnings in financial 1997: “provided consumer demand does not weaken significantly.”
Durban — Kolosus, the South African food group, said yesterday that Seton, the US motor leather company, had asked for an extension of the deadline to pay US$135 000 to the International Chamber of Commerce for the arbitration action against Silveroak Industries.

Tito Vorster, the managing director of Kolosus, said he believed the extension would not be granted since Seton had only paid US$257 500 by the October 31 deadline, and the claim would be struck out.

Seton refused to comment on these claims yesterday, other than to voice “general disagreement” with the statements made by Kolosus.

Vorster said Kolosus had refused to pay half the costs of the action and had been under no obligation to do so, thus leaving Seton with the total bill.

Seton had initiated the proceedings earlier this year, claiming Silveroak had breached a competition agreement with it, because its majority shareholder had sold its stake to competitor Kolosus. The sale effectively gave Kolosus and Seton joint control of Ladysmith Leathers, a leather tanner and manufacturer in competition with Kolosus-owned King Tanning.

Seton was then requested to submit briefs on this alleged breach and damages incurred thereby and to pay the necessary advance on costs.

A spokesman for the Secretariat of the International Court of Arbitration refused to comment on the status of the action yesterday, saying this was a confidential matter.

A recent letter addressed to Seton from Fernando Mantilla-Serrano, counsel for the Secretariat of the International Court of Arbitration, said that if Seton did not pay the remaining portion of the advance on costs it should withdraw the claims.

Vorster said he was confident that if the action did go ahead and Kolosus was given an opportunity to respond, then the dispute would be dismissed.

He maintained the action was part of Seton’s game plan to force Kolosus into accepting an unfavourable compromise and sign an international non-competing agreement with Seton.

“Since we took over Silveroak, our throughput at the two automotive tanneries (King Tanning and Ladysmith Leathers) has grown by 40 percent. And it is all exported so we are directly competing with one of Kolosus’ subsidiaries in Germany,” said Vorster.

Seton is one of the biggest suppliers in the world of car leather. Its projected turnover for this financial year is $450 million.
Tiger Oats burning bright after revamp

Amanda Vermeulen

The benefits of Tiger Oats’ restructuring programme helped the food and pharmaceutical group lift headline earnings 25.4% to R561.6m in the year to September.

Headline share earnings increased a quarter to 372.2c and the total dividend was 162c (108c) after a final dividend of 87.5c was declared.

Turnover grew 14% to R13.6bn while operating efficiencies pushed operating income before interest 22% higher to R956.3m. Income from investments increased to R31.6m (R22.8m) while the group reported net interest income of R24.9m against interest paid of R15.1m last year.

Income before tax and abnormal items was 28% higher at R1.1bn. An abnormal item of R13.1m (R13.7m) reflected profit on the change of interest in subsidiaries, associates and other investments, as well as profit on the sale of land and buildings. This was offset by a small charge relating to the cost of discontinued operations.

The tax bill jumped to R374.6m from R287.7m, leaving taxed income at R907.8m (R668.8m). Net income increased 60% to R792.8m.

MD Nick Dennis said although there had been little growth in the market, Tiger Oats’ brands and market share had played a crucial role in its performance. “Our restructuring programme is beginning to deliver real new benefits and the launch of a world-class manufacturing and services programme is essential for the group’s competitiveness,” he said.

Tiger Foods lifted headline earnings 28% despite pressure on margins due to depressed conditions in some areas, the previous year’s drought — which led to imports of cereal and grain at higher prices — and the weaker rand.

The Country Fair and Golden Lay poultry operations reported a sharp slump in results compared with last year’s strong performances, but Dennis said they did well to achieve profit in an overtraded market.

Tastic and Langeberg turned in strong contributions, with the staple foods division benefiting from restructuring introduced the previous year.

The results of four months of trading from ConAgra Malt, in which Tiger acquired a 50% stake, had little material effect. Dennis said this deal had provided the group with “a meaningful investment in the food ingredients sector in Australia, Canada, US, Denmark, Argentina, Uruguay and China.”

A 19% stake bought in US branded frozen seafood products company Van der Kamp’s would also not have a meaningful short-term effect on group earnings, but offered growth potential in the medium and long term as well as a rand hedge opportunity.

The Adcock Ingram merger with Premier Pharmaceuticals in the second half did not affect results. Dennis said trading conditions were likely to remain challenging in the year ahead.

Provided consumer demand did not weaken significantly, further real growth in earnings should be achieved.

Continued on Page 2

Tiger Oats

Continued from Page 1
Good start pulls CC Smith through

Little volume growth in year marked by restructuring of subsidiaries

Compaq News
Food interests spice up CG Smith results

Amanda Vermeulen

A STRONG contribution from food interests helped food, packaging and drugs group CG Smith lift headline earnings 18% to R738,4m or 166,9c a share in the year to September.

A total dividend of 56c (48c) was declared. Turnover grew 11% to R26,2bn with operating profit up 12% at R2,3bn. An abnormal item of R195m (R68,4m loss) reflected profit from disposal of land and buildings, and profit arising from a change of interest in subsidiaries, associates and other investments. The 34% increase in net attributable income to R709,8m included the abnormal profit but was somewhat reduced by the R58m write-down of an investment in Romatex.

Group chairman Derek Cooper said the results had been achieved in a difficult year with limited volume growth, depressed consumer spending and higher imported raw materials costs putting pressure on margins. However, the weaker rand boosted export revenues and profit from offshore operations. "Earnings from non-SA sources are becoming an increasingly important factor in the group's results and by

Continued on Page 2

CG Smith

Continued from Page 1

2000 we hope to have about 30% of earnings generated offshore."

During the year the group bought a 50% stake in the international barley malting operations of US food group ConAgra through subsidiary Tiger Oats Van der Kemp, of which Tiger owns 19%, broadened its product base. CG Smith also claimed a 25% stake in Romatex to 28,9%, selling control of the firm to Consolidated Frame Group.

Another high-profile deal was the merger between CG Smith subsidiary Adcock Ingram and Premier Pharmaceuticals, creating the largest listed pharmaceuticals firm in SA, with market capitalisation of more than R6bn.

Cooper said the benefits of the deal would begin to flow through soon.

Tiger Foods lifted headline earnings 28% on the back of good results from its rice, canned fruit and vegetable, and staple foods operations, offsetting a decline in poultry profits. Beacon's results were below expectations. Spar, Island View Shipping and Meadow Feeds showed improved performances.

Oceana Fishing, controlled jointly with Real Africa Investments, turned in a strong performance. Imperial Cold Storage benefited from good results turned in by Sea Harvest, The Cold Churn, Enterprise Foods and its meat division Illovo Sugar continued its strong recovery with a 41% increase in headline earnings, but profit at Monitor Sugar declined slightly.

Nampak reported a 16% rise in headline earnings despite a competitive market. Bevcan saw some volume growth despite the cool summer, but margins were squeezed. Volume growth and better productivity boosted the glass division, but Foodcan earnings were flat and BlowMocan reported a loss. Listerd CG Smith Foods lifted headline share earnings 27% to 526,1c in the wake of good rains.

Cooper said the group would continue to focus on becoming globally competitive and was confident of achieving real earnings growth during the year ahead.
CURE FOR INDIGESTION

Since people have to eat every day, the food industry might be expected to be stable and profitable. But this is not always so — ask ICS MD Roy Simther, who says trading conditions "fluctuated widely" throughout the year.

Turnover was static at R2.9bn but the effect of abnormal items stemming from the sale of fixed assets and closure of operations (mainly meat), which knocked R33m off net income in 1995 and added R7.4m this year, boosted EPS 106%.

Headline EPS, excluding abnormal items, grew 28%.

Simther says that "focus on productivity improvements" showed up in second-half operating profit. It had fallen by 9% in the first half, to end the year up 1%.

ICS is a holding company for a diversified selection of food businesses, spanning the fish, red meat, poultry, dairy and frozen food distribution sectors. Though margins have generally been under pressure in the food industry, particularly in areas where maize is a key ingredient, most ICS subsidiaries performed solidly.

Listed subsidiary Sea Harvest grew earnings nicely after a good winter catches in SA waters, though fishing conditions in Namibia fell below expectations and the associate lost R6.5m. The weaker rand helped exports, about 40% of turnover.

Despite industry oversupply early in the year, chicken prices firmed in recent months. Early Bird made a profit, even after "substantial increases" in feed costs. Stronger prices in the fourth quarter boosted earnings in the meat division.

Strong cash flow helped cut borrowings to R70.6m at yearend, down 46%.

FINANCIAL MAIL  NOVEMBER 22 1996

106 Fox

from 1995.

The short-term outlook is cautiously optimistic. Higher chicken prices and cost containment may outweigh the impact of a weakening economy to produce real earnings growth — up to 15% — again in 1997. Trading at R34 on a P/E of 9.8, the share offers value. Margaret-Anne Halse.
Fishmeal hurt as anchovy catches plunge

ANDI SPICE

Johannesburg — The fish-meal and oil industry is suffering from a crash in anchovy numbers off the coast of South Africa, which will cause a rapid contraction in the industry, said a report released yesterday.

"The South African pelagic fishing industry faces an uncertain future. Although there is promising growth in the pilchard resource, the anchovy resource is at its lowest ever," Steve Malherbe, the managing director of the South African Inshore Fisheries Association, said at an international conference in Cape Town yesterday.

Anchovies are used for fish meal and oil, mainly as animal feed, particularly for chickens. But most pilchards find their way into cans for human consumption, though some of the heads and tails are used for animal feeds.

Only 42 000 tons of anchovies were caught this year compared with a normal catch of about 150 000 tons to 200 000 tons a year.

South Africa used to be one of the largest exporters of fish meal and oil in the world but rapid growth in the chicken broiler industry resulted in a need for imports and now the South African industry only supplies about 20 percent of domestic demand.

The local industry operates seven canning plants and nine fish-meal plants and runs 65 purse seine vessels.

Even more worrying is a change in government fishery policy that will lead to large numbers of small fishermen moving into commercial fishing.

"If this is allowed, even on a fairly limited scale, it will lead to increased raw material cost and possibly further investment in an over-capitalised industry ... Coupled with a declining resource, it can only spell disaster."
Coca-Cola invests R86m in plant

Patrick Wadula

Coca-Cola Canners of Southern Africa, formerly Amalgamated Beverage Canners, yesterday launched an R86m investment in a 2 000-can-a-minute production line in Wadville outside Johannesburg.

Technical director Fred Robinson said the projected cost of the plant included the erection of a R1.2m case warehouse adjoining the existing factory.

He said the newly opened production line of 2,000 cans a minute was the largest and most technically advanced beverage production facility in the southern hemisphere.

"We believe in the future of SA and this expansion is just one of the many steps Coca-Cola will be taking to significantly enhance our ability to serve customers," said Robinson.

Robinson said the plant would produce up to 1.6-billion soft drinks a year, with the capacity for additional volume.

He also announced the name change for the canning company to Coca-Cola Canners of Southern Africa.

The company was created as a joint venture in 1985 between Coca-Cola, with 51%, and SA's eight independent Coca-Cola bottlers holding 49%.

The venture's aim was to supply SA's network of independent bottling partners.

The company also operates canning plants in Pinetown, KwaZulu-Natal and Epping, Western Cape.

Greater Germiston Council mayor Kefir Sambo has called on Coca-Cola and other companies operating in the Germiston area to meet with the council to discuss ways of combating crime in the area.

"Government alone cannot do away with crime. Business people will have to work together with government," he said.
SA set to copy EU on food labels

Louse Cook

SA was likely to follow new European Union (EU) rules for labelling genetically modified food when legislation on the issue was drafted next year, agriculture department sources said recently.

A continuing debate in the EU ended recently with controversial rules for the sale of genetically engineered food, effectively allowing its sale without special labelling.

SA, however, did not yet produce or import genetically modified food or products other than plant material, agriculture department quality control deputy director Walter Lammacher said.

Research on soya beans, strawberries, maize, sugar and cotton had, though, reached various stages of completion in SA.

European companies were now required to label all “live” genetically modified products. “Live” products were ones that could theoretically grow if placed in soil, such as tomatoes, potatoes and strawberries. Products with genetically modified ingredients deemed either “chemically identical” to conventional food after processing or “substantially equivalent” would not need labelling.

The agriculture department’s plant and quality control director, Eben Rademeyer, backed the view that SA was likely to follow EU labelling practices and rules. “It is in our interest that our export products provide the information required by consumers,” he said.

The Financial Times reported the European food industry welcomed the labelling arrangements, saying there would be uniformity across the EU.

Environmentalists were, however, angered by the decision and swore to continue campaigning against imports of soya beans produced by US-based Monsanto.

Potchefstroom-based Grain Research Institute biotechnologist Michael Smit said that compared to Europeans, SA’s consumers were relatively unaware of genetically modified organisms.

“The problem of large-scale hunger can be significantly contained if we can make a research breakthrough,” he said.

SA Sugar Association biotechnologist Fransie Botha said the sugar industry would save R250m a year if it could cultivate an insect-resistant type of sugar cane.

Work on a draft bill on genetically modified organisms would start in earnest next year, Laubscher said.

Once it was law — probably next year — implementation would be controlled by an executive council with representation from environmentalists, agriculturists and health experts.
LIMITING THE RISK

The fortunes of Foodcorp seem to be withstanding the changes in the food industry. Chairman Peter Joubert says that deregulation in the various agricultural sectors has "placed a heavy burden" on the industry as farmers and producers struggle to adapt.

Most recently, the maize industry opened to market forces. Wheat may be next on the list of grains, and the pelagic fishing industry's marketing body - Federal Marine - is about to be disbanded.

All these moves affect Foodcorp, which in the 1996 year generated 64% of its sales and 73% of operating income from grain-based foods and edible oils and protein operations.

A 5% increase in sales produced attributable earnings growth of 17%, helped by lower finance costs (down 45% to R10m) and tax (the effective rate dropped to 26% from 32% last year). A change in accounting policy, from the partial to the comprehensive deferred tax method, means that the figures for previous years have been restated.

The dividend of 112c triggered the preference share and debenture conversion mechanism and the issued share capital will rise to R54.7m from April 1 next year, diluting the current shareholding by about 10%.

CE Dave Kennealy says that the loss of Simba's contribution to operating income after it became a joint venture lowered the margin from 6.9% to 6.3%, but earnings from the current 50% holding are expected to outstrip those from the full holding in the previous operation in two years (three years was the original goal).

Joubert says joint owner PepsiCo Foods is unlikely to acquire the whole operation unless Foodcorp Operations, which holds Foodcorp's Simba shares, is taken over. The Malbak unbundling should have no effect on the joint venture, though it's expected to improve the currently thin liquidity in Foodcorp shares.

Foodcorp has worked hard to reduce its exposure to the red meat industry, where prices have fallen steadily because of abundant chicken supplies and slowing consumer demand. Kanhy is now a more focused value-added supplier of processed meats, the beef feedlot number have been slashed to 13,000 from 24,000 a year ago, while the auctioneering business has been sold. Analysts feel that these actions have cut significant risk out of the group.

The grains and oils division performed well, as did the fishing division. Sunbake suffered from "heavy discounting," but Kennealy says that the division has been rationalised - "with major positive cost implications." Enterprise is now producing returns after restructuring of the past few years.

The balance sheet is strong, with net cash available to explore new avenues.

Kennealy says that Africa has been "targeted as a medium- to long-term strategic opportunity." Tanzania, Zimbabwe and Ghana are being investigated and a "world-class" fruit processing operation was recently acquired in Zambia.

The share price is trading at R3.22, which is about midway between its 12-month limits of R4.0-R2.54. Fundamentals are sound, management seems able to get the best out of its resources even in difficult circumstances and earnings growth of about 15% is predicted for 1997.
Kolosus sees big rise in net income

Nicola Jenvey

DURBAN — Food and leather group Kolosus Holdings lifted net income to R23,9m from a R5,1m loss for the six months to last month after absorbing the R27,4m restructuring costs associated with the Silvoak Industries purchase last year, chairman Hannes Besselaar said yesterday.

The Kolosus group consists of three wholly owned divisions — namely brand investments, food technologies, and leather resources — which are engaged in processing natural protein and related products.

Earnings a share on net income rose dramatically to 39,9c from an 8,6c loss, but remained virtually static at 39,9c (1995 37,1c) when the effects of an exceptional item were discounted.

Shareholders were not given any explanation for the decrease to 3c (11c) of group's declared interim dividend.

Turnover exceeded the R1bn mark for the first time (R936,1m) as the group benefited from higher export prices associated with the depreciating rand.

The Silvoak integration, completed by the end of the previous financial year, also improved productivity and lowered cost and management structures, Besselaar said.

"The benefit of this rationalisation and restructuring has been the group's positioning as a major player within the leather industry, not only in SA but internationally," he said.

Operating income rose 20,1% to R50,8m, but a 44,5% hike in finance charges to R26,6m left the group's income before taxation at R22,2m (R22,5m).

Kolosus again deferred taxation owing to its assessed losses and expected the group would become liable for tax during the 1998/99 tax year.

Besselaar said gearing had been affected negatively by the last payment of R40m plus interest for the Silvoak purchase, as well as increases in local and imported raw material stock prices and higher debtor values due to the weaker rand.

Strict working capital management had resulted in a reduction of stock levels and a net positive cash inflow would lower gearing by year-end in comparison with the last financial year.

Besselaar said in terms of the shareholders' agreement, Silvoak would acquire the remaining shares in Ladyemuth Langois Leathers, subject to certain suspensive conditions.

He said the group would provide shareholders with full details in a circular.
Kolosus offers share options to employees

STUART RUTHERFORD

Durban — Kolosus, the listed food group, has decided to allocate share options for 5 percent of its equity to staff it directly employed, Ronnie van Rensburg, the group's financial director, said yesterday.

In terms of the offer, 5 000 staff can choose to take options to purchase 100 shares or more depending on their employment level, and exercise the option in three years if they stand to benefit financially.

A total of 3 million shares can be allocated in this way.

"We wanted to be one of the first companies to give share options to every employee because it is a good way of making people feel part of the company and redistributing wealth," he said.

The offer was implemented on September 1 this year; at R3,30 a share, which at the time was 15 percent lower than the market value.

Since then the share price has fallen to the R3 level, as the group struggled with weighty debt and its dispute with Seton, the US motor vehicle leather company.

Yesterday the share closed at R3,80, down 20c.

However, Van Rensburg said he was confident that when the Seton dispute was sorted out early next year, the share price would recover.

The share incentive scheme will be managed by three non-executive directors of Kolosus who are not participating in the scheme and therefore have no vested interest.

Van Rensburg said there had been a lot of interest from staff in the scheme and that he expected the offer to be fully subscribed when it closed early next year.
SA set to copy EU on food labels

Louise Cook

SA was likely to follow new European Union (EU) rules for labelling genetically modified food when legislation on the issue was drafted next year, agriculture department sources said recently.

A continuing debate in the EU ended recently with controversial rules for the sale of genetically engineered food, effectively allowing its sale without special labelling.

SA, however, did not yet produce or import genetically modified food or products other than plant material, agriculture department quality control deputy director Walter Laubscher said.

Research on soya beans, strawberries, maize, sugar and cotton had, though, reached various stages of completion in SA.

European companies were now required to label all "live" genetically modified products "Live" products were ones that could theoretically grow if placed in soil, such as tomatoes, potatoes and strawberries. Products with genetically modified ingredients deemed either "chemically identical" to conventional food after processing or "substantially equivalent" would not need labelling.

The agriculture department's plant and quality control director Eben Rademeyer backed the view that SA was likely to follow EU labelling practices and rules "It is in our interest that our export products provide the information required by consumers," he said.

The Financial Times reports the European food industry welcomed the labelling arrangements, saying there would be uniformity across the EU.

Environmentalists were, however, angered by the decision and vowed to continue campaigning against imports of soya beans produced by US-based Monsanto.

Potchefstroom-based Grain Research Institute biotechnologist Michael Smut said that compared to Europeans, SA's consumers were relatively unaware of genetically modified organisms.

The problem of large-scale hunger can be significantly contained if we can make a research breakthrough. The US cut production costs of soya beans by cultivating a herbicide-resistant bean," he said.

SA Sugar Association biotechnology officer Frokke Botha said the sugar industry would save R250m a year if it could cultivate an insect-resistant type of sugar cane.

Work on a draft bill on genetically modified organisms would start in earnest next year, Laubscher said.

Once it was law — probably next year — implementation would be controlled by an executive council with representation from environmentalists, agriculturalists and health experts.
ICS keeps its strategy on proven path

Reinie Booyzen

DIVERSIFIED food company ICS would continue its core strategy of investing in the perishable food protein industry, MD Roy Smither said in the latest annual report.

"The group remains focused on moving the business away from commodity-type products towards higher-margin branded products," said Smither. "In addition, underperforming operations and non-core businesses are constantly being addressed and appropriate acquisition opportunities pursued."

In accordance with these objectives, certain unprofitable operations in the meat division were sold or closed, said Smither.

Future capital expenditure requirements were carefully assessed in order to sustain profitability. "In this regard substantial funds will be invested from internal resources in the dairy division, Earlybird Farm, Ross Poultry Breeders and Sea Harvest over the next few years," Chairman Robbie Williams said. ICS had "a well-spread portfolio of perishable food products and businesses, and the quest for increased efficiencies, product innovation and the rationalisation of underperforming assets should result in a satisfactory increase in earnings next year."

He said SA's economic growth rate was expected to be between 2% and 3% next year, while private consumption expenditure on non-durables was forecast to decline from a growth of 4% this year to about 2% next year.

As to the programme of reducing tariffs to increase SA's competitiveness, Williams said it was vital for consultation by government in those areas where there is local production in order to maintain employment levels in SA, whilst businesses adjust to world competitive standards."

Williams also appealed for the high level of agricultural subsidies in the European Union to be taken into account in SA's impending trade negotiations with that trading bloc.
Kolosus raises earnings by 7.8% as gearing increases

JOHN SPIRA

Johannesburg — Kolosus Holdings, the food and leather processing group, lifted earnings by 7.6 percent to 39.96c a share in the six months to November 30.

The comparison excludes R27.4 million of restructuring costs written off in last year's interim period.

The interim dividend has been slashed from 11c to 3c a share, evidently with a view to easing the group's cash-strapped position.

On turnover which grew 10 percent to R1.63 billion, operating income rose 29 percent to R50.9 million, but a steep 44.5 percent increase in finance charges to R38.6 million sharply reduced the bottom line advance.

The directors said yesterday that gearing had been negatively affected by the final payment of R40 million plus interest for the purchase of Silvermak Industries, increases in local and imported raw material stock prices and higher debtor values because of the decline in the value of the rand.

In the past two years, the Kolosus share price has slumped from R7 to yesterday's R2.82 close.
MANUF - FOOD

1997
BESET BY DEMONS

A year ago Kolosus' share price was 600c: it has since plunged 52% to 286c despite the ostensibly sensible Silvraak acquisition. Why? In essence, it has been plagued by controversy.

On the face of it, the takeover meant the group could rationalise its old main business of meat processing and distribution and, in vertical diversification, shift focus to the leather industry.

That was MD Tho Vorster's master plan. He has stuck to it and it seems to be working. But a number of issues, some self-inflicted others apparently unforeseen, have hindered progress.

First there was hysteria about the effect "mad cow" disease would have on beef sales. Last March the scare helped to depress the share price, which had then just dipped below R6. Kolosus dismissed the fears by confirming that 60% of sales came from leather and 40% from meat, only half of which involved beef.

In August, results for the year ended May 31 1996 not only showed a major, once-off, reconstruction cost of R28.2m, they also highlighted a 92% increase in finance charges. These cut net income from R46.3m in 1995 to R14m. Gearing rose to an excessive 1.1.

Within days came news that the Competition Board had begun a formal investigation of the Silvraak deal — after approving it nine months earlier.

Another bombshell arrived last August. One of the world's biggest automotive leather processors, Pennsylvania-based Seton, was to bring a US$100m action against Silvraak in the International Court of Arbitration in Paris.

In 1994, before Kolosus entered the picture, Seton bought into a joint venture in a Silvraak subsidiary — Ladysmith Leathers (LL). It created covenants to prevent LL from competing with itself.

The second-half performance was helped by the weak rand providing protection against imports and extra income from substantial new bulk liquid storage capacity commissioned in the closing months of the year.

Improved demand later in the year reflected in turnover growing to 10%, more than double the first half's 4%. This probably understates the underlying position as a seven-week strike took its toll in the second half.

In the circumstances, the buoyant operating results of the April-September period are noteworthy as they underline how much cost-cutting and improved efficiencies contributed to recovery.

Overall, IVH appears to have emerged from a traumatic year in much better shape.

Chairman Brian Connell views economic prospects for the new year as not "greatly encouraging." So success achieved in improving global competitiveness is crucial to any assessment of future results.

He is nevertheless optimistic that sound real earnings growth will be attained in 1997 based on the outlook for Island View Storage, which will benefit from a full year's contribution from its re-

construction of a tank farm.

The annual report does not disclose the group's planned capex bill for 1997 but, with a strong cash flow and net cash resources of R13.8m (1995 R21.7m) at the financial year-end, the balance sheet is likely to remain ungeared.

There is little doubt IVH has come to terms with the problems that hit the 1996 interim profits but investors have been unforgiving. The dumping of the share, which drove the price down from R25.50 last January to R16 in May may have justified given the disappointing results for that period but the lack of recognition for what has been achieved since then is puzzling.

