MACHINERY AND EQUIPMENT

1990
Dorbyl set for a successful year, says CE

ZILLA EFRAH (8/9)

Dorbyl Limited is well structured for stable growth with its strategic focus on manpower management, overall productivity improvement and the generation of further export business, says CE Dawid Mostert in his annual review.

Growth in export sales is expected to outstrip that of the domestic market, the latter being affected by an anticipated slowing of the economy.

Chairman Florence Kotze says the expected economic downturn in general, and motor vehicle sales in particular, are bound to affect the group's results. However, prospects remain positive because of momentum generated by past measures to improve profitability and generate new business.

In the year ended September, Dorbyl's attributable earnings jumped 40% to R113m (R80m) in spite of an increased tax rate. Mostert expects earnings to show a further improvement this year.

He says satisfactory sales and profits were achieved in seven of the group's nine operating divisions. The heavy engineering and transport products operations achieved improved operating profits after the previous year's losses.

The group has embarked on a programme of modernisation, upgrading and replacement of plant and has also expanded capacity in key areas.

Dorbyl declared a dividend of 100c (77c) for the year to September, up 30% and covered 3.5 (3.3) times, on earnings of 331.4c (351.5c) a share. Turnover rose 21% to R2.8bn (R2.3bn) with operating margins improving to 7.4% (6.2%).

Kotze says gearing at 21.2% (20.1%) remains satisfactory, notwithstanding the capital expenditure amounting to R63m (R56m). The current ratio remained at 1.6:1 and interest cover rose to 6.2 (5.5) times.
Rembrandt puts steel into Dorbyl

By David Carte

DORBYL, reshaped by Rembrandt appointee David Mostert into the model of a heavy engineering company, is looking for increased earnings this year in spite of a gloomy domestic outlook.

Chairman Florens Kotze says in the report for the year to September 1989: “The expected downturn in the economy in general and the motor industry in particular is bound to affect the group’s results.”

However, because this will be compensated for by the momentum generated by past actions to improve profitability in the group and to generate business, prospects remain positive.

Managing director David Mostert is counting on improved productivity and higher exposure to offset the impending domestic slowdown.

He says: “The group’s results are expected to show a further improvement in the current year.”

The five-year track record shows the dramatic benefits of the stewardship of Rembrandt. Dorbyl’s renaissance started under Silver Assaahaan Keith Jenkins. He rationalised Stewarts & Lloyds ruthlessly.

Subsequently, there were other triumphs, such as the acquisition of Barlows heavy engineering division, which put Dorbyl in a class of its own in this field.

The return to health of the motor and engineering sectors in the past three years enabled margins to swell and put the cherry on top of an outstanding half-decade.

Operating income rocketed from R69-million in 1985 to R195-million last year and bottom-line earnings from R16.8-million to R16.4-million.

Profit before interest and tax last year came to roughly 22% of funds employed. That was a respectable return five years earlier, the return was about 9%

Shareholders’ funds in the same time rose from R512-million to R705-million. Debt dropped from R227-million to R152-million in spite of heavy capital spending.

Gearing fell 43.5% to 21.2%

Dorbyl has made tidy profits on land sales for several years. Last year was no exception. Properties worth R10-million were sold, resulting in an extraordinary profit of R4.1-million. That was offset by an extraordinary loss of R4.9-million on the sale of an unamed business.

If there is a depressingstatute in the report it is that the number of persons employed has dropped from 26,099 to 23,371, illustrating a national trend away from people to machinery.

Capital spending last year came to R85-million, excluding the Tosa seamless-tube mill being built together with Iscor at a cost of R99-million.

Dorbyl spent R12-million on modernizing and expanding the roll works at heavy engineering. A like amount is to be spent on facilities for spin-casting rolls.

Dorbyl has traded at a discount to net assets for years. That was because return on assets was so poor. With the share at 2.10c and net assets 2.210c, the discount has nearly been eliminated — a tribute to management.

The share is 5.9 times earnings and yields 4.8%. Barlows is on a PE of 8.2 and Amuc on 8.5, so there looks to be upside in Dorbyl.
THE cost of imported plant and machinery makes it 214% more expensive for an SA industrialist to start a business than his Japanese counterpart.

This figure, from a Federated Chamber of Industries (FCI) study, is set to rise if changes to tax depreciation rules proposed by government are promulgated.

Comparative premiums over the US, Britain and West Germany are 118%, 139%, and 159% respectively.

The figures are based on tax depreciation rules that were changed in favour of the fiscus in December. An effect of the changes will be to increase the premiums quoted even further.

The study, in response to government’s call for comments on an investigation into depreciation policy, is now being used by the FCI to encourage government to reconsider its decision.

Government’s proposal, from the Department of Finance, is to change the tax write-off of plant and machinery from 50% 30% 20% over three years to 20% a year over five years. If promulgated as proposed, the effect will be retroactive.

FCI Fiscal Policy Working Group chairman Bob Cole says “The impact of the higher costs on fixed costs will make it all but impossible for SA manufacturers to become internationally competitive. Fixed costs represent up-front costs, which are impossible to change and apply for the duration of the asset’s useful life.