An unconvincing rally soon fizzled and by December (after release of the full year's results), the price had slumped to a new low of R15.60.

The rating might improve if reporting standards are broadened to include a divisional breakdown of results, still, one would expect some upward potential for a share which has a forward p/e probably not much above 10 in a market where the average is 14.5.

Brian Thompson.
Silveroak exercises its option

Durban — Silveroak, the delisted subsidiary of Kolosus, exercised its option on Friday to purchase US conglomerate Seton's 50 percent stake in Ladysmith Leathers for R12.5 million. Ronnie van Rensburg, Kolosus' executive director of finance, said at the weekend.

Van Rensburg said further announcements regarding the purchase by Kolosus, the food and tanning group, of 100 percent of Ladysmith Leathers from Silveroak, were likely to be made early this week.

However Kolosus' share price closed unchanged on Friday at R2.94. One analyst said he did not expect the sale to have an immediate effect on the share price because there were many questions concerning the company and the deal.

Robert Appelbaum, Seton's local attorney, said that the sale by Seton of its interests in Ladysmith Leathers did not mean that it would be leaving South Africa, and it would continue to supply its local customers. Seton is one of the two biggest suppliers of automotive leather, with an annual turnover of $450 million.

"Kolosus has alleged that Seton has bought control of a competing company. That may or may not be true," he said.

Market speculation is that Seton is looking at Hanni Leathers, part of Foodcorp, which has a turnover of R200 million. Dave Kennedy, the chief executive of Foodcorp, refused to comment on speculation of its involvement with Seton. Asked whether the company was for sale, he said "Everything is for sale at a price."

Appelbaum said Seton would also be continuing with its legal action against Silveroak at the International Chamber of Commerce in Paris for breach of a non-competition agreement. The claim for $112 million is expected to be resolved by mid-year.
Tastic teams up with US company

CAPE TOWN — Tiger Oats subsidiary Tastic Rice Corporation and US-based food group Rviana Foods have entered into a joint venture arrangement to market value-added rice products in southern Africa, a move which could help boost Tastic's turnover, Tastic Rice Corporation said.

Rviana Foods, a division of the US company a door to the SA market place. "For years Tastic Rice Corporation has maintained a close relationship with Rviana Foods and the new company venture represents an opportunity for Tastic rice to associate with an international partner in a similar business and to develop its local market opportunities," Kaplan said.

Increased focus on the development and extension of value-added brands, including Tastic Savoury Classics, Tastic Rice O-Mix, Tastic with Wild and Old Mill Stream with Wild was expected to flow from the deal, which would start to produce benefits this year, Kaplan said.

Tastic Rice chairman Stan Kaplan said the transaction was expected to give the company access to Rviana's worldwide experience in the development and marketing of value added products, while offering the US company a door to the SA market place. "For years Tastic Rice Corporation has maintained a close relationship with Rviana Foods and the new company venture represents an opportunity for Tastic rice to associate with an international partner in a similar business and to develop its local market opportunities," Kaplan said.

Increased focus on the development and extension of value-added brands, including Tastic Savoury Classics, Tastic Rice O-Mix, Tastic with Wild and Old Mill Stream with Wild was expected to flow from the deal, which would start to produce benefits this year, Kaplan said.
I&J leaves bad results behind

Cape Town — Irvin & Johnson, the diversified food group in the Anglovaal stable, recovered strongly in the six months to December 31 to report a 48 percent increase in earnings to R85.8 million.

This followed the disappointing earnings slump of 31 percent in the year to June 30 last year.

Jan Robbertze, the chairman of Irvin & Johnson, said net export gains, cost containment and improved efficiencies saw turnover growth of 18 percent to R1.39 billion transformed into a 56 percent increase in operating profit of R68 million.

He said the high level of capital expenditure (R22 million in the interim period) and increased working capital saw interest costs up 32 percent to R13.6 million. This, coupled with a higher tax bill of nearly R13 million, curtailed the growth at bottom line to 48 percent.

Robbertze said the company would continue to invest heavily in all divisions "This will ensure that world-class competitive standards are achieved throughout the group."

In his divisional review, Robbertze said the Seafoods division achieved improved catch rates and plant efficiencies, with firm international markets and the weak rand bolstering margins.

The Namibian fishery continued to perform poorly and Kuseb Fish Products sustained a further loss in the period under review.
Del Monte Royal not so sweet
Del Monte plots fresh path to boost structures

Nicola Jersey

DURBAN — Confectionery and food manufacturer Del Monte Royal Foods had launched a review of its European operations to boost profitability and increase efficiencies through improving operational and management structure, chairman and CEO Vivian Imenman said at the weekend. This follows lower-than-expected results for the year ended November. After R19,1m in exceptional charges, attributable income edged up only 5% to R152,3m. Problems in Italy detracted from sales results in the Philippines and a satisfactory performance from other European operations.

Headline earnings a share rose 19% to 50,1c and an 11,5c (1996: 10c) final dividend brought the annual total to 16c (16c). Turnover jumped 8% to R3,5bn (53% in hard currency terms), largely reflecting the consolidation of Philippines-based Del Monte Pacific Resources' results and the devaluation of the rand.

The group said the review of its European operations aimed to optimise profitability with increased efficiencies, re-evaluating market strategy and improving operational and management structures.

Imenman said that although the group had performed well during the first six months, this had not been carried forward. Italy had suffered from higher competition in the fruit drinks

Continued on Page 2
Boustead admits the group has a poor record in forecasting.
Analysts find it difficult to get a handle on the company as it is difficult to forecast where problems will come from and there are complicated exchange rate factors, not only between the rand and the pound but also between production prices in Kenyan shillings and Philippine pesos and selling prices in a basket of currencies.

Delfood trades at 375c, less than half the 880c at which Anglo and Imerman took control. Holding companies Delcorp and Delho are even lower (350c and 370c).

On the face of it, Delfood must present a recovery opportunity — especially with new operating management. The slow growth prospects for its European markets are offset by blue sky from the Indian subcontinent and, to a lesser extent, in eastern Europe.

Market sentiment is still against the share, so don’t expect much recovery in the short term. But there are speculative attractions. Stephen Cransin

### Patchy Progress

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<th>Year to November 30</th>
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<td>Dividends (c)</td>
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Breweries appoints Ramaphosa as director

Johannesburg — South African Breweries (SAB), the consumer products group, has appointed Cyril Ramaphosa, the chairman of Johnnie, as a non-executive director and Graham Mackay as the group managing director with immediate effect. Meyer Kahn, the group executive chairman said yesterday.

He said Mackay, formerly the chief operating officer, would be responsible for the day-to-day operational activities of the group. Mackay's appointment sparked speculation that this was a precursor to Kahn becoming a non-executive chairman in line with the recommendations of the King committee on corporate governance.

The committee, chaired by Mervyn King, recommended in 1994 that a company chairman should be a non-executive director. But it said, given the shortage of skills in South Africa, it would be "impractical" for every company to have a non-executive chairman.

Dunbar Bucknall, the SAB group executive for corporate affairs, said such speculation was "unfounded". He said, however, Mackay's appointment could be seen as "gradualist approach" towards complying with the King committee recommendations.

Meanwhile, Ramaphosa replaces Pat Rottel, who retired from the SAB board. Rottel is the former chairman of Johnnie, the black-controlled industrial holdings group, whose main asset is a 13.7 percent stake in SAB, South Africa's largest listed industrial group in terms of sales revenue.

Kahn also said Ron Stringfellow, formerly the managing director of Southern Sun, would become the chairman of the group's hotel and gaming interests, as well as chairman of OK Bazaars.
Simba not allowed to close plant

Shirley Jones

Durban – The high court in KwaZulu Natal on Friday granted an interdict sought by the Food and Allied Workers' Union preventing Simba from shutting its Pietermaritzburg plant.

Breaking his silence over the looming closure of the factory the KwaZulu Natal branch secretary of the Food and Allied Workers' Union, JJ Ngcebo, said on Friday the interdict had been granted preventing Simba from taking any action until national negotiations had taken place.

Simba is opposed to negotiating nationally and favoured resolving the issue at plant level.

Ngcebo said the court had also referred the issue to mediation and had ruled that no employment contracts could be terminated until April 1. Simba and the union had agreed not to comment to the press since Simba employees were told the company intended closing its Pietermaritzburg factory in mid-January. Laura Scott, Simba's spokesman, said the company had no comment.

Ngcebo said it appeared Simba intended closing a profitable plant so as to more fully utilise spare capacity at its Cape Town and Johannesburg plants.

He hoped national negotiations would clarify the grounds for closing the Pietermaritzburg plant and retrenching workers.
Cadsweep looks sweet

Nicola Jenvey

DURBAN — Industrial food group Cadbury Schweppes (SA) was expected to report an 18-22% increase in share earnings to 327c-340c for the year to December due to strong growth and a relatively small price hike, analysts said yesterday.

The group and its subsidiaries manufacture and distribute chocolate and sugar confectioneries, cocoa and beverages, concentrates for the carbonated soft drink market, squashes, cordials, packaged desserts, glace cherries and jams and marmalades.

The group also has a 19.02% shareholding in Amalgamated Beverage Industries (ABI) which bottles and distributes Coca-Cola and Schweppes products in Johannesburg, Pretoria and Durban.

Analysts said the food group had experienced "a reasonable year" but that the second six months was always dictated by the summer weather. Volume growth for cooldrinks and refreshments hinged on a hot or mild summer.

There were predictions that Pepsi's entry into SA would affect volume and sales growth, reflected through Cadswep's holding in ABI. Returns from ABI would be flat, as the cola wars had forced higher advertising and packaging costs, and lower margins.

However, the confectionery division had sustained strong volume growth during the year with several new products — including Holey Moley's and Astros which had snatched about 6% market share.

Export profit was expected to be lower than last year, as Cadswep had cancelled a contract with Russia. However, analysts said earnings from this venture had been drawn mainly from the general export incentive scheme and the group was not likely to look aggressively for additional export business in the near future.

Looking to the current year, analysts said Cadswep had maintained a high rating for several years and constantly offered shareholders good value. The group should again report a 20% increase in share earnings.

In the year to December 1995, Cadswep lifted share earnings to 277.3c from 221.2c and a 112c (1994, 93c) total dividend was declared. Attributable income rose 20% to R101.2m, while turnover topped the R1,1bn (R940m) mark as every division experienced strong volume growth. Cadswep reports its final results today.
Chocolate firm faces strike over ‘racism’

East London – South African chocolate, vinegar, coffee and other foodstuff production could drop this week if a threatened strike at Nestlé SA by Food and Allied Workers’ Union (Fawu) members takes off.

Fawu’s national negotiator at Nestlé, Lizo Mzendana, said about 4 229 union members at the company’s chocolate and confectionery, grocery, milk sector factories, depots and sales sections would strike this week unless certain demands were met.

Workers wanted pay disparities between black and white workers to be eliminated and a 9.1 percent increase for union members.

“Nestlé SA is a racist, discriminatory and conservative company,” said Ms Mzendana.

“One can see naked racism being practised in most of its sectors.”

At the East London Nestlé factory – the country’s biggest chocolate producer – more than 1 500 workers were likely to strike.

Nestlé SA spokesman Jackie du Plessis said wage negotiations between workers and management started in November last year, with management proposing a minimum wage increase from R2 175 to R2 382 – Ecna.
W Cape chocolate
factory staff join strike

HAROLD WYNGAARD AND NORMAN JOSEPH
STAFF REPORTERS

 Hundreds of workers at four Nestlé sites in the Western Cape have joined a national strike by the company's workforce, who are demanding higher wages and shorter working hours.

The strikers, members of the Food and Allied Workers' Union at the Pinelands sales depot, Bellville distribution department and Mossel Bay and Robertson branches, are demanding a nine percent across-the-board wage increase.

The union's national spokesman, Fred Jarvis, said the strike was in progress throughout South Africa.

He said Nestlé management had offered seven percent and had refused to meet strikers in the Western Cape. Workers want the 48-hour week reduced to 40 hours, four months paid maternity leave and two months unpaid maternity leave.
Nestlé strike jeopardises Middle East orders

Business Day Reporters

A NATIONWIDE strike by 6 000 Nestlé SA workers had resulted in Middle East orders worth millions of rand being suspended. Nestlé spokesman Humphrey Khosa said last night.

The strike entered its second day yesterday with the company applying to the Grahamstown High Court for an order to evict thousands of striking food and Allied Workers' Union (Fawu) members from its East London premises.

Khosa said the company called off the application after Fawu national negotiator Lizo Mzendana persuaded the strikers to leave the premises.

Mzendana said earlier that Nestlé had given notice it would lock out the strikers from March 20 if the strike continued.

A Nestlé SA spokesman said the measures were needed to counter intimidation of non-striking employees.

Management and the union did not plan to meet this week.

Workers at 20 Nestlé facilities, including its East London sweet factory, one of the company's largest production units, put down tools on Monday to back demands for a 9.1% across-the-board wage increase.

Mzendana said Nestlé had not offered a specific figure but a range of wage offers for various categories of workers. The union also wanted an agency shop agreement implemented.
Nestlé strikers cry foul play.

JONATHAN ROSENTHAL

Johannesburg — Nestlé, the confectionery and beverage company, has spent the past few weeks preparing to sit out a national strike by members of the Food and Allied Workers' Union, striking workers alleged yesterday.

The strike, by up to 6 800 workers according to the union or 2 800 workers according to Nestlé, enters its third day today.

Striking workers at Nestlé's Isando warehouse said that the company had recruited "scab" labour before the strike. Striking workers said several workers had been "intimidated" by scab workers, who were bussed in early and remained at work until after strikers had dispersed in the afternoon.

They said Nestlé had built up stocks in the warehouse over the weeks preceding the strike. Nestlé could not be contacted to respond to the specific allegations, but said in a statement earlier in the day that contingency plans had been implemented to "maintain certain vital parts of the business".

It said that the company's "offers of between 9 percent and 10 percent are fair and favourably compare with the industries in which we operate". It also denied that it had offered 7 percent, as alleged by the union.
Premier plant closures threaten 1 100 jobs

Marc Hasenfuss

Cape Town — Premier Foods intends to close down several plants in a bid to cut huge overcapacity and improve inefficiency, Ian Heron, a director at the Premier Group, confirmed yesterday.

This decision could result in the shedding of nearly 1 100 jobs at Epic Foods and the milling and baking divisions.

According to documents in Business Report's possession, Epic Foods will close down its Maitland Manufacturing Plant in Cape Town. This should save R6 million a year but will affect more than 300 workers.

It appears that Epic Foods also intends rationalising and restructuring its Isando Petfood plant, where about 130 jobs could be shed. Other operations expected to be affected by job losses include Milling Eastern Cape and sections of the bakery division.

A meeting between the Food and Allied Workers' Union and Premier Foods took place yesterday. A trade union spokesman was not available for comment last night, but Heron said: "a frank interchange of views" took place.

A notice from Epic Foods to affected employees last week pointed out that, while the company was breaking even, a sizeable interest bill had pushed it into the red.

The Maitland plant, which refines crude fish and vegetable oils, and Petfoods had notched up respective losses of R2.65 million and R4.5 million in the nine months to January 31.

The notice indicated the decision to close the Maitland plant was prompted by the high input cost of imported raw material, a volatile bottled oil market in the Western and Eastern Cape and inherent refining inefficiencies.

The notice read: "Numerous attempts have been made by the company to address the situation.

"The net effect is that the plant cannot break even at trading level."

The closure would see the production of industrial margarines and fats transferred to Premier Foods. Aerocon manufacturing plant, enabling Aerocon to fully utilise plant capacity and improve overhead recovery.

Isando Petfood Plant, which was upgraded in 1985/86 to produce an average monthly volume of over 7 000 tons, had achieved production and sales volumes of only 4 782 tons and is posting up losses of R1 million a month.

The situation has been compounded by overhead costs of R1.3 million, a general sales decline and increased waste generation.

CT 26 [3] 97
Protracted wage talks aim to end Nestlé strike

Nestlé South Africa and the Food and Allied Workers Union (Fawu) held another round of wage talks in Johannesburg yesterday to try to end the two-week long strike at company factories and other facilities around the country.

A Nestlé spokesman said the talks had reached a delicate stage and further details could not be disclosed.

Nestlé was optimistic the issue could be resolved by today.

Fawu national negotiator and spokesman Lizo Mzendenza could not be reached for comment yesterday.

The strike has crippled production at several Nestlé factories, including at its East London confectionery plant, which is producing major export orders for Saudi Arabia. - Supa.
Union claims Nestlé is still ‘intransigent’

FRANK NAIRALO

Johannesburg — The Food and Allied Workers’ Union (Fawu) accused the management of Nestlé South Africa yesterday of “intransigence” in attempts to settle the three-week-old strike at the food manufacturer.

A union official said no agreement with the company’s management was imminent.

He said there were clearly discernible divisions in the ranks of the management team, with the human resources managers and line managers expressing contradictory opinions.

Humphrey Khoza, the Nestlé spokesman, was tightlipped on efforts to end the strike. “The talks are at a very delicate stage, and a meeting is planned for Monday,” he said.

Fawu had demanded a minimum wage increase of 9.1 percent for union members. Nestlé’s management first offered 8.5 percent for certain sectors, before moving up to 8.75 percent on condition that the union accepted the offer before consulting its members, a Fawu official claimed.

The official said there was disagreement in all areas, which led to the nationwide strike that resulted in Nestlé sustaining severe production losses.

The union spurned this offer. It also insisted on consulting its members before entering into any agreement with the company’s management.

“This figure is insufficient, below inflation, which is approaching 10 percent, and we want any increase to cover all our members,” the official said.

Nestlé’s management was prepared to move from a 44-hour working week to a 40-hour working for salesmen, promoters, mechanics and technicians.

But the unions said that was not acceptable because it went against the principles of the employment standards campaign.

The campaign envisages uniform working conditions for all employees.

The union official said that Nestlé’s management was “only committed in principle” to Fawu’s demands.

The union was demanding the narrowing of gaps between wage grades, the implementation of agency shop agreements and provision of transport and accommodation by the company during union-management meetings. The official said...
Nestlé strike threatens deal

NESTLÉ and the Food and Allied Workers' Union meet tomorrow in a bid to resolve issues which are almost bringing production to a halt and threatening a multi-million rand export order.

A national strike, now in its third week, has caused major production problems and poses a serious threat to the export deal. About 200 to 300 of the company's 5,500 jobs relate directly to its export business.

What was originally a wage dispute has turned into accusations of racism and intrigue against Nestlé Humphrey Khoza, human resources divisional manager, says these issues have never come to the table in the negotiations, centred on wages.

Negotiations began in November, but turned sour in January when a dispute was declared. About 2,800 of Nestlé's employees are FAWU members. Nestlé says about 2,500 people are striking, but the union has said that up to 6,000 people are on strike.

FAWU asked for a flat increase of 9.1% while Nestlé offered 8.75% linked to productivity initiatives. Khoza says if the company's wage proposals are accepted, 80% of the workers would receive more than the 9.1% demanded and the lowest salary would be over R2,300.

According to Khoza, affirmative action programmes are advanced. Nestlé has done training for many years and the number of black employees exceeds national averages at all levels.
Nestlé close to settling strike

FRANK NXUMALO

Johannesburg — Nestlé said yesterday it was on the brink of settling a crippling four-week strike with the Food and Allied Workers’ Union (Fawu).

Humphrey Khoza, a spokesman for Nestlé, said the two parties had on a “formula” in the early morning yesterday morning to “enable us to meet the workers’ demands”, adding that the details of the deal would remain under wraps until the union had approved it, at which point production would be expected to resume.

Meanwhile, about 400 Fawu members went ahead with their march on Nestlé’s head office in Randburg yesterday.

Union sources said the company would now offer between 7.75 per cent and 9.1 per cent if workers accepted the formula, while Fawu would compromise by dropping its wage demands by 1 per cent to 9 per cent.

“We wanted to force the company to respect the principle of consultation. We ultimately achieved that, including agreements on productivity and competitiveness,” said Lojo Mzendana, Fawu’s national leader.

Nestlé said this week the strike cost it a R2 million export order for Saudi Arabia, which would have been the first of many such deals.

Formula for success: Members of the Food and Allied Workers’ Union (Fawu), seen here on strike, will review the settlement formula worked out between Fawu and Nestlé early yesterday morning.

PHOTO: JOHN WOOLDRIDGE
Nestlé announces proposal to end strike

Bonile Ngqiyaza

STRIKE-bound Nestlé SA announced a formula yesterday for what it termed a "very good" agreement which could benefit both the company and the Food and Allied Workers’ Union (Fawu).

The strike to demand improved wages and working conditions, has entered its fourth week and affects Nestlé facilities around the country.

The announcement followed three days of renewed wage negotiations between the two parties.

Continued on Page 2

Nestlé

Continued from Page 1

Sopa reports that a Nestlé spokesman confirmed management had received the petition.

Fawu negotiator Lazo Mzendana could not be reached for comment on the proposal, but another Fawu spokesman, Mike Maloba, said the union had agreed in principle.

However, the negotiators wanted to consult the union's constituency for a mandate and had requested details of how efficiency and improved productivity was going to be achieved.

Picture: Page 3
Agreement brokered in Nestlé wage dispute

NESTLÉ workers in the future will not earn less than R2 300 a month following an agreement reached yesterday between the company and the Food and Allied Workers' Union, which effectively ends the four-week wage strike.

The deal, brokered under the auspice of the Independent Mediation Service of SA (IMSSA), provided for a 9% increase and a framework agreement on greater efficiency and flexible work practices, productivity and competitiveness.

Nestlé's human resource divisional manager Humphrey Khosa said: "This agreement recognises the wage aspirations of our people, but also accepts the necessity of improving performance and introducing flexible work processes."

IMSSA said agreement on a productivity framework was essential to finding a breakthrough on the wage issue.

The strike which commenced on March 17, ostensibly on union wage demands for a 9.1% increase as opposed to a company offer of 8.5%, was also related to a long outstanding demand relating to levels of bargaining.

For a number of years the union demanded a move away from plant level to sector level bargaining — the ultimate objective being the establishment of one single forum.

The agreement, reached provided that it would cover six different sectors within the company. This issue would be referred to arbitration. A number of other outstanding issues relating to allowances, hours of work and leave entitlements would be dealt with by the parties.

The compromise reached had pleased the workers and about 4 000 workers are expected to return to work this week.
Beer drinkers will pay SAB an extra R10m

Edward West

BEER drinkers will be paying SA Breweries (SAB) R10m over and above the excise duty increases announced in the last budget because the taxman decided to withhold a refund the group thought it would receive for overpaying last year.

SAB said yesterday that it traditionally passed on no more than the customs duty increase to the consumer, but had to write off about R10m last year due to a change in the way the duties were structured.

Government increased the duty on clear beer 9% or R1.15c/l — about 3c a 340ml can — in last month’s budget. Average beer prices also rose about 5% early in February, representing SAB’s annual increase.

However, the actual post-budget price increases, based on the market share of SAB’s various products locally, show that the group will make R11.1m in additional profit.

Continued on Page 2

SAB

Continued from Page 1

Beer division financial director Gary Whitley denied that SAB had tried to pad its margins, reiterating that it was policy to pass on the cost of excise duties to the consumer as they were applied, “no more and no less”.

He said the additional increase was designed to recover the extra cost. The actual increase over and above the customs duty was slightly lower than the R11.1m estimate due to brand and alcohol content differences.

Whitley said a curt letter from the revenue service’s customs and excise commissioner before the budget had said the service “has decided not to refund any amount due as a result of a possible overpayment of excise duty on beer as from March 1, 1996 due to the new duty structure that was implemented”. No reasons were provided.

SAB responded with a letter to the commissioner this month, in which Whitley said given that “indications to date have been that refund of these monies overpaid was to be expected, we wish to express our extreme disappointment at this decision”.

Whitley said yesterday that the group had even considered legal action to recover the money, but legal advice was that government had acted on its own prerogative and little could be done to remedy the situation. As a result, the additional costs had been passed on to the consumer with the latest duty increases.
Nestlé accord benefits all

By Abdul Milazi

THE BEST feature of Nestlé South Africa's wage settlement with the Food and Allied Workers Union (Fawu), which ended a three-week strike on Tuesday, is that it will benefit both workers and employers. Nestlé's human resources and corporate affairs divisional manager Humphrey Khoza said yesterday.

Fawu and Nestlé settled on a minimum nine percent wage increase, bringing the current minimum wage to R2 300 a month for union members.

The union in turn agreed to cooperate with management in productivity enhancement programmes to improve the company's competitive position.

Khoza said the key component of the agreement was the commitment by Fawu to cooperate in increasing efficiency, productivity and competitiveness.

"We believe this is a good agreement offering benefits to both sides. It recognizes the wage aspirations of our people but also accepts the necessity of improving performance and introducing flexible work processes," said Khoza.

He said the agreement also recognized the need for a joint approach in making and effecting these improvements.

"A key issue throughout the negotiations has been in gaining acceptance of the fact that Nestlé must be a competitive organisation if it is to retain its place in the market," Khoza said. Management and workers needed to have flexible and efficient work practices to keep competitive and fund agreements of this nature.

"We believe this has been achieved."
More than 320 lose their jobs

By Shadrack Mashalaba

MORE than 320 workers are out of work as a result of the closure of the Isando plant of Blue Ribbon Bakeries, apparently after the company had sustained losses amounting to thousands of rands.

The plant, according to Dan Mgomezulu who served on the company’s joint management team - a body responsible for setting employment standards - was shut down on March 14 after management sent them written letters stating that it was making losses of R100 000 a day.

Mgomezulu said workers were informed about the pending closure of the plant on March 3. After the closure, management held meetings with worker representatives at which the representatives put forward a proposal that the company should voluntarily lay off a limited number of workers in order to reduce the losses and continue its operations.

However, management dismissed the proposal, saying that the losses were such that the business was no longer viable, and if continued, would affect not only Isando operations but also operations in other parts of Gauteng.

Sowetan Business has learnt that two other plants, one in Emfuleni and the other one in Amendo, KwaZulu-Natal, are also experiencing financial problems that might result in retrenchments.

In 1993 more than 125 workers in Isando were retrenched because the company was not performing well.

Before closing shop, a source alleged that the company embarked on a deliberate strategy to make some workers redundant by outsourcing its distribution service. Most of the workers involved in the distribution included drivers and van assistants.

This week the management of Blue Ribbon was expected to have a meeting with the Food and Allied Workers Union (Fawu) in Johannesburg.

The two parties are expected to appear at the Commission for Conciliation, Mediation and Arbitration (CCMA) tomorrow after a dispute.

In a response to Sowetan Business’s questions about the closure, Blue Ribbon regional manager Clive Reid confirmed the company’s closure on March 14.

He said before the closure numerous joint efforts were initiated between management and the workers at the bakery in an effort to avoid closure.

“The closure was instituted within the parameters of the recognition agreement between Fawu and the company,” he said.

The statement said further consultations were continuing between management and the union regarding the redeployment of workers within the division as well as retrenchment packages.
Juicy results for Langeberg as turnover rises by 25pc

THABO NABASO

MAR 21 1997

Boland-based processed fruit and vegetable canner Langeberg Holdings yesterday reported buoyant interim results for the six-month period to March 31, saying turnover had increased by 24.8 percent to R560.5 million.

Despite the good results, Langeberg Holdings' chairman Nick Dennis said that export prospects for the remainder of the year looked uncertain due to a stable rand and the phasing out of the General Export Incentive Scheme (Geis) on July 11 by the Department of Trade and Industry (DTI).

The DTI this week cited budgetary constraints as the reason for scrapping Geis.

Mr Dennis, however, expressed confidence that the domestic market, which had pushed the company's profit margins upwards during the interim period, would again lead to good results in the second period.

"The international market has become much more competitive due to a generally improved supply of canned fruit, especially in the Northern Hemisphere, which has resulted in lower than expected margins for the group. Despite this the group increased its export sales volume," he said.

Brands, such as Koo and All Gold, also made strong headway into Southern Africa making the products a sought-after delicacy. The trend was the same in the rest of Africa, he said.

The company also reported 10.2 percent growth in attributable income to R41.1 million. Headline earnings per share increased by 10.4 percent to 25.5c per share. The interim dividend remained unchanged from last year at 5.5c per share.

Shareholders funds increased to R695.8 million while net asset value rose by 7.0 percent to 909.8c per share.
Langeberg rises above tough market

Samantha Sharpe

CAPE TOWN — Fruit and vegetable processor Langeberg lifted attributable income 10,2% to R41,1m in the six months to March, despite tough international market conditions and a major reduction in the General Export Incentive Scheme (GEIS).

The growth in income was accompanied by a 10,4% increase in headline earnings to 25,5c a share — stripped of profits on the sale of fixed assets net income a share was 10,2% higher at 25,7c — and an interim dividend declaration of 5,5c, which was unchanged from the same time last year.

Langeberg chairman Nick Dennis warned that uncertainty in the export market could offset a continuation of good performances in the domestic market in the second half, with earnings for the full financial year forecast at similar levels to last year.

Turnover increased 24,8% to R660,5m in the review period following favourable conditions in the local market and increased market share for the Koo and All Gold brands.

However, fruit processing in the Western Cape was hampered by adverse climatic conditions, which affected supply to overseas customers, he said.

Dennis said this had been exacerbated by increased competitiveness in the international market, which had resulted in lower than expected group selling prices and margins. Operating income increased 10,9% to R56,5m.

A GEIS reduction from 14% last year to 6% this year also had a big impact on the bottom line.

Net interest paid of R1,2m from R2,5m at the same time last year brought net income before tax and abnormal items to R57,7m, 6,7% up on March last year. A marginally lower tax charge of R16,8m brought attributable income to R41,1m from R37,3m.

A R300,000 profit on the sale of fixed assets was reflected in headline earnings of R40,8m.

On the balance sheet, shareholders’ funds increased to R438,8m from R461,5m, while net asset value rose 7% to 308,6c a share. Borrowings of R2,9m translated to negligible gearing, with the group in a financially strong position, Dennis said.
Sasko, Bokomo plan October merger

BY ALIDE DASHIERS
BUSINESS EDITOR

Sasko and Bokomo are set to merge, creating a R3.5-billion-a-year food giant with 12,000 employees all over the country and interests in wheat and maize milling, bread and confectionery, breakfast foods, eggs, poultry and frozen food.

At a joint press conference in Cape Town yesterday, Sasko chief executive Stephan Bellingan and Bokomo chief executive Andre Hanekom said the merger could be complete by October, if the plan was approved by shareholders at meetings next month.

Talks were also being held with the Food and Allied Workers' Union, Mr Bellingan said and the Competition Board would be consulted.

Mr Hanekom said though there could be some rationalisation at head office level, there would be no production job losses as a result of the deal, which could lead to a Johannesburg Stock Exchange listing.

Weaknesses in one company would be offset by strengths in the other and Bokomo's wide product range would benefit from Sasko's distribution network and its wheat milling and baking interests.

The new company—which has still to be named, said Mr Hanekom, noting that there was much "sentiment" invested in both names—also plans to expand on foreign markets.
Listing could follow food group merger

Samantha Sharp

CAPE TOWN — Former agricultural co-operatives Bokomo and Sasko have joined forces to create a new player in the food sector with an annual turnover of R3.5bn, significantly enhancing prospects of a stock exchange listing. The merger is subject to shareholder approval — 80% of Sasko’s shareholders are also owners of a 40% stake in Bokomo — and acceptance by the Competition Board. However, the as yet unnamed new company is expected to be formed by October 1.

Bokomo CEO André Hanekom and Sasko’s extensive distribution network, rapidly growing international division and technological strengths are fitted perfectly with Bokomo’s strongly branded products and food interests. Both suffered inherent weaknesses in their product baskets.

“A merger will create a strongly diversified group with great bargaining power in the market place and will of..."
Bokomo, Sasko plan food merger

MARC HASENFUSS

Cape Town — Bokomo and Sasko, two of the country’s oldest “agribusinesses”, based in the Western Cape, announced plans on Friday to merge in October this year, but executives played down speculation of a possible JSE listing.

In a joint statement, the companies said the merger would create a new company — yet to be named — with assets of over R1.5 billion. Turnover would top R3.5 billion and generate earnings of about R100 million.

The companies said Bokomo’s brands in diversified food interests — especially its strong position in the breakfast foods market, the prepared frozen food market and the poultry industry — would be complemented by Sasko’s interests in the wheat milling and baking industries, nationwide distribution and a growing international division.

André Haukom, the chief executive of Bokomo, said the companies’ brands would all stay in the market place. Brands included Weetbix, Mama’s Pie, Nuland, Bokomo Corn Flakes, Vita Bread, Sasko Cake Flour, Sasko Bread, Munchmore, Super and Champion Maise Meal.

“Rationalisation will probably be only limited to head office and maybe the Western and Eastern Cape milling operations where there is some overlap.”

Despite indications the group could head for the JSE, Stephan Bellingan, the chief executive of Sasko, said a listing was not the sole reason for the merger.

“It could happen in the future, but we must have a good reason for wanting to go to the market.”

Food industry sources said on Friday that Sasko owned an 85 percent stake in Northern Bakeries, was listed on the JSE’s Food board.
Marriage of convenience

Growing competition from global food companies and the demise of the single channel wheat marketing system are the major forces driving the R3.8bn/year merger of Bokomo and Sasko.

Being registered limited companies, the proposed merger will not fall under Agriculture Minister Derek Hanekom, who effectively stayed the transformation of wine co-operative KWV into a public company. There are no immediate plans to list the as yet unnamed new group, which will employ about 12,000 people.

Other reasons for the merger, says Sasko MD Stephan Bellingan are "Tax changes, the lack of cheap Land Bank finance and the fact that co-operatives are not well received in the international markets, also mean that competitors had a big advantage."

Bokomo's diversified, branded food products, the prepared frozen food market and the poultry industry will be complemented by Sasko's extensive interests in wheat milling and baking, its nationwide distribution network and rapidly growing international division.

Combined assets total about R1.5bn and projected annual earnings R130m. While 80% of Sasko shareholders are also shareholders of Bokomo, the deal has yet to be approved by them. But shareholders will benefit from a new group that "will become a formidable player in the international business arena," says Andre Hanekom, CEO of Bokomo. Besides being a major player in the local baking and milling industries, the group will also establish itself in the export market.

Combined exports will amount to about R75m/year. Both partners have extensive international ties. Sasko with Palsgaard of Denmark, and with SPP of Britain Bokomo's international tie-ups include Sanatarum — an Australian health food company specialising in soya products — Mexican breakfast food company Manzoro, Holland's Presco and Germany's Lotmann.

But playing in the first league also means more hazards. The new group intends to get fully involved in the futures market. Combined annual purchases of commodities wheat, maize and soya will amount to about R2.5bn. SA's membership of the 12-nation Southern African Development Community will also open up options of purchasing raw materials from neighbour-
First Food has strong roots to feed growth

SA emigrants lure US investment

LLEWELLYN JONES

Soon-to-be-listed First SA Food Holdings is just one part of a larger group which has some of its roots in the packaging industry in Cape Town.

First Food comprises Piemans Pantry, Astoria Bakery, Soemans Quality Meat Products and Gull Foods, all fast-growing niche food businesses, and will be listed on the Johannesburg Stock Exchange on June 10.

First Food is a subsidiary of First South Africa Holdings, which in turn is a subsidiary of First South Africa Corporation - a company registered in Bermuda, listed on Nasdaq with headquarters in Miami and controlled by South Africa emigrants.

They are Michael Levy, the chairman of Arpac, a Chicago-based manufacturer of plastic packaging machinery, and Clive Kabatznik, an investment banker based in Miami.

Mr Levy was previously the controlling shareholder in Starpak, a manufacturer of packaging machinery, and LS Pressings, a metal stampings business (washers).

Starpak was a Cape Town company bought by Mr Levy's own company, Levy & Smith, in 1980.

The operations were brought together under the Starpak name, and Mr Levy set about creating a company which became South Africa's leading manufacturer of heat sealing and shrink wrap machinery.

"It got to the stage where we almost owned the entire market and so we started to export," he said.

That was when Mr Levy became associated with Arpac - first as company president, then as a shareholder.

"By 1987 I had had to borrow so much money the banks wouldn't lend me more unless I went over and ran the company," he said.

He took with him a host of South African technology and built Arpac into a leader in its field with turnover in excess of $30 million (R135 million) annually.

But by 1993 he was looking for a way of restructuring his South Africa assets when he was approached by his cousin Mr Kabatznik, a Miami-based mergers and acquisitions specialist.

"In 1993 I realised that South Africa would come through its transition process peacefully," Mr Kabatznik said.

"I wanted to offer investors in the United States the opportunity to acquire small to medium sized companies which had the potential to grow rapidly in the world's newest and most exciting emerging market."

But to interest US underwriters he had to be able to offer them an existing asset base.

"Clive (Kabatznik) had the foresight, I had the companies and was ready to take the risk - so Starpak and LS Pressings formed the nucleus of First South Africa Corporation," Mr Levy said.

With the acquisition of Europak, a supplier of various products and parts to the heating, ventilation and air-conditioning industry, a New York underwriter put down $10 million to back further deals.

Since then, the company listed on Nasdaq in January last year and has bought eight more companies.

First South Africa is still in the hunt for businesses for its three divisions - industrial consumables, consumer goods (food and packaging) and industrial infrastructure.

"We also want to start a tourism division," Mr Kabatznik said.
NAB seeks new investors after Pepsico pulls out

Patrick Waitula
and Simon Barber

PEPSI's local bottler, New Age Beverages (NAB), has started holding talks with potential local and foreign investors for funding following Pepsico's announcement at the weekend that it was pulling out of the cool drink business in SA and conceding defeat to locally powerful Coca-Cola.

It is fewer than three years since Pepsico's high-profile return to the market through NAB, the black empowerment bottling venture. NAB's chairman Khehla Mthembu said at the weekend that there were a lot of well-established local companies interested in investing in NAB. "We are assessing all the options." NAB's shareholders - principally Pepsico and Egoil Beverages, a San Francisco-based consortium of prominent African-Americans - voted on Thursday to place the company in voluntary liquidation, Brad Shaw, a spokesman for Pepsico Cola International, said on Friday. "NAB was a young, very committed company that was competing against an entrenched monster. It was David versus Goliath, a noble experiment, and we had hoped the market would support it. But in the end sales did not justify the cost of the venture."

Mthembu said the company was placed under judicial management upon the request of the directors to the Johannesburg Supreme Court, to protect the creditors who were owed more than R299m.

Standard Corporate Merchant Bank MD Jacko Maree said the bank's exposure in NAB amounted to R299m in loans and debt finance. Mthembu said "We have stopped trading to avoid worsening the creditors' position, until the return date set for July 23 when the position of the company will be reviewed."

Mthembu said the company had not failed and there was no mismanagement of funds, but it needed more money to compete favourably against Coca-Cola. Shaw said under the right circumstances and with the right partner, Pepsico might return. However, Pepsico was retaining its investments in Simba snack foods and Kentucky Fried Chicken restaurants.

Egoil founder Ian Wilson, SA expatriate and former Coca-Cola executive, did not return calls to him on Friday.
8 000 out on strike at Premier Foods

Johannesburg — Eight thousand Premier Foods workers belonging to the Food and Allied Workers' Union (Fawu) went on a nationwide strike yesterday, the union said.

Their action came after the company allegedly snubbed union efforts to negotiate the fate of 2,000 of their colleagues facing retrenchment, despite a standing agreement to tackle labour restructuring jointly, said Mzwanele Ndaba, a union spokesman.

Ndaba said company negotiators preferred to discuss labour restructuring at a divisional level rather than a national level, and had insisted workers return to work before there could be any further discussions.

"The 2,000 are only the first group of (many more) workers facing redundancy at Premier Foods. We therefore demand that the company display a sense of social responsibility by working together with the union," Ndaba said.

Ndaba said most of the affected workers were from the baking sector. He said Premier Foods had applied for a labour court interdict to have the strike declared illegal.

Ndaba said the countrywide strike would continue today despite a court hearing scheduled for this morning.

However, Conrad Goddard, a company spokesman, said yesterday the company had kept the doors open for negotiations at every stage. He said matters had now reached "judicial level".

Ndaba responded by saying that if the company had kept its doors open, there would have been no reason for thousands of Fawu workers to picket the group's corporate offices in Johannesburg.

"Instead of talking to us, (Goddard) was away the whole of yesterday lodging an application for a court interdict," said Ndaba.
Full speed ahead for Del Monte’s bull

Ann Crotty

Johannesburg — If Vivian Imerman is to be believed, Del Monte Foods is at the beginning of a substantial new phase of its 100-year life. The new phase involves an extensive re-basing exercise that is expected to result in a considerable downsizing of the group’s operations.

It comes with promises of considerably enhanced, longer-term profit performance. And, despite four consecutive years in which Imerman’s bullish proclamations have not matched reality, it is extremely difficult not to be swayed by his enthusiasm.

No doubt it was this same enthusiasm that encouraged Anglo American to back the R2 billion acquisition of Del Monte Foods in 1995. At that stage the tie-up between the comparatively stodgy Anglo and Imerman, the hot-shot deal-maker, raised a number of eyebrows.

Feeling in the market was that Anglo was attracted by Imerman’s entrepreneurial ways and his excellent skills as a deal-maker. Anglo saw the Del Monte transaction as a way of injecting new life into itself.

Others remarked, even from the beginning, that the two cultures would not be able to work together. After four disappointing years this view has gained increased support, as it seemed earnings performance got lost in the extensive no-man’s land between Imerman’s and Anglo’s management styles.

But a large and influential group of JSE analysts argue that this view allows Imerman too much of a cop-out. “Imerman is a great trader and deal-maker,” remarked one analyst. “But he has no experience in running a large corporation, let alone a corporation with the product and geographical spread of Del Monte.”

This sums up the responsibility for Del Monte’s non-delivery of earnings growth during the past four years with Imerman and, to the extent that Anglo seemed to tolerate the situation, with Anglo to a lesser degree.

While in the past Imerman has tended to blame all manner of external forces — international currency movements, crop failures, US retailers’ own brands — for the group’s disappointing performance, he is now prepared to look closer to home.

“I accept the criticism that we should have implemented changes earlier, in line with the changes in the environment,” Imerman added. “I made one mistake, I came in and left the existing management in place too long. It was subsequently obvious that they were not able to change.”

For many local investors who forked out R8.60 a share for some of the hundreds of millions of shares that were issued to fund the acquisition of Del Monte, accepting responsibility is not sufficient.

“They want to see Imerman out, or at least isolated in a non-operational position where the group would still be able to take advantage of his deal-making skills. They look to Anglo to take the necessary action.”

However, a senior Anglo source points out Imerman is not an employee, but a partner and a joint shareholder.

He adds: “The market seems to hold the view that the business would be better off without Imerman. We do not think this is correct and Bain agrees with us.”

Bain is the consulting firm that has been appointed to “re-base the business”, which is the sort of business-school jargon that is unlikely immediately to win over many long-suffering investors.

But Imerman makes a persuasive case, which is no doubt why Anglo is a keen supporter of the exercise which it believes will result in Del Monte clawing its way back.

Anglo is determined to “make the most of this old and valuable brand which, if properly managed and promoted, is worth a fortune.”

According to Imerman, the re-basing exercise involves “evaluating the environment, especially in Europe, to come out with a sustainable earnings growth base.”

He talks of strategic alliances and an upgrade of the organisation, factories will be consolidated, non-core assets sold and cash funnelled into developing new products and new markets.

Accounting policies are expected to change so that promotional expenses are no longer capitalised. Analysts also expect a one-off downward revaluation of the brands.

The full benefits are not expected to come through for a few years but, for investors who have held on as the share tumbled to its current levels, this may be tolerable, particularly as it seems enticing.

Others, who are no longer responsive to Imerman’s persuasive skills, may decide it’s time to get out.
Food, canning industry declared 'non-essential'

The 1980 ban on strikes in the food and canning industry has been lifted by the Essential Services Committee, which yesterday declared the industry "non-essential" in terms of the new Labour Relations Act. Essential services are not allowed to strike, and disputes are handled by arbitration.

The supply and distribution of petrol or other fuels to local authorities and the transportation of consumers were others declared non-essential. Also on the list were the regulation and control of air traffic and the weather bureau. The reason why certain industries were declared essential, or non-essential, would be published in the Government Gazette. The committee would hold hearings to determine the status of the payment of social pensions, the courts, the department of correctional services, nursing, emergency health services, roads and paramedical services and the key point computer services — Mpho Mantshu, Johannesburg.
Food companies will ‘feel the pinch’ this year

Nicola Jenvey

DURBAN — Despite producing relatively good results in the period to March, food companies would "feel the pinch" for the rest of the year as the economic downswing intensified and consumers altered their eating patterns, industry sources said at the weekend.

Private consumer expenditure, which had risen 4%–5% a year since 1994, was expected to increase only 2% over last year for the current year as high real interest rates and unemployment took their toll.

South Africans were eating “more efficiently”, substituting high margin products for cheaper alternatives. This included poultry, fish and cheaper cuts for red meat.

"The economic downswing has had an effect on the more luxurious food products, but producers and manufacturers must still position themselves to deal with the commodity products," OTK operating company financial director Japie Geuws said.

Another source said the SA food industry was not inefficient, but the agricultural potential of SA soils meant higher production costs and lower yields than could be achieved elsewhere in the world.

He said the government must realise that SA was mineral-rich, but not agriculturally rich. "If we want a local food industry, there must be efficient tariffs to protect against international flooding from higher-yielding countries."

Tiger Oats executive director Hamish McBan said despite signs of an economic slowdown, the food industry had detected no clear pattern. Changing food consumption patterns left the industry "puzzled" by the causes.

Analysts agreed that the industrial food companies had produced relatively pleasing results to March, with value-added products adding strength to most groups.

The consensus for the industry was that growth could still be achieved by cutting costs.
Net income at Kolosus falls 46% in 12-month period

Janet Parker

INTEGRATED leather and food group Kolosus Holdings' net income fell 46% to R7,6m in the interim 12 months to May due to high acquisition-related finance costs, restructuring costs, poor market conditions and losses from associated companies.

Earnings a share on net income slumped 48% to 12,61c from 23,33c. Kolosus' year end has been changed to September 30. In view of the present level of gearing the board decided not to declare a further interim dividend.

Despite the unfavourable market conditions, particularly a world oversupply of leather to the fashion industry, Kolosus lifted operating income 22,6% to R101,2m Turnover increased to R21bn from R1,8bn in the previous financial period.

However, finance charges rose 93,5% to R78,8m largely due to the final payment for the acquisition of the Silveroak group which was financed by interest-bearing debt. The group said plans were under way to recapitalise the group.

The purchase of Ladysmith Lidgens Leathers (LLL) in January, increases in local and imported raw material as well as an increased debtors' book owing to higher international sales values all contributed to the group's finance charges almost doubling. No tax was paid for the 12 months under review.

Group financial director Ronnie van Rensburg said at the time of the LLL purchase that it would boost the group's direct and indirect export earnings from leather to more than R800m annually, and Kolosus would be responsible for about 40% of domestic automotive leather production.

Kolosus had bought the entire shareholding in LLL and Lidgens Ladysmith Turnings for R25,8m from Silveroak Industries Kolosus MD Tito Vorster said at the time the acquisition marked another phase in a strategy to reposition Kolosus as a rand hedge, export-orientated organisation rather than a predominantly red meat company.

The share of associated companies retained loss was R4,6m compared with a retained profit of R3,1m for the previous financial period, leaving net operating income down 56,7% at R18,3m (1998: R42,2m). The group said the loss was largely due to the effect of subdued market conditions on its chicken production facility, in which it has a 33,3% interest.

Restructuring costs dropped 61% to R10,7m. The group said its meat processing operations at the Vanderbijlpark plant were discontinued, resulting in the consolidation of the product range in Supreme Belville.
Australian bridge into Asia

The joint venture hopes to gain from Asia's new eating habits

I&J Food's Sydney-based joint venture with Simplot Australia's seafood, snack and meat division stands to gain from burgeoning demand for food, especially processed food, in southeast Asian markets. In its initial years, the joint venture company is expected to have sales of almost A$200m, the partners estimate. I&J's Australian subsidiary has a 40% stake in the venture, with the remaning equity held by Simplot, one of the Pacific Rim's largest food production groups with gross revenue of A$700m.

It benefits from the consolidation of both companies' distribution networks, as well as efficiencies created in the manufacturing and sourcing of food supplies. I&J SA has an assured vehicle through which to market local hake, Simplot enjoys security of supply for its frozen seafood processing operations.

"I&J Food's expertise in food service marketing and sales, access to key product and raw material sources, combined with Simplot's strong retail positions and food processing expertise together create a formidable partnership," says I&J SA MD Roy Gordon.

That alliance, and its critical size in terms of wholesale and retail outlets, is the key to profiting from exports to Asian countries. Penetrating these markets is important for Australian food companies.

The local market, though considerable with annual average per capita consumption of processed food at about A$2,000, is largely static.

"There are shifts in consumption patterns but the domestic market is not going to provide the returns needed in the future," says Simplot Australia MD Walter Bugno.

Asian markets have also become attractive as their governments have moved away from long-held policies of food self-sufficiency.

Rising incomes as a result of the region's economic growth have profoundly changed people's eating habits — away from secondary staple food towards more fresh and processed fruit, vegetables, meat and fish.

That adds up to annual growth of more than 20% in demand for high value-added food imports, according to a report by the Australian Trade Commission. The report expects food imports to trebble by the end of the decade as the population of southeast Asia explodes. The food market is projected at A$77bn early next decade.

About half of Australia's food exports are destined for Asian countries, with a third of that processed. Bugno and Gordon hope to capitalise on this opportunity.

Meanwhile, a major benefit is that transactions such this, which give I&J greater exposure to value-added activities and enhanced presence in international markets, will further reduce the company's sensitivity to the vagaries of deep sea fishing — and uncertainties relating to fishing quotas (see page 80).

Sean Feely
Beacon workers on two-week strike: More than 2,000 workers at Beacon sweets company have embarked on a two-week national strike, the Food and Allied Workers' Union said yesterday. The strike followed a breakdown in negotiations over the union's 12 percent wage demand and over conditions of employment four weeks ago.
Europe operations batter Del Monte

Del Monte Royal Foods' earnings fell 34% to R40m in the six months to May after sharply reduced earnings in its European canned fruit and fruit juice operations countered an improved performance from its restructured Philippines and SA operations.