“Government’s only option is to change fixed costs to make them internationally competitive. Up to now, the chosen policy option has been a continual depreciation of the currency to boost nominal returns.”

BARRY SERGEANT

“This is one of the reasons we need a weak rand - government could never afford to subsidise to that extent.”

The FCI’s econometric model, which uses 18 variables, shows that a piece of plant and machinery costing a Japanese businessman R1m costs R2.1m by the time it is ready for commissioning in SA. The difference comprises, among other things, the import surcharge, import duties, GST and RSC levies.

The largest single addition is R408 000 - the premium on the purchasing-power parity between the rand and the yen. This represents the discount on the purchasing-power ability of SA’s currency occasioned by high inflation, political factors and a weak BoP situation.

When finance costs over 10 years are added to the equation, the cost is R4.4m, representing a 214% premium on the cost to a Japanese businessman.

The FCI model, which estimates averages for changing rates over the 10-year period, shows 16.3% and 4.8% prime and 14% and 1.5% inflation for SA and Japan respectively.

Another reason for the 214% premium is that Japanese tax law allows a 10-year tax write-off of the cost of plant and machinery. The FCI model is currently being updated to reflect the proposed SA changeover from 50% 30% 20% over three years to 20% a year over five years.

The result will be a premium to the SA businessman even higher than 214% The FCI says this will make it practically impossible for SA industry to become a major contender in the international manufacturing arena.
Call to govt on tax depreciation

FCI releases shock data on plant imports

THE cost of imported plant and machinery makes it 214% more expensive for an SA industrialist to start business than his Japanese counterpart. This figure, from a Federated Chamber of Industries (FCI) study, is set to rise if changes to tax depreciation rules proposed by government are promulgated.

Comparative premiums over the US, Britain and West Germany are 116%, 139%, and 159% respectively. The figures are based on the tax depreciation rules that were changed in favour of the fiscus in December. An effect of the changes will be to increase the premiums quoted even further.

The study, in response to government's call for comment on an investigation into depreciation policy, is now being used by the FCI to encourage government to reconsider its decision.

Government's proposal, from the Department of Finance, is to change the tax write-off of plant and machinery from 50% 30% 20% over three years to 20% a year over five years. If promulgated as proposed, the effect will be retroactive.

FCI Fiscal Policy Working Group chairman Bob Cole says: "The impact of the higher costs on fixed costs will make it all but impossible for SA manufacturers to become internationally competitive. Fixed costs represent up-front costs, which are impossible to change, and apply for the duration of the asset's useful life."

"Government's only option is to change fixed costs to make them internationally competitive. Up to now, the chosen policy option has been a continual depreciation of the currency to boost nominal returns."

BARRY SERGEANT

"This is one of the reasons we need a weak rand - government could never afford to subsidise to that extent."

The FCI's econometric model, which uses 18 variables, shows that a piece of plant and machinery costing a Japanese businessman R1m costs R2.1m by the time it is ready for commissioning in SA. The difference comprises, among other things, the import surcharge, import duties, GST and RSC levies.

The largest single addition is R48 000 - the premium on the purchasing-power parity between the rand and the yen. This represents the discount on the purchasing-power ability of SA's currency occasioned by high inflation, political factors and a weak Pound situation.

When finance costs over 10 years are added to the equation, the cost is R4.4m, representing a 214% premium on the cost to a Japanese businessman.

The FCI model, which estimates averages for changing rates over the 10-year period, shows 16.3% and 4.8% prime and 14% and 1.5% inflation for SA and Japan respectively.

Another reason for the 214% premium is that Japanese tax law allows a 10-year tax write-off of the cost of plant and machinery. The FCI model is currently being updated to reflect the proposed SA changeover from 50% 30% 20% over three years to 20% a year over five years.

The result will be a premium to the SA businessman even higher than 214%. The FCI says this will make it practically impossible for SA industry to become a major contender in the international manufacturing arena."
Brokers give nod to thriving Toco

Industrial product manufacturer Toco is set to increase earnings for the year to March 1990 by more than 20 percent, brokers say.

They point out all group divisions operated ahead of budget in the first half-year and that, barring unforeseen circumstances, they should continue to perform well.

Furthermore, the benefits of the management buy-out last May, which saw 20 members of the executive team and associates gain control, have started flowing.

Although the consolidation of the heat treatment companies on the premises of PIH Heat Treatment in Isando is expected to be disruptive in the short term, on-going benefits should include improved service to customers and better operating efficiency.

Toco comprises four broad divisions — fitting equipment, special steels and metal treatment, gaskets, and associated companies.

Less than 10 percent of Toco products are imported, while a full 50 percent are either manufactured by the group or processed before being marketed in value-added form.

Toco has increased its stake in panel manufacturer Vitrex from 24 percent to 40 percent and upped its interest in Premier Chemical from 14.4 percent to 24 percent.

Both these associates are considered to have good prospects.