Delfood's net sales were up 7% to R1,5bn, but operating income fell 13.5% to R134.4m and earnings a share were down 34% to 11.7c. No interim dividend was declared.

Chairman Vivian Immerman outlined a three-year plan to turn around the European operations and detailed a restructuring of the group, which has been divided into three separate businesses — Del Monte Europe, DMFR in the Philippines, and Nabisco SA. Each one's results were reported separately for the first time.

The group also adopted new, more conservative accounting policies, restating last year's interim to conform with these. In line with the new approach, the value of Del Monte's trademarks and brand names was written down from R2.7bn to R1.5bn.

Headline earnings in the wholly owned European operation fell to R3m.

Continued on Page 2

Mineworkers protest against Gold Fields
Europe operations batter Del Monte

Hilary Joffe

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Continued on Page 2

Del Monte

Continued from Page 1

from R43m as the business felt the pain of restructuring aimed at reversing some years of poor management and inappropriate marketing and repositioning the business.

Del Monte Europe was expected to post additional profits of £15m a year within three years as a result of the restructuring. A new management team was in place New Del Monte Europe GM Francisco de Lavalette said the restructuring initiative in Europe would refocus on the Del Monte brand, which is the leader in core categories in most markets.

The Philippines operation, in which Delfood last year raised its stake to 50% from 35%, lifted headline earnings 42% to R34m, reflecting its successful turnaround once Delfood took control with local partner Macondray & Co, which is set to list in three months.

Nabisco SA, a joint venture with US-based food group Nabisco, halved its interim loss to R3m. The SA operation traditionally makes losses in the first half, but Immerman expected full-year profits to exceed last year's.

Delfood took a once-off restructuring charge of R360m, R30m in SA and the rest in Europe, mostly in Italy. Of the £45m cost in Europe, £27m was cash and 80% would be funded by the sale of noncore assets, mainly in Italy.

Del Monte Royal Corporation (Delcorp), which has a 46,5% controlling interest in Delfood, and has one share in issue for every share held by it in Delcorp, also reported headline earnings a share of 1,7c (1996 retested at 17,8c), as did Del Monte Royal Holdings, which holds 50,9% of Delcorp. Neither declared an interim dividend.

See Page 16
Delffood's transformation plans could improve share rating

STOCKBROKERS will not necessarily rush out to persuade their clients to buy Del Monte Royal Foods (Delffood) shares — yet. But the group's presentations of its interim results yesterday, at which chairman Vic Immerman and new Del Monte Europe GM Francois de Lavallette detailed measures to restructure and transform its aging European operations, is likely to shift the general tone in some important ways.

Analysts and investors who had become disillusioned with the state of the troubled group are likely to start asking: "Can they do it? Do they have the right strategy and the right people?"

If Delffood's results over the next year or two prove positive results, there could be a substantial resumption of its share price, which stood at R2.80 before the release of results this week, 65% more than a quarter of the R2.80 at which shares were issued to fund the $1 billion acquisition of international canned fruit maker Del Monte by Royal Foods (as it was then) and Anglo American in 1992.

At yesterday's presentation, Immerman promised operational improvements in the group's Philippine operations, as well as cost improvements in its SA business, which is being restructured, whereas De Lavallette outlined a three-year plan to turn around six key European operations, aimed at positioning the group's to survive as long-term market players.

Immerman could demonstrate success as well as demonstrate the benefits of better disclosure by the group, which has come under fire on this score over the past few years. He talks of "releasing" the group, changing both the way it operates and managing its financial reporting.

The group has been divided into three separate operations — wholly owned Del Monte Europe, DMPR in the Philippines, and Nabisco SA, a joint venture with the US multinational food group managed by Nabisco. Separate reports were issued for the three regions for the first time.

The Philippines turnaround was accelerated when Delffood raised its stake to a controlling one early last year in the previous Japanese and US shareholders had seen the business, which grew about 50% of the world's pineapple, as a supply centre rather than a profit centre, says Immerman.

This was an opportunity for Delffood and its partners, who have renegotiated supply agreements, brought in new management and shed 2,000 employees, transforming the business from a 3% per-year profit to a 33% per-year one.

MacoMudry, as the US business on the Manila stock exchange, within 90 days, should reflect that position on Delffood's holding. DMPR is in line for the group's books at $25 million, but Immerman says he has already turned down an offer for $20 million.

Significantly, the Philippines business, which last year earned 180 million, could deliver more than 50% of Delffood's bottom line than the much larger European operations contributed last year.

In contrast to Europe, it is a growth market where Delfmonte has successfully launched several new products under its brand name — 50% of its turnover comes from products launched over the past 3 years.

The group plans, via Del Monte Europe, to build its position in new emerging markets such as Russia and Turkey. And as one analyst notes, the contribution from Europe is now so low that future earnings relatively little.

Nonetheless, the European business accounts for a large chunk of capital employed and has been chiefly responsible for the group's poor performance.

It is on its ability to turn Europe that the group will be judged.

It is not an easy environment for food manufacturers generally European food stocks have underperformed their domestic stock markets since the early 1990s, as the balance of power has made it attractive for manufacturers to supply both their own branded products and own-label goods. However, they have at least one branded product to against their own-label brand — Del Montes, essentially, wants to be that product.

At De Lavallette's insistence it has been placed on a similar basis, giving the optimised strength of the Del Monte brand — and the squeezing out of weak competitors.

However, implementing that strategy will require tight cost control — margins are being put in place, particularly in the Which has been the main driver of the group's European operations.

Another key is forming alliances with other groups pursuing these, on line with group objectives (cost cutting, improved distribution, better relations with retailers) — pending on the markets.

The group has putfuce money to the European expanse, which it forecasts will generate additional annual profits of $126 million in 1999.

There is also restructuring in the SA operation, reorganising on Nabisco's technology and strategies, to modern equipment and cut costs.

The SA operation is introducing on Nabisco products such as Chips Ahoy! — Crips and SA's market will take a very different view of Delffood.
Cadbury interims thrive on brands and a windfall

Johannesburg — Cadbury Schweppes SA, the drinks and sweets firm, is set to post healthy half-year growth next week, buoyed by good local demand and a windfall from a stake in Amalgamated Beverage Industries (ABI), analysts said yesterday.

South Africans' taste for the firm's range of soft drinks and chocolate bars has not diminished despite a slowdown in the broader economy.

"It has reasonable growth in this environment. Volume growth has been good and it is a well-managed company," said one analyst.

Analysts said the firm had impressed investors with a strong and successful marketing strategy and also benefited from its top-drawer brand names.

"It is a well-managed company. They are doing well and they have very good products and brands," said another analyst.

Analysts are expecting interim earnings a share on a range of 17.3c to 17.8c and a dividend range of 3.4c to 3.5c. The consensus figures were for earnings of 17.4c and a dividend of 3.4c.

The figures compare with 146.6c and 29c respectively last time, but late last month the firm had a 10-for-one share split which dilutes profits a share by 10 times.

Factoring in the share split leaves real earnings a share growth on a range of 17.3 to 20.1 percent. The figures are due to be published next Thursday.

The firm's shares, which started this year at R7.30, have been climbing steadily all year and are now trading at R9.30 — in real terms a firm gain on its pre-share split year high of R9.50.

At its year-end results in March, Cadswep said it expected real earnings growth in the present financial year. "Satisfactory real growth in earnings is expected to be achieved," the firm said.

Cadswep owns a slice of bottler ABI, and its earnings will get a lift from ABI's strong growth, which saw it in May lift year pretax profit to R301.4 million from R160.7 million last time. Both Cadswep and ABI also stand to gain from the troubles suffered by Pepsi's failed New Age Beverages (NAB) venture that is now under provisional liquidation.

NAB's collapse should provide both firms with an opportunity to snap up extra market share, analysts said. — Reuters
Shareholders still waiting for Del Monte royal flush

Embattled chairman Vivian Imerner says he has done his best and is still working hard for profits, writes MARCIA KLEIN

Shareholders did not take kindly to Del Monte Royal Foods' interim results or prospects, but chairman Vivian Imerner says he after taking large doses of medicine this year, the group will be in a strong position to weather the future.

This week he put his cards on the table, taking responsibility for some of Del Monte's problems (including bad management) and saying openly that there are other problems which are very large in extent, will remain out of his control.

He even admitted that in hindsight, he and Anglo American paid too much for acquiring Del Monte when they bought it for $24.5 billion in 1993 (see market capitalisation is now $8.5 billion).

"When I took over in 1995, the outlook was different. In 1994, I started seeing that there were difficulties and in the beginning of 1995, I realised that the management in place was not capable of managing change within the environment. It was difficult for me, I was new in Europe and had backed and supported the management."

But Imerner argues that poor results over the past few years "have clouded the amount of work already done and the goals that have been achieved particularly in SA and in the Philippines two of the company's key divisions."

Among these are conclusion of a joint venture with Nabisco for Royal Cereal-Bourget, the SA operation (Champion in the Philippines has been stepped up to 50% at no cost, a new president and chief operating officer installed, and underperforming management in Italy and elsewhere reduced through Management consultant Bain & Company is to help devise a restructuring plan for Europe, and joint ventures in India and Russia are in place."

"The results of these efforts are, indeed, clouded by the interim results which show a 52% drop in earnings to $40.4 million (from a restated $60.6 million) on 6.7% higher sales of $5.5 billion.

More importantly, the results reflect significant restructuring costs of $350 million and a decision to write down the value of trademarks and brands by a massive $2 billion. A more conservative accounting approach has been implemented all around.

Imerner says there were a number of external factors, out of the group's control, although it is trying to mitigate them to some extent. These include: export subsidies for the sausages and Kidneya (Red to $700 million), a year, increasing trade of cereal products in Europe, and volatile currencies and raw materials prices.

But there were also numerous problems internally, including the collapse in the Italian operation's profitability "due to poor management and strategic decisions." In addition, marketing was uncompetitive, the group missed some important acquisitions, and operational management was not up to meeting the challenges it faced. "I fully accept responsibility for these problems," says Imerner.

During the last six months to end-May, struggling division Del Monte Europe's earnings plunged to $44 million from $105 million on the back of disruptions in its restructuring programme, difficulties in Italy, adverse currency movements and lower volumes. Italy was simply the number one problem, and was now beginning the complete restructuring of that business.

"Del Monte will look at various activities, consolidating some factors improving plant efficiencies, changing distribution, rationalising some product lines and setting up strategic alliances."

Del Monte Philippines performed well, increasing earnings to $14 million from $22.5 million, but Imerner says the group's restructuring in Europe was a multi-year programme and the pain was being taken now.

"This year must be viewed as a year of significant change. We are setting a new base for our business, with a new management team and long conservative approach."

All key people have undergone some changes, and there is a lot of work in progress. The company has expanded its production facilities and, in October, invested $7.5 million in a new plant in Thailand.

"I make no forecasts, but we will be stronger. Could I have done better? No I don't think so."

IMERNER: Vivian Imerner says there are unpredictable elements in commodities

Unfortunately for Imerner, the task is by no means easy but achievable.

"I am in response to the criticism, "Shareholders must have bad news. But we have operated in the best possible manner and have done better under the circumstances. I don't think so."
Beacon and Fawu resume talks today

RAVIN MAHARAJ

Durban — Management at Beacon Sweets and Chocolates and representatives from the Food and Allied Workers' Union (Fawu) resume discussions today over a wage settlement and working conditions.

The two-week strike involving about 2 300 workers has resulted in the shutdown of the two company factories located at Mbeni and Jacobs, near Durban.

Rod le Roux, the human resources director at Beacon Sweets, said the issues had been narrowed down to wages and hours of work. He said both parties had "in good spirit" gone back to their principals to see if they could reach a compromise.

The union is demanding a 12 percent across-the-board wage increase and 45 and three-quarter-hour pay for a 40-hour week for shift workers.

Management is offering a 10 percent across-the-board increase and the introduction of a 13th cheque once all staff had been employed on a monthly system of payment.

Le Roux said the company would agree to a 40-hour week when the "government decided this was something the country could afford."

Lisa Nzenhena, a union spokesman, said the union would enter today's discussions in "good faith."

There was, however, no indication if the dispute would be referred to the Commission for Conciliation, Mediation and Arbitration if talks failed.
Johannesburg — The strike by 2300 Food and Allied Workers’ Union (Fawu) members at the Beacon Sweets and chocolates factories at Mabeni and Jacobs, south of Durban, entered its 14th day yesterday after the union and management failed to reach agreement on wage negotiations. Laura Nelson, a company spokesman, said:

She said the parties failed to agree on Fawu’s demand to link the wage agreement to a reduction in working hours — regardless of whether the union had dropped its initial demand of a 12 percent wage increase and agreed in principle to an increase of 10 percent.

A union spokesman said Fawu was demanding a 48-hour week for normal shift workers and a 40-hour week for night shift workers.

This demand, he said, was in accordance with the labour movement’s demands on the basic conditions of work.

Rod le Roux, Beacon’s human resources manager, said the strike had cost the workers about R8 million in lost wages and replacement labour had been employed to maintain production and secure deliveries.

“Two CCMA (Commission for Conciliation, Mediation and Arbitration) mediators were present at the negotiations and adjourned the discussions (but) will continue to be involved in efforts to bring the two parties together,” Le Roux said.

He said although no further meetings had been scheduled with Fawu after yesterday’s deadlock, the company had “invited striking workers individually to return to work in line with the offer we have on the table.”
Two-week strike at Beacon continues as mediation fails

DURBAN — Beacon Sweets & Chocolates management and representatives of the Food and Allied Workers' Union failed to reach agreement yesterday to resolve a two-week-old strike despite marathon talks mediated by the Council for Conciliation, Mediation and Arbitration.

Most of the striking 2 300-strong workforce is employed at Beacon's Molen and Jacobs plants.

Beacon human resources director Rod le Roux said the two parties had not reached agreement on the issue of wages and hours of work. No further meetings have been scheduled at this stage.

Le Roux said the strike had already cost the workers R3m in lost wages and Beacon had been forced to employ replacement labour to ensure deliveries continued. Last week workers had pocketed outside the Durban factories and several stone-throwing incidents were reported.

Le Roux said the union had dropped its demands for a 12% across-the-board wage increase and had agreed in principle to management's offer of 10%. But this depended on Beacon agreeing to union demands for reduced working hours without loss of pay.
Cadbury achieves growth on all lines

JABULANI SHIKAHANE

Johannesburg — Cadbury Schweppes, the confectionary and soft drinks group, reported yesterday a 19 percent increase in earnings a share to 17,5c (14,5c) for the six months to June 14. The increase in earnings was in line with market expectations.

Cadbury directors said although the outlook for the second six months to December continued to be weak, they were confident, as long as market demand remained at present levels, of reporting real growth in earnings for the full financial year.

During the period under review, Cadbury’s turnover rose 17,5 percent to R639,89 million from R544,45 million as all of the group’s main product categories, which include chocolate, confectionery and squashes, achieved growth in volume sales. A dividend of 3,5c (2,9c) is being paid.

Cadbury’s sugar confectionery and its carbonated soft drinks businesses did particularly well, increasing their share in what the directors described as "competitive markets."

The directors attributed the strong performance to increased production capacity, availability of products, new product launches and better marketing support.

Operating profit margin slipped slightly to 9,7 percent from 9,9 percent, thus translating into a lower growth rate (15 percent) in Cadbury’s operating profit relative to the rate of the growth in turnover.

The cost of borrowing fell slightly despite the increased borrowings which rose as the group funded the cost of a new factory in Port Elizabeth. The lower financing cost was because of the capitalisation of R3,33 million (R546,900) of the cost of funding projects in the process of being commissioned.

Although Cadbury did pay this funding cost, to match expenses and revenue, the amount is not reflected in the income statement until such time as the projects concerned are generating income.

Reflecting a strong performance by Amalgamated Beverage Industries, the Coca-Cola soft drinks bottler (in which Cadbury owns an 18,7 percent stake), Cadbury’s share of income from associates rose 29,5 percent to R20,8 million from R16 million last year.

On June 14, the end of Cadbury’s six-month period, the market value of the group’s stake in Amalgamated Beverage stood at R617,09 million, up from R386,62 million last year.
Income sweetener for Cadbury Schweppes

Nicola Jenvey

DURBAN — Industrial food group Cadbury Schweppes (SA) lifted attributable income 20.7% to R64.9m in the 24 weeks to June 14, boosted by volume gains for its product ranges and margin growth by Bromor, CEO Peter Bester said yesterday.

The group and its subsidiaries manufacture and distribute chocolate and sugar confectioneries, cocoa and beverages, concentrates for the carbonated soft drink market, squashes, cordials, packaged desserts, glace cherries, jams and marmalades.

It also has a 19% shareholding in Amalgamated Beverage Industries (ABI), which bottles and distributes Coca-Cola and Schweppes products in Johannesburg, Durban and Pretoria.

Earnings a share climbed 19.1% to 17.5c on a marginal increase in the weighted average number of shares, and a 3.5c (1996 2.9c) interim dividend was declared. Consensus among analysts had been earnings of 17.4c and a dividend of 3.44c. Late last month the group had a 10:1 share split, which diluted profit per share 10 times.

Bester said the increased turnover to R839.9m (R544.5m) was a reflection of the market share the group had gained during the period under review despite the economic slowdown.

Chocolates and concentrates currently held record market share as new product launches and effective marketing support paid dividends. Operating profit rose to R51.8m from R53.7m.

Bester said financing costs were lower than last year despite increased net borrowings due to the R210m capital expenditure programme currently under way.

The equity accounted earnings from ABI for the six months to March rose 29.5% and contributed towards the increased attributable income.

He said the group had neither benefited nor lost due to the collapse of Pepsi SA and Bester did not expect to experience a major product resurgence as the competitor had been removed from the market.

He said the lack of job creation and high interest rates had affected the economy and consumer demand would remain sluggish. The group still expected to achieve real earnings growth for the full-year given sustained market demand levels. Bester was optimistic that demand would improve next year and medium to long-term prospects were favourable.

"CadSchweppes anticipates achieving moderate economic growth and expects good volumes in the future, despite the competitive markets," he said.
Workers shot at Beacon

Reneé Grawitzky

The three week wage strike by 2 300 Food and Allied Workers Union (Fawu) members at Beacon sweets in Durban turned violent on Friday when two replacement workers were shot and two others injured on their way to work at Beacon's Modeni factory.

Beacon has condemned the incident and offered a R10 000 reward for any information leading to the arrest of the gunmen.

THE Labour Court on Friday found in favour of the department of correctional services' affirmative action policy of a ratio of 70/30 in favour of previously disadvantaged groups, department spokesman Tunell Mamabolo said.

The case before Acting Justice Dunstan Mlambo was brought by the Public Servants' Association against Correctional Services Minister Sipo Mzimela, the commissioner of correctional services and the director general of the department of public service and administration.

The association challenged the legitimacy of the department's right to implement an affirmative action employment policy of 70/30 in favour of previously disadvantaged groups.

It further argued that an affirmative action target of 21% women within the 70% for recruitment and employment was unlawfully restricted and that racial subdivisions aimed at within the 21% were unlawful in SA.

Mamabolo said the court found it clear the department had acknowledged that the effects of past discrimination were less severe on white women, but reaffirmed that racial subdivision - as set out in the department's policy - aimed to achieve broad representatively and conformed with the constitution.

Judge Mlambo ruled that the department's affirmative action policy was a properly constructed policy that had evolved in a transparent and inclusive manner and therefore complied with SA's constitutional requirements.

Policy ratified

Furthermore, the particular situation seemed to involve an area where courts should be reluctant to interfere.

"Finally it fails to be observed that the department's policy was ratified in the departmental chamber in December last year and approved by the department of public service and administration in May this year."

"In my view the department's policy became a collective agreement for the department," the judge said.

In reaction to the ruling, SE Korabie, the department's deputy commissioner, said it was unacceptable that there were parties and individuals within the department who were not prepared to tackle transformation.

He said that while some parties created the image of support, in reality they were doing everything possible to "substitute and undermine" the process.

The department would reach its target in favour of previously disadvantaged groups two years ahead of schedule, and the 70/30 principle goal would be reached by April next year.

It is realised that the pace with which transformation is taking place within the department was too quick for certain parties," Korabie appealed to them to "accept and support the inevitable process."

All transformation would take place within the ambit of the Labour Relations Act and the constitution, he said. — Sapa.

Truth body faces deadline fracas

Wyndham Hartley

The problem has arisen from CoS. Although, Justice Council Bulletin.

"We face the deadline which means job losses."

The strike centred around Fawu's demand for 13% across the board and a reduction in working hours from 43 and three-quarters a week to 40 hours.

"The strike has been a success."

The amendment to the constitution was only tabled in the National Assembly in the middle of last month.

Truth commission spokesman John Allen said acting chair Alex Borrow had indicated that once the new cutoff date for offences had been amended in the constitution, the commission would allow an additional month before closing applications.

The problem has arisen from CoS. although, Justice Council Bulletin.

Holomisa to be at KwaZulu-N

Farouk Chothia

DURBAN — National Consultative Forum co-ordinator Bantu Holomisa would attend a meeting of the forum's KwaZulu-Natal executive committee tomorrow to discuss ways to end violence in Richmond, provincial secretary Jabulani Zondi said yesterday.

The African National Congress was damaging relations with He claimed that the ANC was damaging relations with...
Durban — The Food and Allied Workers' Union (Fawu) yesterday sent an open letter to Arnold Zulman, the chairman at Beacon Sweets and Chocolates, in reaction to his suggestion that the union was using the protracted strike as a bargaining chip for Cosatu in its negotiations on the proposed Basic Conditions of Employment Bill.

In the letter, the union said Zulman's implication that Cosatu was using Fawu was not only naive but false. Fawu said Cosatu was the collective voice of the various unions that made up the federation, but the issue of a 40-hour work week was born on the shop floor more than a decade ago. Cosatu had not brought this issue to its affiliates, Fawu said.

Cosatu said in a statement yesterday it had not even been informed about wage negotiations between the two parties.

A Beacon spokesman said Zulman had received Fawu's open letter and would respond later this week.

The strike, which today enters its 18th day, has, according to the company, cost 2,300 workers R4.2 million in lost wages.

The company indicated yesterday no further meetings between Fawu and management had been arranged.
Beacon strike looks set to end

Nicola Jenvey

DURBAN — The 20-day strike by more than 2 300 Beacon Sweets & Chocolates employees moved closer to resolution at the weekend, with both sides agreeing to meet their constituents today.

In a statement released yesterday, both parties committed themselves to "the promotion of goodwill and productivity" and were confident the strike would end during the week. Two meetings held last week had failed to reach a solution despite the presence of mediators from the Commission for Conciliation, Mediation and Arbitration.

This had led Beacon chairman Arnold Zulman to criticise the Food and Allied Workers Union (Fawu) for "orchestrating the strike and using the workers as a pawn".

Zulman responded by sending Zulman a letter rejecting his claims as "naive and false".

Meanwhile, Beacon is offering a R10,000 reward for any information leading to the arrest of the gunmen who shot two replacement workers near the Mobeni factory last week.

Masa backs education drive for SA’s doctors

Jacob Dlamini

CAPE TOWN — The Medical Association of SA (Masa) would support the introduction of continued education for practising doctors, Masa's health policy committee chairman, Ivan McCusker, said at the weekend.

Continued medical education had become an internationally accepted minimum retention requirement for continued eligibility in the certification of doctors, he said.

However, if the plan were introduced here standards would have to be set by the profession itself and all doctors would be required to comply, McCusker said.

The plan enjoyed widespread support among doctors and only a few doctors would refuse to comply, he said.

Masa would ask the Interim National Medical and Dental Council not to register or issue certificates of competence to those who refused to undergo continued education.

According to council registrar Nico Prinsloo, the idea had been under consideration for years but a formal decision to look into its implementation was taken only last year.

The idea had now been put before Parliament for a decision.

In terms of the council's proposal, doctors would be required to keep abreast of developments and technological advances in their fields.

This would be done possibly by attending medical congresses, submitting reports in medical journals and attending refresher courses.

Details of the plan still have to be worked out but one suggestion is that there should be a five-year period during which doctors are asked to show they have complied with requirements for continued education.

Those failing to comply would have their certificates of competence revoked by the council.

Prinsloo denied this was a punitive measure, saying it was a step designed to keep the level of competence among SA doctors high.

He said it would be in the interests of patients for doctors to keep pace with all developments.

McCusker said Masa would like to see the plan introduced gradually, before punitive measures were put into place.

Fines

Continued medical education would lose the support it enjoyed among doctors if it were imposed on them by government, he said.

Refusing to renew the certificate of competence of doctors who did not comply with the plan would be the only action available to the council.

McCusker said "it would be ridiculous to fine someone for failing to keep up with developments in medicine. Fines would just make the whole system ludicrous."

The plan is scheduled to come under review at a conference organised by the council on August 20, to be held at Johannesburg International Airport.

Prinsloo said delegates would look at ways of introducing the system and possible time frames for it.
Beacon, Fawu to meet again

DURBAN - Beacon Sweets and Chocolates and the Food and Allied Workers' Union (Fawu) meet today in an attempt to resolve the three-week strike over wage increases and working conditions, the company said yesterday.

A spokesman said both parties met yesterday and reported back to their constituents on unresolved issues after a joint meeting over the weekend.

Two marathon meetings held last week failed to find a solution to the strike despite the intervention of the Commission for Conciliation, Mediation and Arbitration.

The strike, involving about 2,300 workers, shut down operations at the company's factories at Jacobs and Mombi, near Durban.