At end-June, industrial product manufacturer Brandt Components was sold to its management for R3.1 million.

This had no material effect on the net asset value or earnings of the group.

In the six months to September group turnover increased 35 percent from R36.1 million to R51.4 million.

Operating profit climbed a lower 18 percent from R5.5 million to R6.3 million, reflecting faster growth by lower-margin activities.

After the interest bill more than doubled from R311 000 to R630 000, pre-tax profit rose 13 percent from R5.2 million to R5.9 million.

Increased stocks contributed to the rise in interest charges.

A marginally higher effective tax rate resulted in taxed profit climbing 12 percent from R4 million to R4.4 million.

A positive contribution from associates and no profit attributable to outsiders shareholders pushed attributable profit up 21 percent from R3.9 million to R4.5 million.

Earnings per share improved from 6.3c to 7.6c. In line with policy, no interim dividend was declared.

The balance sheet was stronger, with gearing down from 35 percent to 22 percent.

Current assets amounted to two times current liabilities (1.6 times at end-March).

Net asset value increased 15 percent from 61c to 70c.

Toco, priced at 58c, is trading on a P/E earnings ratio of 4.1 and provides a dividend yield of 8.5 percent.

Brokers believe the share to be undervalued and recommend accumulation.

COMMENT: The recent strong rise in Toco's price confirms the start of a long-term bull trend. The high volume of shares traded supports the view that the share price will run up further.
Loading up

Activities: Manufacturing and distributing conveyor belts, power transmission products, pumps, mechanical control systems, valves and iron castings

Control: J H Fenner (Holdings) Plc has 50% of the equity.

Chairman: R A Arthur, managing director

A S T Clegg

Capital structure: 15m ords of 10c Market capitalisation: R2.3bn

Share market: Price 220c Yields 7.5% on dividend, 23.0% on earnings, PE ratio 4.3, cover, 3.1 12-month high, 225c, low, 140c

Trading volume last quarter, 260,000 shares

Financial: Year to August 31

\[
\begin{array}{|c|c|c|c|}
\hline
 & 87 & 88 & 89 \\
\hline
\text{Debt:} & 5.6 & 4.9 & 10.3 \\
\text{Short-term (Rm)} & 0.9 & 3.2 & 3.2 \\
\text{Long-term (Rm)} & 0.30 & 0.29 & 0.30 \\
\text{Debt equity ratio} & 0.49 & 0.47 & 0.46 \\
\text{Shareholders' interest} & 19.9 & 14.3 & 7.8 \\
\text{Int & leasing cover} & 0.95 & 1.25 & 0.34 \\
\text{Debt cover} & & & \\
\hline
\text{Performance} & & & \\
\text{Return on cap (%)} & 18.7 & 21.4 & 23.6 \\
\text{Turnover (Rm)} & 105 & 132 & 176 \\
\text{Pre-nt profit (Rm)} & 10.7 & 14.8 & 20.2 \\
\text{Pre-nt margin (%)} & 10.9 & 11.1 & 11.8 \\
\text{Taxed profit (Rm)} & 5.5 & 7.0 & 9.0 \\
\text{Earnings (c) } & 6.6 & 12.5 & 16.8 \\
\text{Dividends (c) } & 167 & 182 & 217 \\
\text{Net worth (c) } & & & \\
\hline
\end{array}
\]

Fenner's game plan looks straightforward: organic growth is rooted in expanding core operations serving well-defined markets, while acquisition growth will be financed largely from internal resources. The expected effect is that the British parent’s 50% controlling interest will not be diluted, while financing ratios remain acceptably sound.

That is what happened last year. Castings company Trek Engineering was bought for cash and is having its production capacity increased by 50%, financed internally. Trek is expected to supply the castings needed elsewhere in the Fenner group, for example, by the pumps division which until now has sourced products abroad.

Since year-end, Trelleks, which makes wear parts and linings out of rubber, has been acquired and is expected to provide better loadings for Fenner's rubber mixing operations. It also rounds out the range of products for the mining industry.

At present the coal mining industry's demand for conveyor belting is flat, although the directors have assured their confidence in longer-term demand prospects. Whether they will be proved to have jumped the gun with plans to update the conveyor manufacturing plant is another matter — the new plant is expected to meet the company's production needs in the next century, but it might be under-utilised in the immediate future while the coal mining industry remains flat.

Fenner is a beneficiary of the capital spending, which is driving the economy at present, though chairman Robert Arthur is reluctant to forecast a continuation of the growth of recent years. The recent acquisitions should underpin profit growth even if last year's 35% earnings growth is not matched.

Jan Jones
Ozz's management trims Lucem down

BRENT MELVILLE

The recently installed Ozz Management team at Lucem has begun the process of rationalizing its new assets. Ozz announced yesterday it had sold off its motor component dealerships to the Silver group and Carle Acquisitions had concluded the sale of Lucem's 75% stake in Perana Plastics and Talima Plastics.