The strike, according to the company, has cost striking workers about R5 million in lost wages. The company has, however, managed to deliver about 75 percent of its orders, thanks to temporary workers.
Beacon plagued by strikes and violence

Nicola Jenuw

DURBAN — Strike-hit Beacon Sweets & Chocolates has been plagued by violent incidents during the past month.

A company spokesman said there were two hijackings and an armed robbery in the past 10 days. Products, computer equipment and a vehicle worth about R500 000 were lost in the three incidents.

The first incident happened on August 1 when a delivery vehicle was hijacked in Johannesburg and the driver was forced to drink brake fluid.

The following evening armed men held up staff at the Germiston distribution centre before attaching a cab to a long haul trailer and stealing about R400 000 worth of products. The spokesman said a Toyota Venture and computer equipment from the security office were also stolen by the gang.

On Thursday another truck was hijacked while delivering 800kg of chocolates in Johannesburg. The driver was not hurt and police are investigating.

The month-long strike, which has cost the workers about R6m in lost wages, has been marred by violence. However, the spokesman declined to comment on whether the violent incidents were linked to problems being experienced at the Mobsen factory.

Two weeks ago a vehicle carrying replacement workers to Mobsen was shot at by unknown gunmen, injuring four people. Beacon is offering a R10 000 reward for information leading to the arrest and conviction of the gunmen.

The spokesman said Beacon had made plans to ensure distribution and manufacture of products using temporary replacement labour. Several workers previously on strike had returned to work and the numbers were increasing. Despite the strike, Beacon secured an export deal last week.
NEWS

STRIKES Commission for conciliation will attempt to resolve wage dispute

More mediation at Beacon

RAVIN MAHABAJ

Durban — The Commission for Conciliation, Mediation and Arbitration (CCMA) would today contact Beacon Sweets and Chocolates and the Food and Allied Workers' Union (Fawu) in an attempt to resolve the wage dispute, Beacon said yesterday.

But a company spokesman said no date had been set for talks. The strike, which today enters its 26th day, has cost 2 300 workers R6 million in lost wages.

A marathon seven-hour meeting between Beacon's management and the union, and the earlier intervention of the CCMA, have as yet failed to resolve the strike.

A spokesman said, in addition, Beacon had been plagued by two hijackings and an armed robbery in Gauteng last week.

Product, computer equipment and a vehicle — with a total value of more than R500 000 — were stolen in three separate incidents.

A company spokesman said the company had plans to ensure the distribution and manufacture of products with temporary labour.

He said a steady stream of workers had begun to return to work in their individual capacities.

On Friday, the company announced it had secured a significant export contract despite the strike.

Arnold Zulman, the chairman of Beacon, said the union was using the protracted strike as a bargaining chip for Cosatu on the proposed Basic Conditions of Employment Bill.

Responding to the union's open letter sent to him last week, Zulman said the union was conducting its activities in conjunction with Cosatu's "lobbying activities in the corridors of power."

At the start of the strike, the union was demanding a 12 percent across-the-board increase.

— Beacon offered 10 percent — a 40-hour work week and the scrapping of performance-related pay for salaried staff.
Beacon dispute goes to the CCMA today

RAVIN MAHARAJ

Durban — The Commission for Conciliation, Mediation and Arbitration (CCMA) meets Beacon Sweets and Chocolates and the Food and Allied Workers' Union (Fawu) today in an attempt to end the strike, Beacon said yesterday.

A company spokesman said yesterday that Beacon had been plagued by a dramatic increase in incidents of intimidation and violence at the company's factory in Mobeni near Durban.

The spokesman said Beacon had sent a letter to Fawu expressing concern at the increase in incidents of violence.

"We have warned the union that its members must refrain from carrying dangerous weapons while picketing, or else face legal and/or disciplinary action."

In separate incidents at the Mobeni factory, police said an employee was injured when his Durban home came under fire from unknown gunmen. Seven people were attacked — and some beaten — by striking workers while on their way to work. In another incident a striking worker, armed with a homemade axe, tried to assault people who were seeking work at the factory, was arrested.

The spokesman said striking workers armed with gimbovs also attacked two women, who were treated on factory premises.

Vish Nadoo, a South African Police Services spokesman, said police were investigating several cases of attempted murder. He said all incidents of violence reported by Beacon would be investigated.

In addition to the latest incidents, Beacon had been plagued by two hijackings and an armed robbery in Gauteng last week.

Product, computer equipment and a vehicle — with a total value of more than R500 000 — were stolen in the three separate incidents. Police had identified three suspects in these incidents.

Fawu could not be reached for comment yesterday.

Marathon meetings between management and the union, and the earlier intervention of the CCMA, have as yet failed to resolve the strike, which enters its 27th day today. The strike has cost the 2,300 workers R6 million in lost wages.

Beacon said it had made plans to ensure the distribution and manufacture of products with temporary replacement labour.

Last Friday the company announced it had secured a significant export contract despite the strike.

At the start of the strike, the union was demanding a 12 percent across-the-board increase. Beacon offered 10 percent — a 40-hour work week and the scrapping of performance-related pay for salaried staff.
Commission to supervise Beacon talks

Nicola Jenvey

DURBAN — Beacon Sweets & Chocolates management and the Food and Allied Workers’ Union (Fawu) will enter another round of talks today under the supervision of the Commission for Conciliation, Mediation and Arbitration, as the strike by more than 2,300 employees enters its 28th day.

Beacon has reported a dramatic increase in intimidation and violence related to the strike. A Beacon spokesman said management had sent a letter to Fawu expressing its concern. The company has warned the union that its members must refrain from carrying dangerous weapons while picketing or face legal and disciplinary action.

Last week the company lost more than R500,000 in products, computer equipment and vehicles in three separate episodes in Gauteng. The police yesterday identified suspects.
Fawu, SAB fail to agree over wage demand

THABO MABASO

14/8/97

Last ditch attempts to resolve a long-standing wage dispute between the Food and Allied Workers' Union (Fawu) and South African Breweries (SAB) have failed, Fawu says.

The union’s national negotiator, Victor Nzuza, said SAB had refused to move on its original wage offer. Fawu had indicated during negotiations with the beer-brewing giant that it was prepared to move on its original demands.

“We revised our offer but they refused and said their offer was final,” Mr Nzuza said.

Fawu’s demands included a 13% wage increase, the scrapping of performance related pay, which the union alleged was biased towards its members, a housing subsidy and the introduction of a 40-hour working week.

Mr Nzuza said the union’s revised demands were a 11,5% wage increase, a willingness to discuss proposals on the performance related pay and that the housing subsidy be funded by SAB.

The union was currently consulting its members on possible action. Last month, the majority of Fawu members working for SAB’s beer division voted in favour of strike action.

SAB was not available for comment.
Beacon strike over

Durban — The strike at Beacon Sweets and Chocolates was resolved late last night after a marathon 11-hour meeting, a company spokesman said.

Beacon and the Food and Allied Workers Union (Fawu) agreed to settle on a 10 percent wage increase.

A company spokesman said workers would return to work on Monday. The deal came after the intervention of the Commission for Conciliation, Mediation and Arbitration (CCMA).

Previous meetings between management and the union, and the earlier intervention of the CCMA, failed to resolve the strike, which lasted 28 days. It cost 2,300 workers more than R5 million in lost wages.

However, the company said that its plans to ensure the distribution and manufacture of products with temporary replacement labour had meant that order were filled.

During the strike, Beacon was plagued by a dramatic increase in incidents of intimidation and violence at the company's factory in Mobeni near Durban. There were also two hijackings and an armed robbery in Gauteng last week.

Beacon had also sent a letter to Fawu expressing concern at the increase in incidents of violence. The company warned the union that its members must refrain from carrying dangerous weapons while picketing, or else face legal and/or disciplinary action.

At the start of the strike, Fawu was asking for a 12 percent across-the-board increase and Beacon had offered a 10 percent increase on the minimum wage (R59.60) across the board. Fawu has subsequently agreed to the 10 percent increase if management agreed to its demands for 43 and three-quarter-hour pay for a 40-hour week for shift workers.

Conditions of the settlement other than the wage agreement would be made public today.
Beacon strike ends after deal

Nicola Jenny

DURBAN — The marathon six-week strike by more than 2 300 Beacon Sweets & Chocolates employees was resolved on Wednesday night after an 11-hour meeting between management and the Food and Allied Workers' Union, mediated by the Commission for Conciliation, Mediation and Arbitration.

The employees, who return to work on Monday, have lost nearly R8.5m in wages and Beacon has lost lucrative export orders. Six people were injured and intimidation was rife during the 30-day stoppage.

Beacon human resources director Rod le Roux said the factories at Jacobs and Mobsent should be back to full production by next week. Issues relating to the three shifts would be reviewed after workers returned on Monday, he said.

Fawu has agreed to management's original offer of a 10% across-the-board increase, effectively raising the minimum basic wage to R853 a week.

Fawu called the prolonged strike on July 7 when it demanded a 12% across-the-board wage increase and 43.75 hours' pay for a 40-hour week for shift workers.
Agreement binds former foes to relationship building

Beacon and union agree to mend fences

RAVIN MAHARAJ

Durban — Beacon Sweets and Chocolates and the Food and Allied Workers’ Union (Fawu) had committed themselves to productivity, relationship building and customer care after the end of the strike on Wednesday, the company said yesterday.

Rod le Roux, Beacon’s human resources director, said Fawu had agreed not to embark on industrial action over issues in the agreement until May next year if, however, problems arose in respect of these issues, an agreement reached between both parties meant there would be a process of mediation and arbitration.

The strike, which lasted six weeks, was resolved after a marathon 11-hour meeting on Wednesday. Beacon and the union agreed to settle on a 10 percent wage increase. This would raise the minimum basic wage from R560.63 to R663.8 a week.

Striking workers will return to work on Monday. The deal came after the intervention of the Commission for Conciliation, Mediation and Arbitration.

The 24-hour production process takes place through three shifts. Le Roux said the circumstances surrounding the three shifts would be reviewed. A meeting is scheduled for Tuesday next week to determine the basis of this review.

He said the strike had cost about 2,000 workers more than R6 million in lost wages. Beacon had been in a “favourable stock position” at the start of the strike and had also managed to deliver about 75 percent of its orders.

However, local sales had been affected.

It would take at least a week before the factory was up to full production. Further stock would become available to consumers, including retail outlets, le Roux said.

The company was “hard pressed” to meet shipping deadlines for export orders, but warehousing had run efficiently.

The period of industrial action also meant raw materials were not brought in, and this had caused a “ripple effect” among certain suppliers.

Regarding incidents of violence during the strike, Le Roux said there had been three separate shootings, but no fatalities, contrary to widespread speculation. Five assaults were reported and two arrests had been made.
Cadbury challenges Beacon's Liquorice Allsorts trademark

Stephane Bothma

PRETORIA — The right of sweets manufacturer Beacon to the exclusive use of the term “Liquorice Allsorts” was challenged by competitor Cadbury in the Pretoria High Court yesterday.

Beacon, which registered the trademark in 1986, is strongly opposing the attempt by Cadbury to enter the market with a selection of liquorice confectionery under a similar name. Beacon has been selling Liquorice Allsorts since 1952.

To date, Beacon had sold Liquorice Allsorts worth about R400m in the local market, the court heard. The product was grossing about R50m in turnover a year.

Cadbury launched an application seeking a disclaimer of the term “liquorice allsorts” on the ground that it describes a sweet type and was therefore not a matter protectable under the Trade Marks Act.

“Liquorice allsorts is a generic name for a type of confectionery and no trader cannot have the monopoly on a generic name,” Cedric Puckrin SC, representing Cadbury, argued.

He argued that it was a descriptive term which should not be registered as a trademark, and that the law did not give traders the right to monopolise a pure descriptive phrase. The court heard that Woolworths, OK Bazaars and Pick ‘n Pay all used “liquorice allsorts” to describe sweets of this type which the stores marketed as their own and under their own brand names.

A submission by Puckrin that the term was “two ordinary English words” was opposed by Neil Bowman SC, for Beacon, who argued that it was in fact “three words made into two”.

Bowman stressed that the sweets were sold to Woolworths, Pick ‘n Pay and OK Bazaars by Beacon under licence.

“Beacon manufactures and packages the sweets for Woolworths,” he said.

He said it was a slogan invented by Beacon and that the term was a “novel and original combination of words” used only in relation to sweets manufactured by Beacon.

“There is nothing in the application by Cadbury that warrants an interference with the decision of the registrar of trade marks,” Bowman argued.

Lawyers representing Beacon earlier said that should Cadbury be successful with its application, Beacon would experience “definite losses in revenue”. The matter continues.
European exports not viable for Langeberg

Marc Hasenfuss

Cape Town — Langeberg Holdings, the fruit and vegetable processing company, would slash its export production to Europe by almost two-thirds in the wake of structural hitches, making this major offshore market unviable, the company said yesterday.

Andries van Rensburg, the managing director of Langeberg, said the proposed cutbacks in deciduous fruit volumes would see European volumes reduced by 60 percent and a subsequent restructuring of the company's Ashton and Paarl factories.

He said production at Paarl, about half of which was deciduous fruit, would largely be transferred to the Ashton factory, a dedicated deciduous fruit facility.

Van Rensburg expected the production cutbacks to realise savings of between R14 million and R15 million a year.

Exports to Europe were being hampered by a deterioration in the mark against the rand (20 percent of sales are transacted in the German currency), import duties of 20 percent on deciduous fruit, the continued subsidisation of Greek and Italian producers and the abolition of the general export incentive scheme (Ges).

"We are hitting Europe at effectively a 30 percent cost disadvantage," said Van Rensburg.

He stressed that proposals to reorganise production facilities did not stem from productivity concerns but only external structural problems.

He warned that the proposed measures would not be felt in the current financial year, which ends this month. "The measures will only be felt after the next deciduous fruit season, which ends in April/May."

Langeberg closed unchanged at R2.25 on the JSE yesterday.

□ Business Watch, Page 18
Call for crisis talks on canning layoffs

Cape fruit exporters battling

Four Western Cape ANC members of parliament have called for crisis talks on the future of the fruit canning industry following worries that Langeberg Foods may lay off up to 2,000 workers in its Paarl factory.

MPs Rob Davies, Liz Abrahams, Philip Dexter and Ben Turok called on government ministers yesterday to meet urgently with fruit canning industry representatives.

"The industry is facing a crisis and people's livelihoods are at stake," Dr Davies said.

Langeberg Foods managing director Andries van Rensburg said he would support the MPs' call.

"We welcome anything these guys can do and we will support them all the way," Mr van Rensburg said in a telephone interview from the Isle of Man where he is visiting Langeberg representatives.

He said a final decision had not yet been made about retrenchments in the Paarl plant. Langeberg was still in consultation with the Food and Allied Workers' Union (Fawu) on the implications of its plan to downsize the canned fruit operation at the plant and transfer most of it to the Ashton factory, which is in line for a major upgrade.

"It seems that about 2,000 workers, mostly seasonal, may be affected," Mr Van Rensburg said.

The Paarl plant, which produces jams and baked beans as well as canned fruit, mostly for export, employs about 350 permanent workers and up to 2,500 seasonal workers between November and April.

Mr Van Rensburg said the industry was reeling under the effects of the phasing out of export incentives.

Canned fruit exporters were competing with subsidised European producers in European Union markets where South African exporters still had to pay duties of more than 20%.

"We reckon we are hitting the European markets with a 50% cost disadvantage, if you take into account the subsidy, the duties and the distribution costs," Mr Van Rensburg said.

"Our farmers get R800 a ton for their fruit, while the Greek farmers get R1,300." He said he was not optimistic that the Department of Trade and Industry's trade negotiations with the European Union would be crowned with success.

South African negotiators are trying to persuade the EU to reconsider its trade offer to South Africa, which excludes 40% of the country's agricultural exports, including canned fruit.

Though the European season had been disappointing, Mr van Rensburg said, there was still an oversupply of fruit in Europe and European producers were dropping prices.

Dr Davies said preliminary cluster studies of the industry had highlighted the need for a long-term strategy which would not only be defensive but which would allow the industry to expand.

"We should not put all our hopes in a new deal with the European Union," he said, suggesting a focus on other options including expansion into new markets, different packaging and product innovation.

"This sector has the potential to make a continued contribution to the Western Cape economy but clearly restructuring and a new long-term vision for the industry are needed."
Government asked to save 2000 fruit jobs

Cape Town - The government will be asked this week to take urgent action to help Cape-based Langeberg Holdings, the fruit and vegetable processing company, to weather the drastic cutbacks of traditional canned deciduous fruit exports to Europe.

Rob Davies, the parliamentary trade and industry committee chairman, said he would table a motion in parliament tomorrow calling for urgent short-term action to save about 2000 jobs. Jobs in farms and factories were threatened by Langeberg's decision to phase out deciduous fruit processing at its Paarl factory and transfer it to its Ashton factory, he said. Fruit purchases would be slashed in the process.

Andries van Rensburg, the managing director of Langeberg, said last week the company would slash its export production to Europe by almost two-thirds.
Zambian flour ban angers SA suppliers

Edward West

SA MILLERS are up in arms over the banning of flour imports by Zambia, effectively cutting off two of SA’s largest export destinations.

Zambia, seeking a preferential trade agreement with SA, banned all imports of flour into its government gazette last week, including flour in transit. It claims the ban was necessary to prevent the smuggling of flour and because importers were allegedly “supplying flour which had “expired”.

Zambia imports flour mainly from SA and Zimbabwe. It is SA’s third biggest flour export market.

About 10,000 tons a year are supplied to Zambia by SA companies Premier Milling, Tiger Oats and Boko-mo/Sasko. The Zambian miller, National Millers, owned jointly by Anglo American and the Zambian government, is now the sole supplier.

National Chamber of Millers financial manager Hilton Zanckel said the move violated Southern African Development Community and General Agreement on Tariffs and Trade protocols. “Their biggest concern appears to be loss of revenue from VAT of 17.5% and the 15% import tariff SA exporters pay VAT and obtain the necessary permits. Nevertheless, these matters should have been dealt with by the Zambian customs or revenue services,” he said. He denied SA producers had supplied stale flour.

SA trucks transporting flour were being stopped at the border. Those wishing to travel through Zambia to reach SA’s second-biggest export market, the Republic of Congo, were being forced to pay 37.5% duties upfront, with Zambia pledging to return the funds “at our leisure” when export documents from the Republic of Congo were produced.

The chamber had approached the trade and industry department on the issue. The department was not available for comment on Friday.

Premier Foods International MD Gary Trappé said Premier had invested heavily in Zambia through its subsidiary Bonita, through marketing expenses to establish brand names and in distribution infrastructure.
Govt probe of Zambian flour ban

GOVERNMENT has instructed its embassy in Lusaka, Zambia, to investigate urgently the country's ban on flour imports.

The action was reportedly prompted by a need to prevent smuggling of flour and because importers were allegedly supplying flour which had "expired".

Mandela Nkulu, African trade relations director at the trade and industry department, said last night a formal response would be made after the true facts of the case had been established. However, our first recourse (should the ban be deemed unfair) would be to seek dialogue with Zambia," Nkulu said.

Government had held discussions with South African milling industries. Nkulu said talks with Zambia, at its request, for preferential access to the Southern African Customs Union were still expected to be held within a few weeks.

Although observers warned against reading much into the ban, it seems set to tarnish Lusaka's image as one of the African countries which has taken great strides in trade liberalisation.
Moving out of the farmyard

SA’s largest co-op hopes to acquire Kolosus as part of its trek to the JSE

The dominant male of SA co-operatives, Sentaalwes (Senwes), has confirmed it has put in a bid for Vleissentraal, controlling shareholder of troubled food group Kolosus, and that it is set on bringing the rest of its assets to the market.

The bid comes after a relentless drop in the Kolosus share price, from around R7 in 1995 to 232c. Vleissentraal used its equity in Kolosus — now worth only R34.7m — as security, no longer adequate, for an R89m Land Bank loan.

Senwes CE Hennie Davel says the Vleissentraal board is expected to decide on September 21 whether to sell the co-op. He is positive that Senwes’s offer will be accepted. Sources say the financially strong Senwes is the most likely suitor, though other bids are apparently on the table.

Vleissentraal chairman Hannes Besselaar confirms a change in shareholding is possible and that finality should be reached within weeks, but won’t comment further.

Davel says that if Vleissentraal’s board agrees to sell, Senwes will examine the findings of a due diligence study (announced on September 8) and determine whether certain conditions are met, before making a final decision on October 23.

Senwes has not yet decided what it will do with Vleissentraal and its holdings in Kolosus and an auctioneering company, though Davel says the acquisition could facilitate the listing of Senwes.

Senwes originally planned to seek a separate listing during the second half of 1998, to help with further acquisitions. In addition to the traditional business of a co-operative, Senwes is a food processor and produces a wide range of retail products, including Champion, Excella and Vegfresh, a joint venture with Heinz.

Financials for the 14 months to April 1997 indicate income attributable to shareholders of R84.5mn, turnover of R3bn and a 10.6% return on shareholders’ funds.

Senwes will have to take a series of measures to restore Kolosus to health, if it acquires Vleissentraal’s 39% Notably it will have to follow — and possibly undersign — a R300m rights offer, to address the high gearing. It will also need to embark on a cost reduction programme, appoint a new FD and MD and restore Kolosus’s credibility in the marketplace.

Kolosus MD Tito Vorster and FD Ronne van Rensburg resigned at the end of August. The official reason was “differences in strategy between the two and the board of directors.” All the parties involved have signed an agreement not to talk about this.

But if this was so, Vorster and Van Rensburg’s differences would have been with Vleissentraal’s representatives, who must have known they were probably on the way out. Which suggests something else was at play besides “strategy.”

Stuart Rutherford
Beacon retains monopoly on sweet's name

Stephané Bothma

PRETORIA — Beacon Sweets & Chocolates has fought off a challenge from arch-rival Cadbury to exclusive rights to the name of its money-spinning Liquorice Allsorts.

Judge Neo Matsi on Friday rejected a Pretoria High Court application by Cadbury to obtain a disclaimer of the term "liquorice allsorts" on the grounds that the term described a sweet type and therefore did not qualify for protection under the Trade Marks Act.

About 15 types of liquorice allsorts are sold in the UK. The court decision will prevent these from being imported to SA.

Beacon has been selling Liquorice Allsorts in SA since 1952, and registered the trademark in 1986. Sales total about R50m a year.

Beacon argued that the trademark had become closely identified as a Beacon brand.

Cadbury based its case on the argument that "liquorice allsorts" was wholly descriptive of a type of sweet and was not a distinctive brand within the meaning of the Trade Marks Act. It said the term consisted of two ordinary words and therefore Beacon was not entitled to sole use of the term.

Cadbury's lawyers said the words "liquorice and "all sorts" appeared in the Full Oxford English Dictionary.

The court was also told that the phrase was used in the UK to describe a type rather than a brand of sweet.

Rejecting Cadbury's application, Matsi said the "mixture of the two known words 'all' and 'sorts' and the use thereof in combination with the known word 'licorice' is not simply a combination of known words, but constitutes an original descriptive epithet which is not in ordinary linguistic use."

It conveyed the meaning of a combination of various liquorice sweets in novel terms, "inherently capable of distinguishing the sweets of Beacon from the sweets of another person."

"Cadbury has failed to establish that the phrase consists exclusively of an indication which may serve, in trade, to designate the kind, quality or other characteristic of the product."

Kevon Ward
scheme, which could in nine years transfer about 10% of the equity to employees.

"We disagree with the view that employees must be sacrificed on the altar of empowerment," says chairman Ian Robbertze. Last year, I&J also outsourced R7m of business to historically disadvantaged suppliers. These moves should help preserve I&J's profits from frozen seafood.

The focus on adding value to products is also reflected in other interests, including fresh and frozen vegetables, and semi-processed frozen food such as hamburgers. I&J also generates profits from third party distribution. One of its most important customers is Rainbow Chicken. The recent hike in chicken import duties should reinforce Rainbow's expected recovery.

Sales will also be bolstered by I&J's joint venture with Simplot Australia's seafood, snacks and meals unit. The collaborative effort, in which I&J has a 40% share, expects turnover of A$200m in its first year.

I&J appears to be recovering some of the damage incurred in 1996. It has improved the return on capital to 10.8% from 7.1%, and cut long-term debt by 13%, even as it spends heavily on new capital. Pre-interest margins are up to 5.3% (1996: 3.7%), but may be difficult to maintain because of strong competition in the food sector, analysts say.

High interest rates worry Robbertze. "If substantial relief isn't offered to hardpressed consumers soon, domestic sales are likely to slow down."

Immediate prospects are not appealing, but the economy may pick up steam by late 1998. That should buoy I&J, as well as a growing foreign contribution. The stock is cheap and may be worth buying for recovery. The outlook changes quickly in the food business, particularly in fishing.

Sean Feely
Paarl MP bids to save 2 000 jobs

CLIVE SAWYER
POLITICAL CORRESPONDENT

Ben Turok, African National Congress MP for Paarl, is trying to rally the Department of Trade and Industry to help save the jobs of more than 2 000 seasonal workers at the Langeberg canning factory in the town. The job losses will have a deeply felt impact in Paarl, already experiencing unemployment and where many businesses depend on the spending by Langeberg employees.