Last September Gary Zulberg led a daring leveraged buyout of Lucem by a consortium composed of Ozz Holdings and First National Corporate and Investment Bank (First Corp).

Before that deal, Ozz, in which the Zulberg interests hold 65%, had 25% of Lucem, which was jointly controlled by themselves and the Krok brothers. Ozz now holds almost 57% of Lucem, and the restructuring, now under way, will see it increase its stake to 85% of Ozz Industrial, a new company being established to hold Ozz's and Lucem's operating interests. First Corp has bought the remaining 15% in Ozz Industrial.

"We are moving rapidly to concentrate on our key areas, which we have clearly identified as the engineering businesses, the Bruma Lake project and the construction operations," said Zulberg.
Ozz's management trims Lucem down

BRENT MELVILLE

THE recently installed Ozz management team at Lucem has begun the process of rationalizing its new assets. By 1986, Lucem announced yesterday it had sold off its motor component dealerships to the Silver group and Curte Acquisitions had concluded the sale of Lucem's 75% stake in Perena Plastics and Talma Plastics.

Last September Gary Zulberg led a daring leveraged buyout of Lucem by a consortium composed of Ozz Holdings and First National Corporate and Investment Bank (First Corp).

Before that deal, Ozz, in which the Zulberg interests hold 65%, had 26% of Lucem, which was jointly controlled by themselves and the Krok brothers.

Ozz now holds almost 57% of Lucem, and the restructuring, now under way, will see its stake increase to 85% of Ozz Industrial, a new company being established to hold Ozz's and Lucem's operating interests.

First Corp has bought the remaining 15% in Ozz Industrial.

"We are moving rapidly to concentrate on our key areas, which we have clearly identified as the engineering businesses, the Brunton Lake project and the construction operations," said Zulberg. (THE)
Arban's turnover declines

By Ann Crotty

The sale of two operating subsidiaries, in order to focus on mining supplies, was behind the 16 percent drop in Arban's turnover for the 12 months to end-September.

It was also behind the 13 percent improvement in operating income. On a turnover of R20.5 million (R24.2 million), operating income was up to R2 million (R1.6 million).

Earnings rose 7 percent to 4.4c (3.5c) from which a dividend of 1.5c (2c) has been declared.

With effect from October 1969 Malbak has acquired 49.6 percent of Arban. This was to be settled by the issue of one Malbak share for every 24 Arban shares. A similar offer was made to minority shareholders.

In addition Malbak will secure that an alternative cash offer of 35c per Arban share is extended to Arban shareholders.

"On the basis that the cash proceeds of R3.4 million had been invested at 4.5 percent after tax for the year to end-September, the earnings of Arban would have declined from 4.6c to 3c a share. The deal would have increased the net asset value per share from 16c to 35c if it had been effected on September 30."
Turning smoothly

Excellent returns, and more expected by MD Kevin Clarke this year, are establishing for Hudaco the kind of smooth growth profile well loved by investors.

Turnover and operating profit in the year to end-November were 45% and 56% higher. Results of Abrasives Corp, the 50/50 venture with M&R consisting of Norton and Cumar, have been consolidated by the proportionate method.

The bad news is that finance charges more than doubled to R6,9m on borrowings of R60m (R0,9m) at year-end. Net operating assets also doubled, though return on them was only marginally lower. Clarke expects debt to decline this year. The tax rate rose to 32% (28%) and is expected to exceed 40% this year. EPS and dividends were 26% higher. Hudaco has decided not to increase its 2.2 cover despite the shift of its business towards manufacturing.

Hudaco's three historical divisions - Deutz, Dieselpower, bearings and power transmission - contributed 42% (38%), 35% (36%) and 23% (26%) respectively to turnover. Clarke expects rationalisation in

the supply of immigrant engineers started drying up in 1984. "Since then, there has been a net outflow. SA will not become a viable economic entity unless the problem is rectified."

There are other problems. Universities and technikons seem unable to attract sufficient qualified teaching staff. The obvious inference is that standards will drop, unless something is done quickly to remedy the situation. Low salaries may be at the bottom of this problem.

Marcus says there's also a major imbalance between students at technikons and universities. In 1986, 69% of white tertiary education students were at universities and only 20% at technikons and technical colleges.

"While the number of primary and secondary school pupils increased by 5m between 1960 and 1984, enrolment for technical education increased by a mere 110 000 in that period. The scenario gets even worse. Of 100 000 black matric students in the education system in 1988, only 500 passed with high enough standards to study engineering at a university."
ADE planning a major push into mine market

ATLANTIS Diesel Engines (ADE) is planning a major drive to capture a share of the multi-million rand mining industrial market previously catered for by overseas companies.

The plan includes tendering to replace trackless mining equipment previously imported from Germany, the US and Britain for use underground, an ADE spokesman said yesterday.

ADE held sales manager Derek Bowman said it was difficult to put figures on the mining industrial market ADE planned to enter because ADE hoped to supply engines within the power ranges of 85kw to 550kw, all of which had different prices.

ADE produces around 1,400 industrial units annually, most of which go into the production of generator sets, he said.