Replying to questions by Mr Turok in Parliament, Alec Erwin, the Minister of Trade and Industry, said Langeberg had given as reasons for reviewing its long-term market and production strategy at its plants in Paarl and Ashton:

- Intensified competition and oversupply in a diminishing market
- Deterioration of the German mark against the US dollar and the rand
- High levels of customs duties and subsidies in Europe on the products concerned
- The abolition of the General Export Incentive Scheme

Mr Erwin said the DTI did not intend any action over Langeberg’s retrenchment.

“However, the department is actively engaged in activities aimed at promoting international competitiveness of South African industries.

“These actions include negotiations with regard to increasing access of SA industries into the European markets,” Mr Turok said in an interview.
Getting Premier’s sour dough to rise

ANN COTTY

As one of the major institutional managers said on speculation about an unbundling of Premier, “These days nothing is sacrosanct.”

Given the imminent sale of OK Bazaars and the prospect of an unbundling of SAB, as well as the recent news about the merging of Gencor and Gold Fields’ interests at Caloma, it does indeed seem that nothing is sacrosanct.

If the speculation is accurate, it seems that Premier Foods is set to fade out of the public eye by selling what, for decades, was its core operations to Tiger, a company against which it competed so aggressively for years. At this stage the precise nature of the deal between Tiger and Premier is unclear, but it appears that the two companies’ retailing, baking and oil interests seem the first step in an unbundling exercise.

Premier Foods’ competitors will freely admit that, for years, the group was the leading miller and baker in the country. Even today it has some of the best known names in the industry. It is these brands that are believed to be a key attraction in a deal for Tiger which, throughout the nineties, stressed that its focus was on value-added and branded products.

Significantly, executives from both companies have been involved for some time in a cluster study of the wheat, milling and baking industry which will have thrown up some of the issues facing the industry in a deregulated environment that is increasingly open to international competition.

The big food groups are being squeezed between the demands of a deregulated environment and the growing power of the major retail groups. Their ability to deal effectively with these pressures partly explains why food shares are on low ratings.

By the time Doug Band took over the helm from Peter Wrightson in late 1994, it was evident that Premier Foods had lost the competition with Tiger. The pressure at that stage was for Premier Foods to hold on to second place among listed companies, a position keenly challenged by Foodcorp.

The steady demise of Premier Foods over the years has been partly shielded from Premier Group shareholders by the steady improvement in its non-food investments. Back in 1987 Premier Group’s share price was 6.8c. Helped by numerous rights issues, the proceeds of which were used for acquisitions, group earnings grew steadily to 31.4c in financial 1994. After a dip in the next two years, they recovered to 38c in financial 1997, due to non-food interests and a turnaround in the interest position.

All the time the dividends kept coming. So it was reasonably easy for shareholders and the group directors to avoid the reality that the food division had lost direction and was bleeding.

The loss of direction began in the eighties. By the time former chief executive Tony Bloom announced his resignation in 1997, it was already evident that margins in the group’s food operations were on the decline. But instead of fixing up its core businesses, the board continued to OK the acquisition of non-food assets. It was as though institutional investors had little choice, and less imagination, with their investment strategies — it was easy to justify pouring billions of rand into so-called blue chips.

One factor that may have aggravated Premier Food’s decline in fortunes was management’s decision at the beginning of the nineties to focus on food staples. The other two food majors, Tiger and Foodcorp, had opted to go the value-added and branded route in a country with a large and growing population, much of which had very low incomes. Food staples seemed like a good focus.

For a variety of reasons it didn’t work for Premier. The acquisition of non-food assets not only ensured that head office needed to be more aggressive in its relations with Premier, but also that the two companies’ structures and cultures were kept separate.

Another key consideration was that the apparent scale advantage Premier Foods enjoyed, when Foodcorp had difficulties facing Premier, was a basis for the financial advantages the group enjoyed, which it then used to fund acquisitions.

The apparent scale advantage was a basis for the Financial Times listing Premier Foods among the world’s largest food groups, which it then used to fund acquisitions.
Talks begin for a food and allied industries bargaining council

Fawu plans ‘single forum’

RAVIN MAHARAJ

Durban — There could be a single industry bargaining council in food and associated industries — which employ about 100 000 workers — as early as next year, the Food and Allied Workers’ Union (Fawu) said this week.

Victor Nauza, a national Fawu spokesman, said the union wanted to create a single forum to voice the concerns of workers, and to conduct annual wage negotiations, in the fruit and vegetables, milling and baking, dairy and beverages sectors. Beverages included wines and spirits, beer, carbonated soft drinks and cordials.

Nauza said the move would significantly reduce the time and money the union spent in wage negotiations between the various employers on similar issues, and create additional training and education opportunities for employees.

The constitution of the bargaining council had already been drawn up, and had been sent to employers in the targeted sectors, Nauza said.

But employers in these sectors wanted to discuss among themselves what the advantages and disadvantages of such a bargaining council were, and how it would affect future negotiations, both within company structures and among employees.

Nauza said a series of meetings with employers in the concerned sectors would be held before year-end.

Meetings between employers in the milling and baking and wines and spirits sectors had already taken place, but input had not yet been received. Meetings in the beverage sector were next on the list, he said.

Duncan Innes, who is facilitating discussions among employers, said employers, who were initially opposed to the idea, had subsequently begun discussing Fawu’s proposals between themselves.

They would explore the idea in principle, but several issues had yet to be addressed as advantages for employers were less clear cut, Innes said.

Regarding the beverage industry, Innes said some sectors, including wine and spirits, preferred their own bargaining councils.

Some sectors were paying lower wages than others, and there were also differences regarding leave, housing assistance and other benefits. Innes said that could result in complicated and time-consuming negotiations.

He said the union could benefit by conducting annual negotiations in a single forum. In addition, any agreement reached in the bargaining council, including employee benefits, could be referred to the other parties.
Pressure mounts on canning jobs

POLITICAL CORRESPONDENT

While the Department of Trade and Industry and the Boland fruit canning industry are working on solutions to the problems facing the industry, only a limited number of seasonal workers' jobs could be saved now.

So says Ben Turok, the African National Congress MP who this week convened a meeting of stakeholders in the Western Cape canning industry, where the jobs of thousands of seasonal workers are at stake.

The tomato canning industry is being imperilled by imports of canned tomato pieces from Italy, brought in at low cost as a benefit from the economies of scale in that country.

Meanwhile, fruit canning, dependent on survival on the export market, is also being disadvantaged.

Professor Turok said the industry was penalised in Europe by the subsidies provided by Brussels to European producers, in particular Greece.

Professor Turok said: "The best we can hope for now is that a certain number of jobs will be saved for some seasonal workers."

Langeberg canning had demonstrated its commitment to meet the very real problems faced by the industry and the Boland towns, Professor Turok said.

The short-term measures which the company was looking at to save some jobs included extending the tomato canning season, as well as other measures.
AN ARTICLE in Business Day (October 16) on a submission on the wheat, milling and baking cluster to the joint parliamentary portfolio committees on agriculture, and trade and industry, was misleading as it focused on the negatives rather than on the many positive points presented.

The agro-processing sector has been characterised by a legacy of distorting government intervention, a lack of synergy between elements of the value chain and an absence of coherent strategies. The sector has recently changed significantly by moving to a deregulated environment.

After three years of cursory contact with the trade and industry department, despite being the largest manufacturing sector in SA, two emerging approaches from government have recently given us hope in redressing this legacy and moving to a sustainable competitive footing.

Firstly, the inclusive policy processes which have been initiated by Land Affairs and Agriculture Minister Derek Hanekom. For the first time, the minister has drawn on the expertise available in SA organised agriculture, the private sector, research units, labour and NGOs. He has also drawn on qualified personnel from other areas of government.

Secondly, the trade and industry department has refocused its approach to cluster initiatives. This dovetails with the needs of the agro-processing sector, and is being tried out in the wheat, milling and baking sector.

Our input to the joint portfolio committees was intended to discuss what we have learnt from the cluster process.

The key lessons can be summarised in four main points:

- The changing nature of the relationship between government and industry (including labour) means that we need to shift the dialogue from lobbying to understanding and synergy. This relationship needs to emulate the closeness and involvement of the sector in countries we compete with, if we in SA are to survive.

- The cluster process has provided us with a first view of what this cooperation could look like.

- The changing nature of choices, for both government and industry, can only be understood through real data and real dialogue. The data-driven process we have used in the cluster initiative represents the first attempt at creating a joint understanding, rooted in objective analyses, prior to other choices making processes — policy formulation in government and strategic choices by farmers, firms and labour, etc. The emerging consensus around key issues in the sector leaves the path open for independent and joint actions based on a common vision.

- The emerging nature of cooperation, including the important guiding role performed by government and Parliamentary representatives in the steering committee, points to an exciting future. The recently appointed director.

SA’s agro-processing sector is showing some positive signs, says David Frost.

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Agro-processing in the trade and industry department has been a positive and integral part in the cluster steering committee. Negative reflections, such as the one in the article, potentially damage this vital element of learning how to work together, and

- The nature of the work is such that a tight balance needs to be struck between the thinking within the cluster process and decision-making elsewhere.

For instance, government’s challenge is to absorb the lessons from the cluster process into its policy formulation processes. The cluster process cannot (and should not) absorb this government responsibility. So too for businesses as the cluster learning provides an important input into the strategy process, but does not appropriate it.

In summary, we are experiencing a powerful and encouraging new way of working together, which is making the often rhetorically touted partnership between government and industry concrete. There are bound to be problems as we grapple with this learning. We are, however, excited by the prospect of jointly tackling SA’s competitiveness problems.

Frost is a member of the wheat, milling and baking steering committee and is public affairs and strategy manager at The Premier Group. These comments are made in his personal capacity and do not necessarily reflect the views of the committee or the company.
Reprensentatives of labour, farmers and the canning industry held a crisis meeting yesterday on competition from subsidised European Union producers. Roger Friedman reports.

South Africa’s export-dominated fruit and vegetable canning industry is at the edge of a precipice. Massive European Union producer subsidies and costly import duties are eroding South African products off supermarket shelves, not only in Europe but increasingly also in the United States and Far East.

Representatives of labour, farmers and the canning industry were called together yesterday for a crisis meeting chaired by the Minister of Agriculture, Mr Derek Hanekom. The situation they described was bleak.

SA Fruit and Vegetable Canners Association general manager Mr Fanie Buys told the Cape Times afterwards that one of the industry giants, Langeberg Co-op, was being forced to rationalise its seven-factory operation, which would include shutting down its deciduous fruit-canning division in Paarl, with the loss of about 1,500 seasonal jobs.

Farmers’ representative Mr Wielahn Victor of the Canning Fruit Producers Association, said farmers now had the problem of where to send the 35,000-40,000 tons of peaches and pears that would be ready in the next few months, but would no longer be processed at Langeberg.

That tonnage alone represented the product of about 1,600 hectares of fruit trees, employing about 800 workers and feeding their dependants.

South Africa’s total deciduous fruit production is about 275,000 tons.

Food and Allied Workers Union Western Cape secretary Mr William Thomas said about 11,000 jobs could be at risk in the region and would be lost unless there was urgent intervention.

The crisis is not the Western Cape’s alone.

Buys said small-scale tomato farmers and canning companies in the Northern Province were particularly hard-hit by European Union tomato subsidies—mainly to Italian, Spanish and Greek producers—amounting to about 800 million German marks (R2,2 billion).

The total EU expenditure on fruit and vegetable production support schemes amounted to 1.3bn marks (R3.5bn) last year, he said.

And you’ve been wondering why Italian canned tomatoes are cheaper than South African ones at Pick ‘n Pay.

“If the fruit-canning industry becomes extinct in South Africa it won’t be because it was uncompetitive,” said Buys. “It will be because the governments of our world competitors could outspend ours to retain jobs in their agro-processing sectors.”

Most South African jobs in the sector were in the rural areas, a large proportion of the workers being women.

About 90% of South Africa’s canned deciduous fruit is exported—half to Europe, about 33% to Japan and 14% to the US. South Africa is the largest export supplier of canned products to Europe.

Only relatively rich people can afford to buy canned goods, which severely limits potential markets.

The SA canning industry’s difficulties appear to be rooted in the gradual withdrawal of the Department of Trade and Industry’s Generalised Export Incentive Scheme (GEIS). The scheme was not allowable in World Trade Organisation (WTO) treaties signed by South Africa after its evolution from panush state in April 1994.

But while other countries, including the European Union bloc, have developed incentive schemes permissible by the WTO, South Africa has not institutionalised alternative support measures.

And to add to the South African industry’s woes, import duties into the European Union for canned peaches are pegged at between 18% and 23%, to which a sugar levy must be added.

Said Victor, “The essence of our problem is that however lean our operations we cannot compete on foreign markets on an uneven playing field. We are not asking for handouts, we are just asking for level playing fields. We are not asking for subsidies, although they may have to be considered as a short-term measure.”

“We need a reduction in tariffs. This is where the Department of Trade and Industry could play a crucial role.”

Buys said the canning industry was undoubtedly in a crisis, but the situation was not terminal.

“What we are hoping for is that government can generate a WTO-friendly counter-measure along similar lines to what the US and EU are paying to their producers under their agricultural policies,” he said.

Yesterday’s meeting nominated a task team with the short-term aim of “preventing a total disaster.” After that it would have to consider a longer-term strategy.
Langeberg loses in exports

Robyn Chalmers

FRUIT and vegetable processor Langeberg was hit hard by slack trading conditions in Europe to post a widely expected 34% drop in attributable income to R52,7m for the year ended September

Langeberg chairman Nick Dennis said the group would withdraw from exporting to unprofitable areas, particularly in Europe. This would lead to rationalisation of the group's deciduous fruit-processing operations.

Headline share earnings, affected by a higher effective tax rate, fell 27% to 36.3c. A final dividend of 2.76c was declared, bringing the total dividend to 8.25c, down from 10c in 1996.

Dennis said although exports to the Far East had increased, oversupply of canned deciduous fruit in Europe had led to lower prices and sales volumes, exacerbated by the earlier-than-expect edphasing out of the general export incentive scheme (GEIS).

These factors contributed to a sharp reduction in export profits.

The disappointing results seen internationally were reflected in a 19% drop in Langeberg's operating income to R83.9m.

"In light of the (European Union's) persistent refusal to grant Lomé concessions to SA-produced canned fruit, and the phasing out of GEIS, it is expected that structural imbalances will continue in the foreseeable future."

Losses of R4,1m are related largely to fruit-processing rationalisation costs.

Dennis said, however, that reasonable volume growth was seen locally with profit margins and market shares holding up. Despite an increase in the cost of new product launches, Africa saw satisfactory profit growth.

The group's balance sheet showed cash and deposits had fallen to R3.9m from R12.7m, but there were no borrowings. Shareholders' funds increased to R501m from R461.6m the previous year.

Looking ahead, Langeberg MD Andreas van Rensburg said international marketing conditions were expected to improve in the current year following reports of lower deciduous fruit crops in Europe.

However, exports still reflected depressed prices and export margins would remain under pressure into next year.

He said an increased focus on margin management and the growth of new product categories should ensure satisfactory results for the Africa business.
Louise Cook

THE SA canning industry, with an annual turnover of more than R1bn a year, was under severe pressure due to the scrapping of government’s export incentive scheme, coupled with lucrative production support from the European Union (EU) to its producers, SA Fruit and Vegetable Canning Association GM Fanie Buya said yesterday.

Buyas said that a special government-appointed task team would recommend that the EU be approached for a “special dispensation of one year”, based on the fact that assistance had previously been given to union producers in Poland.

The situation was so critical — food and vegetable processor Langeberg announced a 34% slide in attributable income for the year to September 30, despite an increase in turnover of 13,9% — that Land and Agriculture Minister Derek Hanekom and African National Congress MP Ben Turok last week appointed a task team to work out solutions to save thousands of jobs at Langeberg’s processing plant at Paarl.

Other Western Cape companies affected are Supco, Del Monte, Tulbach, Anglo Food Farms at Groot Drakenstein and Ashton Cannery at Ashton.

Buyas said that Nestlé’s tomato canning operation at Dunwaking, Giant’s Canning belonging to the Dynamo Group and canning operations at Louis Tocherdt and Kaap Muden in Mpuhalanga were all affected.

“This is a case of a formerly successful local industry, export reliant for 80% of its product, going under, not as a result of a lack of competitiveness, but due to subsidies paid in overseas countries.”

Up to now, the general export incentive scheme (GEIS) had kept the playing field more or less level, but this system was phased out in July this year, he said.

Canned deciduous fruit exports earned SA R750m last year. The EU has traditionally been the biggest market, taking up half the exports, but this market is under severe pressure from countries such as Italy, Greece and Spain.

Buyas said EU member countries were on a production drive with assistance from the EU to the tune of R2.5bn. Finding new markets was difficult as canned fruit and vegetables were a typically first world export product that the US took the rest of the product exported to the EU.

The task team’s mandate was to figure out how to prevent the immediate closure of the Langeberg factory, make proposals on appropriate assistance for the local tomato canning industry (which faced severe competition from Italian exporters) and to recommend suitable measures with which to replace GEIS, Buya said.

The local tomato canning industry employed about 4,000 seasonal workers and 500 permanent staff. The knock-on effect on farms, packaging and transport was not known, but Buyas said that a cluster study was planned for next year. Turok was not available for comment.

Lukanyo Mnyanda

Companies & Markets

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EU incentives leave SA canning industry in the cold

Market jitters
'EU must waive tariffs on fruit'

Task team proposal to save jobs in canning trade

THABO MABASA
BUSINESS REPORTER

In a bid to save jobs in the canning industry, the Government should ask the European Union (EU) to waive import tariffs on South African canned fruit for a year, a task team set up by Minister of Agriculture Dereik Hanekom has recommended.

The task team, appointed last week, includes representatives of the Food and Allied Workers' Union, the canning industry, fruit farmers and the ministry.

Speaking after the team's first meeting this week, task team convener Alan Roberts, who is also advisor to Mr Hanekom, told the Cape Argus the proposal was a short-term measure to give the canning industry time to stand on its feet, after complaints by fruit exporters that tariffs were too high in EU countries.

Canners, such as Boland-based Langeberg Holdings, have complained that the 24% tariff the EU imposes on imported canned fruit is making its exports uncompetitive. Langeberg recently had to tell 2000 seasonal workers at its Paarl factory that it could no longer afford to employ them.

The canning industry has also blamed the phasing out of the General Export Incentive Scheme (Geis) for its plight. Under Geis, 18% of exporters' turnover was not taxed.

Mr Roberts said the task team had also agreed to ask the minister to start a cluster study to look at which route the industry should take. The cluster study would conclude its work within a year.

"The main thing is to try to stop factories shutting down. We will draft our proposal into a document to be handed to the minister before the end of the week," Mr Roberts said.

Fanie Buys, general manager of the South African Fruit and Vegetable Canners' Association, said that if the EU did not agree to the proposals the task team would ask Mr Hanekom for a once-off cash injection for exporters in fruit farming and in the canning industry.

"The main goal of this injection would be to prevent the closure of factories," he said.

Food and Allied Workers' Union secretary general for the Western Cape, William Thomas, said the cash injection would be an attempt to level the playing fields between South African exporters and competitors from elsewhere in the world.

The task team would also try to meet with the Department of Trade and Industry and brief them about their proposals.

Last week the department resumed negotiations with the EU aimed at phasing out tariffs and trade barriers.
Food merger crash depresses Premier

Johannesburg — The Tiger Oats share price recovered 24c to close at R87.60 yesterday, but the Premier share price did not recover any of the loss suffered on Friday in the wake of news that the merger negotiations between the two companies had been terminated and that Premier was now working with its trade union to develop a competitive strategy for the group.

Most analysts were disappointed that the merger negotiations had been terminated. They said they were surprised that in the wake of the Competition Board approval for the Shoprite Holdings' acquisition of OK Bazaars, the board appeared to be one of the main stumbling blocks to this deal.

Pierre Brooks, the chairman of the board, would not discuss the specifics of the issue other than to point out that the board had not received a formal proposal relating to a merger and suggested that such a transaction would raise substantial competition law questions.

He said the "failing company doctrine" had been a consideration in Shoprite's acquisition of OK, for which the board received one of the most comprehensive submissions it had seen in a long time.

An analyst explained that in the absence of a takeover, there was a significant chance that OK would have been liquidated.

"This meant that OK would have been completely removed from the market. The acquisition by Shoprite means that most of the OK structures will survive although under different name and ownership, so from a consumer's perspective it was the better option," he said.

The analyst said an important motivation behind a merger involving Premier's food interests and those of Tiger Oats would be to shut down capacity Premier would suffer from the resulting retrenchments, he said.

The reduction in capacity would ease competitive pressure that exists and enable food producers to improve their margins by lifting prices.
Simba sells its leading nuts brand for an undisclosed sum

Durban — Simba, the potato chip manufacturer, has sold its leading nuts brand, to Pretoria-based Central African Seed Services (CASS), for an undisclosed amount, CASS said yesterday.

Simba is the leading brand in the area of tree nuts, with a 45% market share in the sector, which has an estimated value of R18 million a year.

The range at Star Foods comprises a range of specialty tree nut varieties, including almonds, cashews, pecans and hazelnuts and Brazils, which are used mainly as baking aids.

CASS is the holding company for a group of businesses specialising in the production, processing and marketing of agronomic seeds and commodities. Sanbonani Products, a division of CASS in Pietermaritzburg, specialises in the industrial processing of peanut and tree nut ingredients for major confectionery and snack manufacturers, locally and abroad.

Graham Guthrie, the marketing director of CASS, said Simba’s decision to sell Star Foods was a strategic one as the Star brand — which was marketed mainly as baking aids — did not complement Simba’s range.

He said the acquisition was a turning point in the company’s baking aids and snacks market interests.

“Our baking aids and snacks markets division will now trade as Star Foods and significant investment will be made in promoting the awareness and benefits of nuts as part of a balanced diet,” he said.

Guthrie said CASS’s range of tree nuts had traditionally been marketed under the Nibble Nuts brand. But with the purchase of Star Foods, all tree nut variants would now be marketed under the Star brand.

Guthrie said by purchasing Star Foods, the company had acquired the Star brand, which was a household brand throughout South Africa.

The firm planned to build on a name, by relaunching the brand with exciting new packaging and promotions, as well as using the brand to introduce other traditional baking aids.

The company would also launch an exciting new range of nut-based snacks under the Dr Feelgood brand within a few weeks, Guthrie said.

He said with strong management and an in-depth understanding of the edible nut industry, Star Foods planned to grow the sector through its dedication to high service and quality.

NUTRITIOUS Graham Guthrie, the marketing director of CASS, who says the acquisition of the Star brand represents a turning point in his company’s interests.
Molope Foods has the right ingredients

From township bakery to R1.3-billion group is Molopo's story, writes Thabo Kobokoane

MOLopo Foods, which started out as a township-based bakery, finds its way to the JSE tomorrow in a R1.3-billion listing, one of the largest among the recent spate of newcomers to the market.

Molopo Foods evolved out of Molopo Bakeries, started by Sam Molopo in Gauteng in the 1970s. Since being backed by Johnson chairman Cyril Ramaphosa in his personal capacity earlier this year, the group has grown to an estimated turnover of R50-million this year.

The company comes onto the bourse with market capitalisation of R1.4-billion based on over-the-counter tradings at the close of R2.8c.

It has 120-million ordinary shares and 71 million N shares in issue.

At an analysts' presentation, analysts noted earnings forecasts for a 137% jump in earnings a share to 36.5c in the year to December 1998 (pro forma 1997 15.4c), on a pro forma turnover of R509.9 million. Net profit after tax is forecast at R70.7-million. Based on a listing price of 70c, Molopo will come to the market at a p/e earnings ratio of 45.4 times.

Earnings and profit after tax are expected to increase "substantially" once acquisitions in the pipeline are concluded, possibly this year. Molopo would not comment on the acquisitions, but confirmed that one would be in its new cosmetics division.

A private placement last year saw Ramaphosa take a 10% interest in the business and the proceeds were used to wipe out R15-million debt. That placement raised R30-million and brought in 700 black shareholders.

The original Molopo bakery now accounts for only 6% of turnover and is not expected to play a major role in the business. About 60% of turnover comes from its services division, which consists of the recently acquired businesses of JIC Mining and Petro and 14% of turnover from its industrial catering division, which houses the purchased businesses of Grantham Catering, Quality Eggs and Zululand Laundry. These acquisitions were settled through the issue of Molopo scrip at various prices.

Managing director Richard Grantham stressed that the focus would be on industrial catering, a comment which elicited a question from an analyst on whether it did not make sense to list the group in the beverages and hotels sector like its competitor, Fedics Food Services.

Anthony Bock in Finansal director of Molopo, said it would seek a listing on that sector later.

"But was it not because the group planned a major acquisition in the food sector," the analyst asked, Bock declined to answer. The rumour mill, however, suggests that something could be in the offing with Premier Ramaphosa, the non-executive chairman says that Molopo aims to be the leading food and services provider.

"We will maximise opportunities offered by synergistic businesses in order to fuel organic growth and acquire leading businesses which fit in with our strategy," Ramaphosa says.
Workers angry over 24 hours notice to quit

LLEWELLYN JONES
BUSINESS REPORTER

Workers laid off from the Langeberg canning factory in Paarl are unhappy about the way they were dismissed.

A group from the Dole Fruit division said they were given only 24 hours notice last Thursday.