Bowman said ADE’s industrial engines were competitively priced compared with imported engines.

EDWARD WEST

Replace imports

Whitmore said ADE was ammog ADE’s customers, was an opportunity to import and replace its equipment with original equipment manufacturers (OEMs) in the industry.

Together with Propower, an ADE subsidiary, we intend to develop our relationships with OEMs such as EL

Bateson, Emco, Elgin, Entech, Noyes Cooval, H Davies, Bell and Rightech.

“There is an opportunity for us to replace imports in the region of 1,000 units annually,” he said.

ADE is a subsidiary of the Industrial Development Corporation (IDC).

The IDC said in its recently released annual report that ADE planned to develop new local and foreign markets as the return on capital for the year to June was satisfactory, due to the under-utilisation of facilities.

The IDC said it would be a number of years before ADE would reach the stage where the sale of control could be considered.

During the year to June 1989, ADE commissioned a new R50m V-engine machining centre. There were indications demand for V-engines was exceeding production capacity and attention was being given to further expansion, the IDC report said.
ADE expects sales of R300-m

Over the next five years Atlantis Diesel Engines (ADE) expects to double parts sales to more than R300 million a year, and to increase penetration of markets for new engines.

The after-market is becoming increasingly important as the ADE-powered vehicle park grows, says Wally Rautenbach, ADE marketing and public affairs director. He expects the current 143,000-strong part market to grow to over 225,000 by 1993.

"ADE part net retail sales are thus also expected to increase from over R150 million achieved in 1989 to more than R300 million in 1993."

For ADE's core business — manufacturing quality diesel engines — Mr. Rautenbach says the five-year outlook is in line with independent economists' forecasts of an economy which will mainly move horizontally from now until 1994, with the promise of improvement towards the end of this period.

"In the medium commercial vehicle (MCV) market, retail sales for 1990 and 1991 are projected at 5,500 units for each year, a substantial increase over the 4,500 of 1989. For 1992, we anticipate sales of 5,500 units, rising to 6,000 units in 1993. By 1994, retail sales should increase to 6,500 units. This will represent an overall increase of 33 percent over 1989 sales.

"ADE's penetration of this market sector, where diesel-powered vehicles still compete with petrol-powered units, should also rise steadily from 60 to 63 percent over the next five years."

In the heavy commercial vehicle (HCV) market where ADE has a penetration of 39 percent, Mr. Rautenbach sets 1990 and 1991 forecast industry sales at 9,500 units for each year — Sapa
Hotel workers stage protest and refuse to serve rebel cricketers

War of words on tour prospects

By Michael Shalso

Talks on the controversial rebel cricket tour clashed today on whether the tour

need

Abdul Naidoo, general secretary of the National Sports Congress, said

the rebel tour was already dead. But South African

Union managing director Dr

was countered by saying, "All

ions are for a good tour."

300 protesters — members of the Commercial, Catering and Allied

Union, including hotel workers — demonstrated against the cricketers

Sando hotel yesterday

marched through the Sandton

el and said they refused to serve the cricketers Security person

cre, cooks, maids, doormen

the morning

that some of the personnel on the morn

on the demonstration

the rebel cricketers shrugged off the protest

"We are concerned. We can always find food elsewhere and I'm sure someone will serve

beer somewhere," said Mike Gatting said. "We are all concerned. We can always find

1 to sleep. We can get food elsewhere and I'm sure someone will serve

beer somewhere."

Dr. Bachor, head of the SACU, said there were the "odd few" who

shared their presence in South Africa but "many more" who wel

comed them.

The success of the tour, two con

secutive views were presented.

The SACU remains highly optimistic that the tour will be an outstanding success and will not be shipwrecked

by the actions of anti-tour demonstrators, said Dr. Bachor said yesterday.

Ticket sales were going briskly, morale among the English players was high and their form was outstanding.

"There is a lot of heat in the air at the moment," said Dr. Bachor, "but despite this the morale of the players remains good. They are fortunate to have

and cool leadership in Mike Gatting, their preparation, according to veteran cricket lovers, is the most professional seen in this country for many years.

"That's two points in the tour's favour already. Thirdly, ticket sales around the country are going briskly. In Bloemfontein and Port Elizabeth tickets for the respective one-day Tests are expected to be sold out by the end of the week. In Durban, people were queuing yesterday at 5am and by the close of business 5,000 tickets had been sold."
Smith Mining reaps rewards of re-organisation

MINING equipment distributor Smith Mining has reaped the rewards of a year devoted to consolidation and re-organisation.

Earnings a share for the year to end December climbed a healthy 32% to 19,6c (14,9c) a share, with the dividend outlay of 8,5c (5c) keeping pace.

Analysts say the results could push the share up slightly.

The current share price of 75c offers a P/E rating of 3.8 and a dividend yield of 8.7%.

Trading profit for the group increased 19% to R3,6m (R2,7m) on an 18,4% rise in turnover to R45,8m (R38,7m).

After absorbing an interest charge of R210 000 (R27 000) and a foreign exchange loss of R252 000 (R123 000), pre-tax income was left at R7,5m (R6,6m).

However, a reduced tax rate of 35,4% (44,8%) took R2,7m (R2,9m), resulting in a 34,3% rise in attributable income to R4,9m (R3,7m).

Borrowing

On the balance sheet the current ratio increased to 2.31 (1.91), with cash resources increasing to a much more healthy R2,3m (R103 000).

Long-term borrowing dropped to R629 000 (R1,4m).

Executive chairman David Stevens said all divisions and subsidiaries performed well, with Adamat Diamond Products, Specialised Drilling Equipment and Hotline Equipment showing “outstanding” results.

“The results of Specialised Drilling and Hotline are particularly pleasing in view of the fact that the success of these companies, acquired in 1988, reflects well on management and its ability to turn companies around,” he said.

Stevens said the group would be looking to a dramatic growth in exports this year after a substantial increase in export sales during 1989. He added that management was now in an excellent position to look for suitable acquisitions.
Activities: Manufacturing mining equipment and plastic products
Control: Directors 44%
Chairman: P. Farthing, CEO N.G. Parry
Capital structure: 52,11m ords, 6,02m unsec auto conv debs. Market capitalisation: R6,8m
Share market: Price 13c Yields nil on dividend, 30.5% on earnings, PE ratio, 3.3 12-month high, 25c, low, 12c Trading volume last quarter, 1,4m shares

<table>
<thead>
<tr>
<th>Year to Sep 30</th>
<th>98</th>
<th>99</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST debt (Rm)</td>
<td>45,5</td>
<td>18,9</td>
</tr>
<tr>
<td>LT debt (Rm)</td>
<td>12,0</td>
<td>10,1</td>
</tr>
<tr>
<td>Debt equity ratio</td>
<td>1,9</td>
<td>1,0</td>
</tr>
<tr>
<td>Shareholders' interest</td>
<td>0,10</td>
<td>0,25</td>
</tr>
<tr>
<td>Int &amp; leasing cover</td>
<td>0,52</td>
<td>1,66</td>
</tr>
<tr>
<td>Return on capital (%)</td>
<td>1,7</td>
<td>13,4</td>
</tr>
<tr>
<td>Turnover (Rm)</td>
<td>326,7</td>
<td>278,3</td>
</tr>
<tr>
<td>Pre-int profit (Rm)</td>
<td>2,7</td>
<td>14,5</td>
</tr>
<tr>
<td>Pre-int margin (%)</td>
<td>0,8</td>
<td>6,5</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>(7,7)</td>
<td>4,0</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>nil</td>
<td>nil</td>
</tr>
<tr>
<td>Net worth (c)</td>
<td>10,9</td>
<td>13,3</td>
</tr>
</tbody>
</table>

needed to haul subsidiaries out of the red, chairman Peter Farthing tells shareholders little about what has been and what remains to be done. He makes do with highfalutin waffle about the "clay of adversity" and generalisations about SA's political and economic state.

Dicor owns 61% of Dango, an intermediate holding company, and its chairman, Neville Parry, reports that most of the unlisted operating subsidiaries not held by the listed companies have been sold or closed. This leaves Dango with 86% of packaging company Plastall and 56% of Dancet Mining Supplies.

Plastall claims gains in market share and improved productivity following its restructuring. Turnover rose by a comparatively small 13%, which parlayed into a 42% operating profit increase to R4,3m. Its earnings rose to 22c from 12,6c, but no dividend has been declared.

Plastall is already feeling the squeeze affecting others in the packaging sector as consumer spending curbs and some poor agricultural crops cut into the demand for packaging. Margins are likely to be squeezed this year, though there are plans to diversify to reduce the exposure to packaging.

Dancet Mining is still troubled by loss-making or underperforming subsidiaries, despite closures and amalgamations. The directors provide next to no information about trading conditions, though these look particularly difficult judging from last year's 5,7% turnover increase to R205m. Still, Dancet improved its pre-interest margin to 4,9% from 1988's 3,9%, even though mining industry customers continued to count the cents when buying equipment. Farthing gives no indication of whether dividend payments are expected this year, but while the restructuring continues, retentions are likely to be favoured. For now, the shares of both the holding companies and subsidiaries are best left to investors gambling on recovery situations.
Astas to spend R30m

AS TRANSMISSIONS & Steerings (Astas) is going ahead with a R30-million expansion scheme.

Astas is the biggest manufacturer of heavy-vehicle transmissions, axles and steering systems in SA. The project will increase the range of SA-made equipment and reduce dependence on imports.

Ray Coldridge, executive director, marketing, says "The expansion holds advantages for the heavy-vehicle industry, which is facing the demands of the Phase VI local content programme."

It includes the construction of a 10 000m² factory to augment the existing plant, established in 1981, to make gearboxes and steering systems under licence from West Germany's ZF and MAN.
Dicor says subsidiaries recovering

BRENT MELVILLE

Dicor Industrial Corporation (Dicor) MD Rob Wenteler said yesterday the group was "taking its medicine" and its struggling subsidiaries Plastall and Dancer Mining Supplies were now well on the road to recovery.