The group, mostly non-unionised workers, claim they were replaced at their stations on the factory floor by unionised workers from other areas of the factory two weeks ago.

They immediately approached the Council for Conciliation, Mediation, and Arbitration (CCMA), but were given their marching orders before their complaint could be heard.

A spokesman for Langeberg said the retrenchments were the result of consultation with the Food and Allied Workers Union (Fawu) and that the company had acted according to the letter of the law.

He said Langeberg had to regard the factory as a single unit when considering who should be retrenched.

Retrenchments were being made on a “last in, first out basis” Not only was it not possible to retrench by department, but “also illegal”.

Langeberg was being restructured in the face of intense competition in its export markets, high duties in Europe and the abolition of the General Export Incentive Scheme.

Retrenched: Irene Diedericks, Sharon Dawid, Carin van der Bergh, Ruby Stevens, Dianne Claassen, Bonita Semmery, Mary Haynes, Leone Jaffes, Sandy Smitntz, Jacqueline Botes, Edwina Petrus, Fancleen Filies and Elizabeth Africa all believe their retrenchment from Langeberg was unfair.
I&J to buy Pillsbury Brands Africa’s frozen vegetable unit

Cape Town — Irvin & Johnson (I&J), the fishing and food company in the Anglovaal stable, intended acquiring the frozen vegetable business of Pillsbury Brands Africa for an undisclosed sum, Roy Gordon, the managing director, confirmed yesterday.

Gordon was reluctant to offer further details on the deal at this stage, advising that a due diligence examination would only be conducted next week.

Pillsbury Brands Africa is a joint venture between Foodcorp, the JSE-listed food company, and the US-based Pillsbury Company. Dave Kennealy, the chief executive of Foodcorp, recently described Pillsbury Brands Africa’s vegetable division’s performance in the year to August 31 as disappointing.

Gordon agreed that the Pillsbury deal would further diversify I&J’s earnings base away from its core fishing business.

Pillsbury Brands Africa includes household names like Table Top, Harvestime, and Cater Craft with the collective brands’ share of the frozen vegetable market estimated at about 60 percent.

Market watchers said that in light of lingering uncertainties over fishing industry policy, the Pillsbury deal made good business sense for I&J. “Other seafood-based companies have also been reducing their dependence on fishing revenue by acquiring small food manufacturers and investing in value-adding facilities,” they added. Pillsbury Brands Africa would complement and strongly extend the market share of I&J’s existing frozen vegetable operations.

I&J closed unchanged at R24.40 with only 1,000 shares changing hands while Foodcorp edged up 5c to R26.35, also in small volumes.
Study finds milling sector is not competitive

Louise Cook

A STUDY by the trade and industry department has found SA's wheat, milling and baking sectors are not competitive by international standards.

Wheat producers in the Western Cape in particular would have to lower their prices or improve quality to survive.

An industry cluster study conducted by a government committee and private sector representatives also concluded that millers would not be able to bank indefinitely on the 50% tariff on imported flour, while volume-driven “plant” bakers faced growing competition from small bakeries, which were difficult to police and ensure they stuck to producing the required 800g “government” loaf.

Chamber of Baking chairman Peter Cowne told industry representatives at a meeting in Kempton Park last week consumer preference was no longer for an 800g loaf, and the SA Bureau of Standards had been asked to “take the first step” to deregulate the issue.

Plant bakers were also locked into cross-subsidising smaller bakeries, a problem that would have to be addressed and resolved.

The cluster study, involving all of the sectors in the value chain, was set up five months ago to boost information sharing, sharpen group competitiveness and influence government in an organised manner.

Premier Milling spokesman David Frost said legal confrontation between interest groups and competitive lobbying was no longer an efficient way of dealing with differences.

Chamber of Milling chairman Janme de Vilhers said the study showed the areas where the sectors had to make adjustments if they wanted to become more competitive. Millers faced a problem of unused capacity and the inevitable lowering of tariff protection on imported flour. Differences with the baking sector on pricing and quality had to be resolved.

 Farmers dismissed a finding of the study that wheat from the Free State was of inferior quality, saying it had never been turned down during grading.
Getting loaves weighed right

By LILIAN NGAKANÉ

The South African Chamber of Baking regards these changes as "an interim step in a process" that will lead to complete deregulation.

A deregulated system will enable the industry to be totally flexible in meeting the requirements of the different market segments.

It also fully supports the steps being undertaken by the Bureau of Standards "to monitor the new regulations closely and impose effective punitive measures."

"The average mass of bread loaves being sold at present is nearer to 700g, than the regulation 500g per loaf required. As time to implement the changes is not presently an issue of either the consumer or the baking industry, February 1 has been set down as a reasonable target date for implementation."

The Chamber's concern is that the consumer be protected by the existing grading regulations on the mass (weight) of bread, and it is convinced that the new system will result in consumer "greater protection."

It is also convinced that the baking industry would be able to offer bread that is closer to the consumer's price and will be more competitive on the price and volume grounds.

The Division of Trade Metrology of the SABS proposed the mass regulations changes in order to enable packaged bread to be sold in any multiple of 100g with a minimum mass of 400g - provided the mass is clearly marked on the packaging, and unpackaged bread to be sold in mass grades of 400g, 500g, 1000g so that the consumer will be able to visually identify between the different grades.
Manufacturing - Food
1998 - 1999
FOOD GIANTS

Tiger hungry for Epic Foods

Premier is closing its margarine factory but disputes its rival’s claim to first refusal

A High Court battle is about to start for Blossom, the margarine that brings up sales worth R140m a year. At the end of this week Premier Food Industries closes its Aeroton, Johannesburg factory, where Blossom is the main product. The spread is the single pride of Premier’s loss-making Epic Foods division, which is being chopped as part of “radical action” to stem losses, which in the division are believed to be running at more than R7m/month. Nearly 300 Aeroton workers have lost their jobs.

And next Tuesday rival food giant Tiger Oats, which only last year was negotiating with Premier to merge their baking, milling and oil operations, goes to the High Court seeking an order that it has pre-emptive rights to buy Epic Foods under an agreement it signed with Premier in 1996. This is disputed by Premier. The ambitious merger plans folded after the Competition Board indicated that such a move would warrant an investigation and be unlikely to receive approval because of the two players’ dominance in the sector.

Premier may well prefer to be free of the constraining right of first refusal, believing it can get a better deal on the open market. There are several other potential buyers of the Blossom factory, including Unilever’s Durban-based grocery products division, Ufoods. It is understood that there will be no negotiations until the

RUGBY

Scrum comes to High Court

Privacy versus the public’s right to know will be the central theme in the SA Rugby Football Union (SARFU)’s case against President Nelson Mandela, due to be heard on January 26 in the Pretoria High Court.

SARFU brought the case against the President in a bid to block a government commission of inquiry into its affairs, ordered after widespread allegations of financial mismanagement in SA rugby.

SARFU appears as the first applicant, backed by the Gauteng Lions Rugby Union (GLRU), Mpumalanga Rugby Union and SARFU and GLRU president Louis Luyt. Mandela is first respondent, followed by Minister of Sport & Recreation Steve Tshwete and DG of Sport Mthobi Tyamzashe.

Luyt claims in his affidavit that the internal management of SARFU is private and not within the public domain. He denies that “rugby is in the interest of the broader public in the sense that they have a legitimate interest in the game.”

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I&J aims at improved performance with new deal

Samantha Sharpe

CAPE TOWN — Food group Irvin & Johnson (I&J) had agreed in principle to acquire the assets and trademarks of the Pillsbury brands' vegetable business — effectively Table Top, Harvestime and Catercraft — a move which could help improve the poor performance of its prepared foods division, group MD Roy Gordon said yesterday.

Announcing the group’s latest interim results — I&J reported an 8% fall in attributable earnings to R39.3m in the six months to December — Gordon said finalisation of the deal was scheduled for the middle of this month, with an effective date of March 1.

"The acquisition is expected to have a positive impact on the division's performance. Substantial synergies exist, particularly in vegetable growing and processing. Further effects of this acquisition will be to spread the agricultural risk between the inland and coastal growing areas."

Gordon said a further weakening in the SA economy and reduced consumer expenditure had placed both volumes and margins under pressure in the six months under review, resulting in depressed sales in most divisions.

Group turnover fell 4% to R1.23bn, with operating profit 5% down on the same time last year. However, this was exacerbated by a high level of capital expenditure and an increase in receivables, resulting in a significant increase in interest paid. This was mitigated somewhat by a slightly lower rate of taxation as well as a positive contribution from the group’s recent joint venture with Sampolet Australia, which showed that profit after tax was just 11% down.

On the group’s international division, Gordon said it continued to perform strongly, with the profits arising from its pelagic fishing ventures off Namibia and Mauntauana continuing to make a positive contribution to earnings.

"Sales of value-added products into Europe have grown at a satisfactory rate and have become an important element in securing continuing and reliable markets."

On the seafoods division, he said lower catch rates and sales volumes had placed margins under pressure, although these had been partially offset by favourable export prices.

The prepared foods division had another disappointing six months, primarily as a result of underperformance in the ready meals business unit. However, action had already been taken to focus on core activities and contract out certain production.

The sales and distribution division suffered lower sales volumes following lower seafood and chicken volumes during the period.
Safawu was formed when members broke away from Fawu last week, alleging that the national leadership was autocentric. Most of those who broke away are based in Gauteng.

Fawu's former Gauteng secretary-general, Tshogo Moseki, is a leader of the group Safawu claims that Fawu secretary-general Mandla Gxanyana of Cape Town is “running the organisation into the ground.”

“Mandla bought a stake in Oceana fishing company for the union, purchased Krugerrands, paid an investment analyst an astronomically high fee, and union members were never consulted about any of this,” Mr. Moseki said.

“Phones in our offices are always cut and employees get paid late every month,” he said.

He said Safawu had a large following in the fishing and food industries and would soon start negotiating with employers for recognition.

Mr. Gxanyana disputed the allegations and said Mr. Moseki was more interested in power than serving the interests of workers.

“The executive committee of Fawu, which is made up of sensible people, has satisfied itself that the allegations are unfounded. Some of the issues that he now raises were debated and resolved in 1995,” Mr. Gxanyana said.

For instance, no money was wasted in acquiring the Oceana shares, because they were given to us free,” he added.

Mr. Gxanyana said he was not worried about Safawu mounting any serious challenge to Fawu's dominance. “This organisation can withstand any pressures,” he said.

The Congress of South African Trade Unions, to which Fawu is affiliated, has condemned the breakaway.

“While there may have been legitimate reasons for dissatisfaction, there is no justification for forming splinter unions as these merely play into the hands of those who want to see the demise of Cosatu and its affiliates,” the Cosatu statement said.
Cadswe is looking to exports for growth

Nicola Jenvey

DURBAN — Cadbury Schweppes (Cadswe) CEO Peter Bester said yesterday export contracts could bolster sales growth and believed the industrial food group’s longer-term export potential should touch 15% to 20% of turnover.

Releasing the results for the 53 weeks to January 3, he said the groundwork had been laid for export contracts to the Canadian and South American chocolate markets, which would come to fruition in the current year.

Last year the group had targeted opportunities in Africa and exported sugar confectionery to Mozambique, Angola, Zambia, Kenya and the Democratic Republic of Congo.

Bester said SA economic growth this year was not encouraging as consumers remained under the burden of high real interest rates and low levels of job creation. However, Cadsew was determined to grow market share and improve efficiencies through increasing new product launches and a broader consumer base, including exports.

Attributable income grew 26% to R159.9m, strengthened by higher margins and share gains across the group’s carbonated and concentrated soft drink and sugar and chocolate confectionery markets.

Headline earnings increased to R40.1c (34.5c) and a 12.5c (10.9c) final dividend was declared, bringing the total to 16c (13.8c). Shareholders have been offered a scrip option.

The five-year compound 20% annual growth represented 11.6% in real terms.

Turnover grew 16% to R1.5bn and operating profit increased 17.7% to R186m, indicating the dual effects of share gain in all market segments and higher margins.

The dividend and equity account earnings, representing Amalgamated Beverage Industries’ contribution to group performance, increased 31.5% to R29.1m.

New products boosted confectionery volumes in a declining market, but consumer demand weakened in the second half of the year.

Bromor performed strongly in the concentrated beverage market, which recovered from declines over the past few years.

Cadsew also benefited from good growth in the carbonated soft drink market.

Bester said the Port Elizabeth chocolate factory and the Bromor plant in Durban were completed last year and increased volumes and greater efficiency would filter through in the near future.

Last year the group invested about R180m on expansions and significant capital was earmarked for the current year.
Milling group to face CCMA

By Abdul Miliazi

PREMIER Milling training and development manager for Mpumalanga and North West provinces, Ebrahim Harvey, is taking the company to the Commission for Conciliation, Mediation and Arbitration (CCMA) for allegedly unfairly retrenching him this month.

Harvey was one of two black training managers facing retrenchment due to Premier Milling's restructuring process which included having one training executive for Gauteng and North West instead of one for each province.

Harvey and his Gauteng counterpart, Gudu Mngomezulu, found themselves having to contest the new position and the rules were simple – the unsuccessful candidate lost the job.

"The underlying motive for asking us to contest the position was to absolve the company from taking a decision on who should be retrenched between Mngomezulu and me," he said.

Harvey refused to apply for the new position; demanding that both he and Mngomezulu be retained. The axe fell on him.

"They could not use the last in first out (LIFO) system because we have the same number of years of service. So they had to make us contest for one position and thereby absolving themselves from taking a decision," said Harvey.

Harvey's main concern, however, is that none of his white colleagues in other provinces are affected by the restructuring. "How is it that the only two black managers have to be retrenched?"

He said the decision to combine the two regions grossly underestimated the impact the Skills Development Bills and the Basic Conditions of Employment Bill would have on training.

"Just the sheer geographical spread of the two regions combined will make it practically impossible for one person to manage training effectively, especially once the bills become law," said Harvey.

Premier Milling corporate human resources head Mannase Matau said Harvey's retrenchment was part of the restructuring process.

"We have already retrenched about 3,000 workers of all colours and at all levels since last year." He argued that Premier Milling management was satisfied that they had followed fair procedure in dealing with the retrenchment.
Langeberg warns on interims

Marc Hasenfratz

Cape-Town — Langeberg Holdings, the fruit and vegetable canner owned by Tiger Oats, warned shareholders yesterday that its earnings for the six months to March 31 would be significantly lower than the corresponding interim period last year.

This follows a dismal performance by Langeberg in export markets for the year to September 30, when bottom-line profits slumped from R30 million to R25.5 million.

Langeberg, which markets well-known brands like Koo and All Gold, advised yesterday that reduced volumes and the poor quality of the domestic deciduous fruit crop would have an adverse impact on profit.

The company cited continued depressed export contract prices as another negative factor.

Langeberg was confident export contract prices would firm in the second half of the year, but cautioned that the domestic market would remain under pressure.

The company's shares were untraded at R2.80 on the JSE yesterday, well off the annual high of R5.65.

Langeberg boasts a net asset value of R3.13 a share.
Shielded EU market hits canning sector

Wyndham Hartley

CAPE TOWN — European Union (EU) subsidies designed to protect its fruit canning industry had forced the closure of a major SA factory and the loss of more than 2 000 jobs, Deputy Agriculture Minister Thoko Didiza said yesterday.

Addressing an international canned deciduous-fruit conference in Somerset West, Didiza said the level of protection afforded by the EU to its canned fruit industry through production and export subsidies made it difficult for countries like SA to compete in either the EU or in third-country markets.

As an example she pointed to Japan where SA's share of the canned fruit market had fallen from 38% to 18.5%. In the same period the share of the Japanese market enjoyed by Greece rose from 0.6% to 27.9%.

"Due to declining export earnings, the largest SA exporter withdrew from the EU market, leading to the closure of a major canning factory with the loss of 2 000 jobs," Didiza said. She did not identify the plant. SA has responded to a Chilean initiative by attending a meeting late last year to explore a possible World Trade Organisation challenge to the EU subsidies.

A request from SA, Chile, Brazil and the US requesting information from the EU has so far gone unheeded. A meeting will be held on the issue with the EU in June.

Farm products, subsidies, and the exclusion by the EU of about 40% of SA's produce, lie at the heart of disagreements between SA and the EU in talks on a free trade agreement.

Didiza warned SA producers that they should take advantage of the opportunities offered in the Southern African Development Community (SADC) before they were crowded out by multinational competitors.

Funding revamped: Page 13
Food union will march on Parliament to aid industry

BUSINESS EDITOR  AA 18/4/98

The Food and Allied Workers' Union (Fawu) will march on Parliament next week to call on the Government to help the struggling canning industry.

On the same day, April 16, Fawu members will hand in a memorandum at the offices of the European Union (EU) in Cape Town in an attempt to push EU member countries to open up markets to South African canned fruit and vegetables.

Regional secretary William Thomas said the Government had not done enough to protect jobs in the fruit and vegetable canning industries.

Fawu has complained that on the one hand Europe protects its own borders against South African exports, with canned fruit from South Africa carrying duties of up to 21%, while on the other hand European producers flood the South African market with cheap canned fruit and vegetables produced with huge farming subsidies.

"The EU has recently doubled subsidies to farmers in member countries. Here the export incentives have been phased out and we will never be able to compete without help," said Mr Thomas.

Fawu was asking for a cash injection for fruit farmers to help stem job losses in the short term, he said.

The union also hoped the Government would spearhead a drive to find new markets outside Europe for South African canned fruit.
Fawu marchers want job security

Chanting Food and Allied Workers' Union members marched on Parliament yesterday demanding the government take urgent steps to protect jobs in the wine, canning and fishing industries.

A memorandum handed to Environmental Affairs Minister Pallo Jordan urged that in any fishing agreement with the European Union, all boats fishing in South African waters be obliged to fly the South African flag and employ South African crews.

The marchers also handed in a memorandum at the offices of the European Union, urging European countries to open their markets to South African agricultural exports and stop unfair competition from cheap European imports here.

Fawu has criticised the EU for imposing tariffs of up to 21% on imports of South African canned fruit and vegetables, at the same time subsidising European farmers.

The flood of cheap European canned goods on South African markets is threatening jobs, says Fawu.

Langeberg Foods has already laid off 2,000 seasonal workers and 400 permanent workers and up to 4,000 other jobs are under threat, Fawu says.

Fawu has asked the government to keep some tariffs in place to protect the domestic canning industry and to slow the restructuring of the wine industry until measures to protect jobs have been discussed.

Fawu fears that jobs in the wine industry will be lost if the EU succeeds in its attempt to exclude 40% of South African agricultural products from the free trade deal that is under negotiation.
Cadsweep outperforms soft drink, confectionery market rivals

Nicola Jenvey

DURBAN — Industrial food group Cadbury Schweppes gained significant market share in every major sector in which it competed last year, chairman Alan Clark said in the annual report. He said the company outperformed the market in chocolate and sugar confectionery, carbonated soft drinks, squashes and cordials and the ready-to-drink segment.

Cadbury was now “the clear market leader” in the overall chocolate market, adding to its long-established lead in the moulded sector.

Cadsweep grew attributable income 26% to R159,9m in the 53 weeks to January 3, strengthened by higher margins and share gains across the group’s carbonated and concentrated soft drink and sugar and chocolate confectionery markets.

Headline earnings increased to 40,1c (34,5c) and 12,5c (10,2c) final dividend was declared, bringing the total to 16c (13,6c)

Turnover grew 16% to R1,5bn and operating profit increased 17,7% to R166m, indicating the dual effects of share gains in all market segments and higher margins.

Clark said the performance by Chappies and Eclairs was “particularly pleasing”, as they achieved record volumes in a weak market. There was also a comeback by oldest brand Oros.

The first phase of the state-of-the-art moulded chocolate factory in Port Elizabeth, now on stream, would see Cadsweep consolidate its position.

Capital expenditure of R189m last year went into the Port Elizabeth factory, a high-technology chocolate making plant, Durban’s Bromor regional factory, computer software, a concentrate making facility in Windhoek, and lesser replacements and upgrades.
Bakeries feel the heat as loaves found to be underweight.

The SA Bureau of Standards, spurred by reports in The Star that underweight bread loaves were being sold to the public, yesterday checked on three bakeries and supermarkets in central Johannesburg, and only one outlet fully passed the test.

The offenders were told to sell the underweight bread at reduced prices.

SABS spokesman Erno Botes said the bread sold at the OK in Eleph Street met the 800g weight requirement. But the Fontana Kwikspar in Jeppe Street met the grade on white bread only. Loaves of brown bread were underweight by about 50g.

The Butterfields' Bread outlet on the corner of Bree and Joubert streets was selling both white and brown loaves weighing between 625 and 641g.

André van Dalen of the SABS said that although the branch had baked dozens of loaves, the manager had been told that legal steps could be taken if that batch were sold at the usual price.

Van Dalen was pleased with OK, and found similar results at an OK branch in Silverton, Pretoria. He added that the OK bakers used 900g of dough to reach the 800g standard.

The Butterfields outlet in East Lynne, Pretoria, showed almost identical results to its Johannesburg branch.

Van Dalen said moisture had to be considered when bread was tested. Oven-fresh bread would have a higher moisture content and weigh more. He said bakery bread could also lose weight during delivery.

Tests would continue in the coming weeks, Botes warned.
EU aid to exporters hits Langeberg's results

SUPPORT for European Union exports and the uneven competition that this created for food and vegetable processor Langeberg was the main reason for its continued poor results, analysts said at the weekend.

Langeberg's headline earnings fell 40% to R15.3m in the six months to March. Turnover rose 7.6% to R603.6m. Operating income fell by 35.4% to R36.5m. No interim dividend was declared.

SA's R1bn-a-year canning industry has been under pressure as a result of the phasing out of government's export incentive scheme (Gees) in recent years.

Last week, parliamentary hearings discussed government incentives for local exporters, but indications were that stakeholders in secondary agricultural products, like food processing, might not benefit as much as manufacturers from government's Export and Marketing Industrial Assistance which replaced Gees.

Langeberg MD Andries van Rensburg said other reasons for the company's dismal results included pressure on local volumes and resultant high overheads. Prices on international market, which took up 35% of Langeberg's production, were under pressure, mainly due to SA's disappointing deciduous fruit crop last year.

Nonetheless, export prices of SA canned fruit were likely to improve in the next six months due to European fruit crop production problems, he said.
Bakers blasted over light loaves

TWEET GAINSBOROUGH-WARING

Customers are getting a raw deal from many Western Cape bakeries which are supplying loaves lighter than the required 500g weight set for a standard loaf of bread.

The South African Bureau of Standards carried out a major survey of bakeries countrywide to establish whether they were complying with the standard weights set by the SABS. Offending bakeries supplying consumers less bread for the same price could face legal action.

SABS president Eugenie Julies said he believed consumer interests warranted the publication of the names of all the bakeries supplying under-weight bread.

"I also wish to state that, with regard to all compulsory standards upheld by the SABS, I intend taking a hard line on all contraventions negatively affecting consumers.

"This will include instituting legal action against the offender where necessary."

Nine bakeries in the Western Cape have been supplying loaves up to 180g lighter than the required weight. According to the SABS, they are: Sosko, Enterprise Bakery (Cape Town), Sasko (Claremont), Duens, (Boppie), Superior Bakery (Airport Industria), Something Nice (Eerste Rivier), Beverly Bakery (Eerste Rivier), Friendly Grocer (Goodwood), Seven Eleven (Eerste Rivier) and Belrose Bakery (Belhar).
Industrial sabotage stalks cooking oil rivals

GUY OLIVER

East London — Tiger Oats and Unilever SA were embroiled in allegations of industrial sabotage against Coker Oil and Cake Mills, an independent cooking oil competitor, in the Mdantsane regional court this week.

Iqbal Mohammed Soomar, the director of Coker Oil and Cake Mills, appeared in court on Monday to face 12 counts of fraud, 120 of forgery, 120 uttering counts and three of contravening the Customs and Excise Act between 1991 and 1995.

Wilm Opperman, a private prosecutor appearing for the state, alleges Soomar defrauded millions of rands through the abuse of the permit system, established in 1989 for the export and import of unrefined sunflower oil. Oil seed was one of the most regulated agrifood industries, and tariffs on imported oils were lowered only in 1986.

In its court papers, the state alleges Soomar "well knew that the imported oil had not so been exported, therefore not entitling them to any customs duty rebate." Last week's postponement by Soomar's defence team enabled the granting of a Durban High Court order "to preserve specific documents" at the Durban offices of Hamilton Whitton, a private investigating firm that is thought to have provided much of the information for the state's case.

In the Durban court papers, Soomar alleged that Hamilton Whitton and Stephanus Botha, an employee, "were acting at the behest of the applicant's trade competitors, namely Tiger Oats and Unilever SA." Stephanus Botha was the first investigating officer assigned to the Soomar case before he left the police in 1995 to join Hamilton Whitton.

Advocate Renee van Rooyen told the Durban court this week the search last week of the private investigator by the defence team found Botha was in possession of the police docket into the case and a file containing various customs stamps, specimen signatures from foreign custom officers and stencils for custom stamps.

The case was adjourned until June 22.
Eastern Cape broccoli farmers paid out

GRAHAMSTOWN — I&J has paid Eastern Cape farmers out for cancelled broccoli contracts after its February takeover of Pillsbury Brands Africa.

Eastern Cape farmers had been concerned about their futures after the takeover.