He was responding to complaints from shareholders at yesterday's AGM at group companies' health and that the group was struggling under high borrowings and "unacceptable" financing costs.

Chairman of Dansco (61% held by Dicor) Neville Parry told shareholders that as part of the group's rationalisation and restructuring last year, most of the operating subsidiaries outside the 36% holding in Plastall or the 51% in Dancer Mining Supplies had been sold or discontinued.

The sales led to a decrease in turnover for the year of 16% though operating profit improved by 31% to R14.8m (R11.0m) and net financing costs surged by 19% to R7.9m.

Dancer Mining Supplies, labouring under its loss-making subsidiaries, contributed 68% to group operating profit with Plastall adding 30% (27%).

Wenteler said that Dancer Mining Supplies had come under increasing pressure on its margins during the year.

Restructured Plastall posted a rise in operating income of 42% to R4.3m.

There was pressure on margins over the past several months and profits at the interim stage would be lower than last year.

Plastall was still going through with the acquisition of Gundle Plastics from Consol, expected to add R1m to pre-tax profit for the year.

Restructuring was designed to improve profits and kick-start the group's recovery. He declined to say when there might be dividends.
Landlock slips into a decline

AFTER Landlock's improved first-half performance, when earnings of 2.7c a share (from a loss of 5.6c a share) were achieved, its December year-end accounts show the group has again faltered. A pre-extraordinary loss of 2.8c a share (5.8c profit) has been recorded, which falls to 4.2c a share (7.8c loss) after the deduction of extraordinary items. This is attributed by MD Richard Newby to the closure of the Automotive Products central distribution warehouse.

In addition, industry sources say it seems likely Landlock's British-based parent, BBA, will bail out the struggling automotive and engineering products manufacturer. BBA MD John White last year assured shareholders Landlock would not be sold. However, industry sources say "negotiations" aimed at resolving Landlock's high gearing are possibly linked to a pullout. Landlock is geared at a far-from-healthy 121% (94%).

Newby refuses comment on the possibility that BBA might sell its 57% holding. He says only that the cautionary - published today in tandem with the results - could be linked either to a sale or recapitalisation. Sources say BBA will gain nothing by holding on to its controlling interest in Landlock, which declared no dividend for the fifth year in succession and is now R1.3m in arrears on its preferred ordinaries.

Although operating profit was up by 13.3% to R5.2m (R5.4m) on an equal rise in turnover to R18.4m (R15.8m), interest charges of R5.7m (R4.1m) and extraordinary items of R353,000 (R2.5m) converted the bottom-line figure into a loss of R766,000 (R1.4m).
HUDACO 23/3/90

Critical mass (189)

Activities: Makes diesel engines and abrasives, distributes these, bearings, and other engineering consumables

Control: Directors hold 16%

Chairman: B McInnes, Group CE K Clarke

Capital structure: 22.7m 10% Market capitalisation R280m

Share market: Price 1100c Yields 4.4% on dividend, 9.8% on earnings PE ratio, 10.3, cover, 2.2 12-month high, 1 125c, low, 650c

Trading volume last quarter, 377,000 shares

Year to Nov 99 '98 '97 '96
ST debt (r$m) 1.0 1.4 1.6 1.9
LT debt (r$m) 4.0 4.4 6.0 10.0
Debt equity ratio 0.40 0.42 0.52 0.83
Shareholders interest 0.40 0.42 0.52 0.83
Int & leasing cover 1.14 2.07 1.7 1.1
Return on cap (%) 18.4 26.0 19.8 20.0
Turnover (r$m) 155 203.4 262.1 364.7
Pre-tax profit (r$m) 16.3 22.2 27.8 35.6
Profit margin (%) 10.5 9.6 9.1 11.9
Earnings (d) 20 28 28 48
Net worth (d) 132 150 192 168

* On basis of proportionate consolidation of 50% holdings

Textbook management of Hudaco has prompted analysts to watch it closely evidenced by a packed audience at a presentation of the annual results by CE Kevin Clarke recently. If Clarke meets his forecast of real earnings growth this year, Hudaco's credibility will be further advanced

Clarke says Hudaco has reached a "critical mass" which should sustain its momentum in 1990. Last year, it acquired Norton Abrasives, merged in July in the 50/50 Abcor venture with M&R; and 66% of Angus Hawken, SA's largest maker of oil seals. These cost R307m cash and issue of 2m shares for R14.7m. The cost is being borne in 1989 and 1990, but some benefits should begin to flow this year. The annual report shows that the acquisitions resulted in only marginally higher EPS last year.

Turnover and operating profit rose 45% and 57% respectively, but 136% higher finance costs and tax at 32% (28%) cut back the attributable increase to 31% and the EPS rise was 26%. Gearing rose sharply to 0.43 (0.02), though Clarke says it will be lower by year-end. The tax rate will exceed 40% this year.