Jacobus van Zyl, I&J director and prepared foods division head, earlier said his company would compensate farmers for "loss of profits." Grahamstown vegetable farmer Graham Vroom said farmers had been paid out for "costs as well as a small amount of profit." He said he was not sure how I&J had worked out what compensation was to be paid to farmers.

While some farmers felt the payments made were fair, others did not.

Vroom said some farmers were looking at growing baby carrots and Brussels sprouts for I&J, but this was "very labour intensive" and required special soil conditions. He said there was also talk of another frozen food company coming into the market which might enter into contracts with farmers.

Farmers were "looking for other opportunities," he said.

Vroom said he would "probably go into dairy" and would continue growing vegetables for the local market.

Another local farmer, Stephen Pons, said he was going into pig farming — ECN.
Common factors in food industry mergers

THE JSE's food sector has been active lately. The Del Monte/Delfood announcement yesterday that a European-based food company would buy Anglo's holding in the group followed a string of merger and acquisition news in the sector.

Tiger Oats said last week it would make an offer for ICS; Afribrand and Armato disclosed plans to merge and Premier said it would sell subsidiary Bonnita to Italian group Parmalat. And earlier this year Foodcorp was delisted after a management buyout.

At one level the events seem unconnected, representing more a reshuffle of ownership in the industry than a consolidating of operations. Anglo intended to move out of Delfood for some time. CG Smith holds both Tiger and ICS and it was probably a question of time before it moved to tidy up its portfolio by putting the two together. Premier's sale of Bonnita followed the unbundling of most of the group's non-food interests a while ago.

The food division is now left with the staples businesses - maize and wheat - as well as the smaller fishing and cotton subsidiaries. Many in the market expect these will be sold in coming months. The Premier share has risen recently on speculation that unlisted milling company Genfood could buy the wheat and maize businesses. There is talk, too, that Genfood could reverse this decision itself into Premier, although some market sources believe the complications of Premier's control structure made that unlikely.

One analyst argues that the striking aspect of the string of deals is that no major over-capacity is being taken out of the industry, although there is a chance of this down the line. Others, however, point to a common factors driving restructuring. "Deregulated markets and the power of the retailer are major factors pushing for the industry's consolidation," says one analyst.

"They are all trying to do the same thing - to be low-cost leaders, world-class competitors," says Société Générale analyst John Moses. "But the situation has got to the point where these are not just buzzwords, those who do not shape will not survive.”

SA's retailers have always had a fair amount of clout in negotiating with the food manufacturers. What is new is the consolidation in the retail grocery trade. The absorption of both Checkers and OK into Shoprite means that two (or three, counting Spar) retail chains dominate the market. That increases pressure on the margins of food manufacturers, of whom there are many.

Deregulation, too, is hardly new. The process has been in train for some years, with the impact on all SA's agribusiness sectors, and the competitive pressures have been mounting. Moses estimates, for example, that there is 30%-40% over-capacity in the milling and baking industry.

However, the effects take a while to come, and some companies have been slower than others to respond. Premier, perhaps, exemplifies this. Had it moved to restructure its milling and baking operations early and effectively, the group, once SA's premier food producer, could have survived relatively intact.

Although Foodcorp, also heavily represented in commodities businesses such as milling and red meat, did much to streamline its operations, its performance never sparked. Delisting makes it easier to sort out the problems.

Although management said they would keep the group together, some analysts expect assets will be sold so that the new owners can focus on adding value to the rest.

Tiger is the one big staples producer which did rationalise early, and has retained its position as SA's leading food group.

This partly thanks to a diversified portfolio, which includes branded foods alongside the commodities.

ICS tends to be more commodity-based, in businesses such as red meats, although it also has some branded businesses. The acquisition of ICS, which for the most part is in different businesses to those of Tiger, is not driven primarily by the need to rationalise. Analysts are divided on whether the group will seek synergies in the two common businesses - poultry and fishing. "Tiger CEO Nick Dennis is a good operator who could do a lot with the ICS assets," one analyst said.

Whatever specific factors have driven this round of deals, it is clearly not the end of the action in the food sector.
Confusion as food import controls go

Louise Cook and Paul Vecchiarelli

A TRAIDS and Industry department announcement yesterday, of a decision by Trade and Industry Minister Alec Erwin to lift import and export controls on some foodstuffs, has caused confusion in agricultural circles.

The department will abolish the need for import permits on maize, dried fruit, tomatoes, tomato juice, ketchup, prepared vegetables, jams, fruits and jellies, and export control on coffee.

A statement released earlier today said that import controls would be lifted, but a department spokesman said that this applied only to the quantitative controls and not tariffs.

SA currently has an import tariff of $5/t on maize due to the low world prices.

The maize tariff is formula-based and is triggered by the fall as measured on spot maize prices on the US FOB Gulf price. If the 21-day moving average price moves outside $100/t-$110/t for 14 days, this would trigger a change in import tariffs.

If the Gulf price moving average falls to between $90/t-$100/t, a tariff of $150/t is imposed. The US FOB Gulf price was last seen around $96/t, a three-year low.

The department’s spokesman said the permit system was in place as a monitoring measure and it was being scrapped as a cost control measure.

However, importers would still have to adhere to the tariff rates and comply with the relevant health protocols.

Animal Feed Manufacturers’ Association chairman Louis Wolthers said his impression was that a R25/t import tariff on maize coming into the country was now scrapped in accordance with a recent request from the millers to the Board of Tariffs and Trade, which formed part of the department. This would mean that maize could now again be imported at a zero tariff rating.

SA is experiencing an oversupply of white and yellow maize and many traders said that the tariff was necessary to prevent dumping of foreign-supplied grain.

According to the SA Revenue Service’s customs division, SA imported 87 071 tons of white and yellow maize valued at R69,34m last year.

The National Maize Producers’ Organisation was investigating the statement, while maize traders and they could not believe that the tariff would be scrapped.

The trade and industry department was not available for comment.

SA Coffee Secretariat chairman Aart Jurriassen said the industry was not aware of any export controls anywhere in the coffee industry — I-Net Bridge.
Strike over pay hits city rice mill

Workers at Rice-Tic, a milling and packing company in Paarden Eiland, are on strike over wages and conditions of employment. The strike has been organised by the Food and Allied Workers Union, which says management is refusing to negotiate with the workers.

Union spokesman Sebasta NgcaI said the strike would continue until management agreed to negotiate. The workers, who have been picketing the premises, are demanding a wage increase of R50 a week across-the-board, three weeks’ bonus guaranteed and a heavy duty allowance of R20 a week for workers who carry bags weighing more than 50kg.

Rice-Tic management declined to comment.
Millers concerned over agreement

THE Southern African Millers' Federation

warned yesterday that European Union (EU) action to include wheat flour and other Common Agricultural Policy beneficiary products in a planned Free Trade Agreement could "wipe out the entire flour-milling industry" in southern Africa.

Final negotiations on an agreement started in Brussels yesterday and are due to end tomorrow. Any agreement would be subject to ratification by the EU's 15 member states.
Langeberg cans its rotten results

31/11/98

8,25c, which was unexpected after directors skipped the interim payout.

Yesterday an analyst commented that the higher dividend showed a degree of confidence for the year ahead, but pointed out that earnings for the year under review were still "nearly the same" as levels recorded two years ago. In the year to end-September 1996, Langeberg notched up earnings of 48,7c a share and paid a dividend of 16c.

According to an abridged financial statement released on the JSE's Sensex service on Friday night, headline earnings for the year to September 30 came in slightly higher at 56,6c a share compared to the previous year's 56,3c.

No breakdown for the reconciliation of headline earnings was provided in the statement, but the figure was ahead of market expectations of between 30c and 32c a share.

Langeberg, which dominates the local jam and ketchup market with well-known brands like Koo and All Gold, lifted turnover 5,5 percent to R1,16 billion.

No detail was provided on its exports, which account for over 30 percent of production, but it is understood that exports to the Far East had suffered.

Although no comment was offered on the operational performance, the turnover growth suggests that market share had been maintained. The company said it expected modest growth locally while international prospects appeared favourable.

Langeberg, which is thinly traded, closed 1c down at R2,20 with 4,000 shares changing hands on Friday. The share hit an annual high of R3,30 in January and touched a R1,80 low in June.
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, spirits and fruit juice to that region.
PREMIER FOODS

Weak bosses + strong unions + indifferent shareholders = zero

Ann Cratty

Could it be that the precipitous decline in the recent fortunes of the Premier Group was the result of a deliberate strategy? Surely the application of such expensive management talent could have been rapidly brought to an end; the lives of a company first listed on the Johannesburg Stock Exchange in 1910, unless it was intentional?

And surely, if it was not part of a plan, the untimely shareholders who have effective control of Premier would have taken some action to rectify the situation and thereby protect the value of their investment.

The sad reality for Premier's shareholders and employees is that the group's rapid decline was not the outcome of a planned strategy but the result of a blundering management team that never seemed to get a handle on the problems that plagued the group. This was despite the extensive reorganization that seemed to have become a part of the group's everyday life. In the food division, the restructuring exercises that must have had a detrimental effect on the morale and commitment of the staff who survived each reorganization. Profitability at Premier was made even more difficult to attain by a sweetheart arrangement with the union. To work, those arrangements used skilled management from both sides and a long-term commitment to the welfare of the group.

Whatever the long-term commitment, Premier Group management appears to have been far from skillful, and the Food and Allied Workers' Union (FAWU), which was also experiencing difficulties, appears to have played the arrangement to the short-term benefit of its members.

As it turns out, the highest paid members in the industry, FAWU at Premier was apparently allowed to exert inappropriate influence on head office decisions. The thousands of unionized members got caught between an ineffective, weak management and a short-sighted, powerful union. Many have already lost their jobs. In the months ahead it is likely many more jobs will go.

In his defence it has to be said that when Doug Bland took over as chief executive in December 1984, Premier Group was going through a tough period. Excessively low growth only became apparent several months later with the release of the financial 1985 annual results.

At a presentation held in the spring of 1986, Premier Group directors, many of whom were forced to leave. The 1985 annual report highlighted the company's financial problems and objectives.

"It was the sort of thing that helped prepare shareholders for the group's third rights issue in a decade. Premier's rights issue was first announced in dryer but did not happen until July.

The intervening months were packed with activity. Premier had sold Clicks to Malhouse, and signs of progress at FPH, and Gordon Bland, who had been put in to head up FPH in 1985, was summarily replaced by Ian Heron.

Of course, Premier's problems date back before 1984, perhaps even as far back as 1984 when Associated British Foods (ABF) sold its 20% stake to a consortium including Anglo American and Liberty Life. ABF had brought its stake in the 1960s and, with Joe Bloem, was unestranged in propelling Premier into a dominant position in the local food industry. Its dominance was backed by excellent brand names.

The replacement of a vigorous shareholder with the local firm from a vigorous transnational certainly contributed to the group's decline. In addition, a diversification strategy led by Tony Bland took management's eye off the food ball.

Although the group's bottom line performance was protected by growing margins from non-food acquisitions, few seemed to notice or care about the gradual slide in operating margins in the food division. The deregulation of the bread market in the early 1980s highlighted the difficulty facing FPH, and the fact that its management was unable to cope with change. Desperation dramatically changed the face and operation of the food sector. Some such as Tiger and Hooker relaxed, others such as Gulf food grew Premier went into a catastrophic decline.

There is no shortage of people to blame for Premier's demise, but the fact that even as recently as 1984 it was not inevitable. Stories abound of managerialism seemingly unable to take decisions and when they did, not following them through. Most of the loss-making food assets sold off in recent months are already making small profits or are expected to soon.

The selling and buying operation to be sold to Gordon's National's business has an annual turnover of R4 billion and generates earnings of about R33 million. Analysts and industry sources are uncertain about how well the combined NCL/FPH will do. But few believe the stock won't do better.

It's a strange story of what happens when poor management is mixed with short-sighted trade unions and the circumstances are overseen by indifferent institutional shareholders—thousands of millions of rand and thousands of jobs got destroyed.
Fawu workers march on Nestlé head office

Johannesburg — Hundreds of workers belonging to the Food and Allied Workers’ Union (Fawu) marched to the head office of Nestlé South Africa in Randburg yesterday to protest against the company’s limited severance package offer for retrenched merchandising employees.

“Our package for compulsory retrenchments is two months’ notice pay, pro-rata Christmas bonus, all outstanding leave pay and three weeks’ pay for each year of service up to a maximum of 52 weeks,” said Jacky du Plessis, the corporate affairs manager at Nestlé.

Du Plessis conceded that the 52 weeks limitation would short-change workers who had given more than 20 years of service, for example “The dispute is about the maximum severance package being offered on compulsory retrenchments,” she said.

“IT is unfortunate that Fawu has decided to embark on industrial action as we are in the process of finding ways and means to resolve our differences and to normalise the situation as quickly as possible.”

Fawu is demanding at least four weeks’ pay for each year of service.

Du Plessis said the decision to cut down on staff followed a market survey which indicated a growing trend for weekend shopping that had created greater customer expectations, and that the company “needed to provide a more flexible service, particularly in terms of how we could cater for the increasing number of retail stores.”

In a separate development, thousands of South African Commercial, Catering and Allied Workers’ Union members are expected to march in central Johannesburg today to protest against an Edgars Group wage freeze for the current financial year.
Workers at the speciality seafood division of Sea Harvest in Hout Bay went on an illegal strike yesterday demanding higher wages and the appointment of temporary staff to permanent positions.

They are also upset about shift changes. "Workers have embarked on an illegal, unprocedural strike, outside the law," said a spokesman for Sea Harvest.

The workers have already settled for a 9% increase but want more.

The factory is to operate seven days a week which means that although workers will continue to work a five-day week, some will have to work on Saturdays and Sundays.

"They don't like the idea of working on a Saturday and Sunday," said the spokesman.

The company needed to operate for longer hours and workers would still be entitled to two days off a week, he said.
Exports help I&J's profit leap 51% (18b) (ctshr) 5/2/99

VERA VON LIERES

Cape Town — Irvan & Johnson (I&J), the fishing and frozen food group, netted a 51 percent rise in headline earnings for the six months to December 31 as it continued to benefit from international and export earnings, Roy Gordon, the managing director, said yesterday.

"International markets are firm and we've continued to see strong demand in that area," Gordon said, adding that this was to an extent offset by sluggish local food market conditions. Export turnover grew by 45 percent, while group turnover came in 15 percent higher.

Gordon said he was particularly pleased with the results because the corresponding half-year period had been tough, with margins under pressure from lower consumer spending and a softer economic trend.

There was concern over uncertainty surrounding hake quota allocations, a process still to be completed by the government in terms of new fishing legislation that was introduced late last year. "We remain confident that the government will not make decisions that will result in harmful disruption to an industry that provides substantial employment and foreign exchange earnings," said Gordon.

Late last year I&J announced a new empowerment profile by taking on board Sishumole Investments, the Nkholalanga consortium and Dyambe Holdings.

I&J shares drifted 5c higher yesterday to close at R1.90 on the JSE.

ON COURSE Roy Gordon, the managing director of I&J, says he is particularly pleased with the results because the corresponding period was tough.
Del Monte reaps restructuring fruits as profit rockets 69%

JOHANNESBURG — Del Monte Royal Foods (Delfood) had further consolidated its turnaround with its first full-year earnings increase since 1993, the company announced yesterday.

The food canning and distribution company was beginning to reap benefits from its restructuring, a greater contribution from Europe and continued growth in the Philippines despite the Asian crisis.

Vivien Imerman, Delfood's chairman, said the restructuring had enabled the company to move into the next phase of development through investment in core brands and acquisitions. Headline earnings a share rose 69 percent to 50.7c a share for the year to December 31 from the previous year.

Previous reasons cited for Delfood's past poor performance include an oversupply on world markets of fruit, various currency moves and a tough trading environment. The restructuring itself cost £30 million to implement and was helped by a £25 million sale of non-core businesses. Last year, Delfood tied up with Italian company Carlu when Anglo American sold its holding in Del Monte. Imerman had said the Anglo bureaucracy was constraining.

An offshore listing was a prime objective, Imerman said. He would not specify whether it would seek a primary or secondary listing in the US or the UK, but said "we will seek the greatest flexibility in terms of tapping into international capital markets".

Del Monte is listed on the JSE with a market capitalisation of about R1 billion but about 88 percent of earnings stems from offshore.

Results were much in line with expectations. Earnings a share were 50.7c; analysts polled by Reuters had predicted between 48c and 52c, compared with 24.7c for the 12 months to December 31, 1997.

Turnover rose 13 percent to R8.6 billion and profit rose to R64 million from R330 million. The company turned around its cash flow situation from debt of R132.6 million to a profit of R36.6 million and reduced its debt-equity ratio from 51.6 percent to 48.1 percent.

Headline earnings of Nabisco SA fell from R13 million to R4 million in a "difficult market" and contributed only 2 percent to group headline earnings. Headline earnings of Del Monte Pacific Resources rose from R94 million to R97 million.

In the review period, Del Monte bought Just Juice, the international fruit produce and beverages company. It is now acquiring the majority share of Siam Agro Industry Pineapple and Others (Saco), a leading pineapple exporter in Thailand.

The company edged up 5c yesterday to close at R5.65.
Another District Six tradition crumbles

Sorrow greets impending shutdown of biscuit factory that provided work for generations

SHARREY BIASCO
Special Correspondent

A biscuit factory which provided work for generations of District Six residents, even long after the area was razed by Group Areas bulldozers, is about to close.

The shutdown of the Baumann's biscuit factory on the fringes of District Six will end more than 60 years of service and job opportunities for the people of Cape Town.

On June 30, 280 employees will stop working as full time staff and any remaining work will be done by personnel kept on as temporary employees until the final closure at the end of October.

National Brands, owner of the factory, will continue to service its market in the Western Cape via factories in Johannesburg and Durban.

In the heyday of District Six, about 800 workers were employed at the factory, whose daily aroma of baking biscuits pervaded the area.

But the staff complement was gradually whittled down over the years with the introduction of modern technology. National Brands took over from Baumann's in 1987.

A National Brands statement said the closure of the District Six factory was taking place as part of restructuring and "right-sizing".

As part of the restructuring process, the spices and drinks division was being sold and Willards potato chips had been unbundled as a separate business within the group.

These steps were taken because the business had been through a period of poor financial performance, largely due to depressed consumer demand and structural inefficiencies.

The secretary of the National Union of Operative Biscuit Makers and Packers of SA, Norman Daniels, said 211 Baumann's workers, most weekly paid employees, would go at the end of the month and the remainder, mostly salaried staff, had been asked to stay on until the end of October.

"The closure comes at a time when alternative employment opportunities are, certainly in a specialised industry such as this, almost non-existent and the outlook for the former employees is very bleak."

The chairman of the union's shop stewards committee, Kyeam Benjamin, said: "The closure of Baumann's has had a tremendously traumatic effect on all employees, many of whom have 25 years' service with the company."

"Many are second- and third-generation employees."

National Brands managing director Cliff Stompson said every effort would be made to redeploy staff.

"We regret we've had to take a decision that would be painful for the staff, who have served the company loyally over the years."

"But we are implementing the closure in the interest of long-term growth and financial turnaround of the company."

Bitter taste Baumann's Biscuits workers, from left, Leonard Cleverwater, Shawana Daniels, Peter Luke, Patricia Hems, Brian Saunders, Basger Joseph and Reginald de Villiers

The chairman of the District Beneficiary and Redevelopment Trust, Anwah Naga, said the closure was bound to have an impact on the economy of Cape Town.

"The sad thing is that many former residents of District Six as well as their descendants continued to work there even when they were uprooted to the Cape Flats."

Some worried long-service workers spoke to the Cape Argus on condition of anonymity. Two with more than 20 years said while most workers would not even consider moving from Cape Town to continue working for the company in either Gauteng or KwaZulu-Natal, about 10 had indicated they were interested.
Biscuit union support crumbles at District 6 factory

SHARKEY ISAACS
Special Correspondent

A row has erupted over the plight of 180 seasonal workers at Baumann's biscuit factory, on the fringes of District Six, which is facing closure.

The dispute flared last weekend when disgruntled workers decided at a mass meeting to terminate the mandate of the National Union of Operative Biscuit Makers and Packers of South Africa to represent their interests.

Instead, they gave a mandate to representatives of the Oil, Chemical, General and Allied Workers' Union and the Baumann's Retrenchment Concerned Committee to represent them.

The workers want severance packages for seasonal workers and alternative employment to be arranged for all those retrenched at other companies in the Anglovaal group in Cape Town.

But National Brands, owner of the biscuit factory, refused to meet the new delegation this week.

The company continued negotiations with the National Union of Operative Biscuit Makers and Packers secretary, Norman Daniels.

Mr Daniels said last night his union still represented most members, who gave him a mandate to continue negotiations on their behalf. These had been step by step and the problem of temporary workers was still being ironed out.

Leon Caesar said his oil and chemical union would seek legal means to gain recognition from the company after a membership drive.
Oil dumping threatens 55 000 jobs

Johannesburg - Up to 55 000 employees in the edible oil industry faced retrenchments because of the dumping of imported crude and refined oil and inadequate customs policing, Nola, the edible oil division of Foodcorp, claimed yesterday.

The company said tariff rates for crude oil had hit zero while those for refined oil now stood at R555 a ton.

Because of the dumping, selling prices had dropped from R82 a case in December last year to R43 a case in June and to R38 now.

Jure Welman, the managing director of Nola, said the price was "the lowest in the history of the South African industry" and was costing the company R12 million a month in lost income.

Welman said the industry was looking for protection of R480 a ton for crude oil, R537 a ton for refined bulk and R622 a ton for bottled refined.

He said the department of trade and industry had been slow in responding to the industry's appeals for protection. The department had promised to table a proposal at a board meeting for today, he said.

But Econometrix, the economic consultancy, said obtaining anti-dumping protection was a drawn out process that could not be solved by purely administrative action because local producers had to provide proof of dumping.

Local producers were required to make the trip to the countries of origin of the commodity to establish foreign producer and market prices.

"Local producers have to prove to the Board on Tariffs and Trade that there was material damage to the domestic industries before they could be awarded anti-dumping protection," said Michel Bester, a senior economist and director at Econometrix.

"It's not like the old days. These days (the board) is quite careful and objective. It just does not give tariff protection to local producers because it's a good climate for them to go to government and claim 55 000 jobs were under threat."
Nestle faces strike on agency shop agreement

Smphiwe Xako

NESTLE SA faces a one-day national strike by Food and Allied Workers Union (Fawu) members today in support of their demand for the introduction of an agency shop agreement.

Meanwhile, a wage strike by members of the National Union of Metalworkers of SA (Numsa) at Columbus Stainless in Middelburg enters its third week.

Fawu spokesman, Dumisam Yoyo, accused Nestle of opposing transformation. The agency shop agreement would require all employees, irrespective of whether they are union members, to pay a levy into a special fund administered by the union.

The company said last night it was prepared to introduce an agency shop, with the exception of employees belonging to another union. Fawu's demands include those belonging to minority unions.

Members of the Transport and General Workers Union are to embark on countrywide marches today to protest against job losses. This is part of the Congress of SA Trade Union's programme to defend existing jobs and ensure the creation of new jobs.

Cosatu was due to hold countrywide marches on Saturday, but some did not take place.

BD 8/8/99
`Racism' at Nestlé sparks march today

Johannesburg - The Food and Allied Workers Union (Fawu) said on Friday it would lead about 3,000 of its members through the streets of Johannesburg today to demonstrate against racism at Nestlé South Africa.

At issue was the deadlock over an agency shop agreement which was an instrument of the new Labour Relations Act of 1995 aimed at preventing non-unionised workers from freely benefiting from the struggles of trade unions with management at the collective bargaining unit.

The shop agency agreement achieved this target by forcing non-unionised employees to pay a levy to a special fund administered by the union.

Fawu said a compromise had been reached in 1997 in the bargaining unit, which consisted of job categories 10 to 19 using the Personnel grading system.

Lizo Mzondana, Fawu's national organising secretary, said following the compromise that the union had insisted the agency shop agreement cover all job categories in the bargaining unit.

"Nestlé refused to do so, arguing that management was prepared to apply the agreement only from job grades 14 to 19 because most whites were in grades 10 to 13.

"The company claimed white employees in these categories had skills and could strike and therefore put the company in a difficult position," Mzondana said. "We reject with contempt the naked protection of white privilege at the expense of our members."

However Nestlé said the majority of employees in grades 10 to 13 were "not white."

The company said there was a strong moral argument against an agency shop agreement as a limit to individual choice.

"Fawu's claim does not recognise the choice of workers to belong to a minority trade union," said Dave Julieg, the director of Nestlé South Africa.

"The objective of the agency shop agreement is to discourage free riders benefiting from union negotiations. Workers who choose to join minority, small unions are not free riders."

FRANK NXUMALO 28-1-99
SA's sole liquorice plant receives a major cash injection

Louise Cook

Oudtshoorn 19/8/99

The Dysselsdorp Community

Liquorice plant was set up two years ago to provide a living for the members of the community just outside Oudtshoorn.

Liquorice extract is made at the plant and sold domestically and exported to clients in countries overseas.

"The liquorice plant is an innovative and deserving business with the potential to grow to the advantage of the community and the economy in the region," Klein Karoo Co-operative executive GM Kobus Goosen said.

He said the plant had so far provided just more than 50 jobs for community members, but this could go up as the recent cash injection of a couple of hundred thousand rand is used to improve the financial base of the business. The other contributors were Sasol and the Western Cape government.