Abcor's results are consolidated by the proportionate method. Clarke says showing it as an investment would have resulted in a large part of Hudaco's business being dismissed in a few lines.

Group sales last year were split between Deutz 37%, bearings 31%, power transmission 20% and the half share of abrasives 12%.

Deutz's contribution was consolidated by the proportionate method until end-September, when Hudaco's stake was raised from 50% to 70%. Deutz increased its turnover 40%, after a 90% increase in the 1988 year, and local content rose to 70%. Price cutting in bearings subsided, influenced by a world shortage. Hudaco says some competitors imported low-quality bearings in response.

The acquisitions contributed to a large increase in capital employed and stocks. Reflecting an increase in manufacturing activities against distribution, net asset turn declined to 3.4 (3.6).

Chairman Bruce McInnes says Hudaco's strategy is selective backward integration into manufacture of products which Hudaco already distributes. But the group remains primarily a distributor and does not plan large acquisitions in manufacture. This accords with the strategy of raising the local content of its supplies from about 25% a few years ago to 50%. Last year, 35% were from local sources, of which much was made by Hudaco.

Hudaco wants to focus this year on organic growth, extending geographical coverage in diesel engines and bearings and further increasing local content.

Directors held 25% of Hudaco at the 1988 year-end, but have reduced their holdings to 16%. Clarke says most had virtually all their wealth in Hudaco and wanted to pay off related borrowings. Liberty Life has the next largest holding at 12%. The spread of control might prompt a takeover bid sometime. The share now yields well below the average for
Slow rise

Activities: Sells, manufactures, refurbishes, erects and services elevators and escalators

Control: Otis Elevator (US)

Chairman: A M D Grodde, MD P D Bredenbeck

Capital structure: 17m ords Market capitalisation RB7.3m

Share market: Price 340c Yields 13.2% on dividend, 15% on earnings, PE ratio, 6.6, cover, 1.1 12-month high, 350c, low, 280c

Trading volume last quarter, 227; 224 shares

Year to Nov 30 '86 '87 '88 '89

ST debt (Rm) 0.1 3.6
LT debt (Rm) 0 0.05 0.35
Debt equity ratio n/a n/a n/a 0.2
Shareholders' interest 0.1 0.48 0.37 0.35
Debt cover n/a n/a n/a 2.0
Return on cap (%) 52 61 51 46
Turnover (Rm) 60.2 65.4 72.0 91.8
Pre-int profit (Rm) 13.8 14.6 16.4 17.2
Pre-int margin (%) 22.9 22.8 22.8 18.7
Taxed profit (Rm) 7.2 7.3 8.0 8.7
Earnings (c) 42.2 43.2 47.2 51.0
Dividends (c) 42 42 42 48
Net worth (c) 22.9 66.2 71.4 77.5

In both 1988 and 1989, Otis exceeded its planned order intake. And in both years, according to chairman Drury Grodde, the company improved its share of the market for new elevator and escalator installations. A pity, though, that the trend from high-rise to low-rise buildings in the construction industry has once again seen only a limited advance in the company's bottom line.

Intensely competitive

From 1986 to 1989, taxed profits moved from R7.2m to R8.7m, a compound annual growth rate of 6.6%. In real terms, therefore, the company has not been growing. An industry source confirms that the market is not growing faster than inflation in volume terms, but says that it is doing so in rand terms. According to this source, the number of lifts sold annually over the past three years has been more or less constant.

That means Otis must seek growth from maintenance, repair, refurbishment and servicing activities. This business, according to Grodde, is intensely competitive. Asked why the group's margin slipped below 20% last year, Grodde says that nearly all business is done under contracts, of which some are long term and do not include escalation rates that match inflation. When these contracts fall due for renewal, he says, competition makes satisfactory profit levels difficult to maintain.

Return on capital, though high, has dropped for the past two years. Also, short-term borrowings have appeared in the form of a R3.6m overdraft. It appears the debt was needed to fund the large increase in accounts receivable, which jumped from...
70 striking workers held after city demo

By HENRI DU PLESSIS
Staff Reporter

POLICE arrested about 70 striking workers from an Epping toolmaking company today after a demonstration outside their union offices in Corporation Street, Cape Town.

A union representative said the workers of Neill Tools went on strike when management refused to continue bargaining about working conditions and called for industrial council intervention.

The representative said the workers belonged to the Steel and Engineering Workers' Union.

The workers opposed the intervention of the industrial council and went on strike, after which about 100 were dismissed.

The union spokesman claimed the workers were on their way to the union office to discuss further action when they were arrested.

But witnesses said the workers held placards, and sang and shouted slogans in the street outside the building.

A number of police vehicles arrived and after warning the demonstrators to disperse, police made the arrests.

Policemen warned Press photographers not to take pictures. A policeman told union representatives the workers would be taken to Caledon Square and charged.

A spokesman for the company's head office in Johannesburg was not available for comment.
T & N (UK) bids for US company

UK AUTOMOTIVE components, engineering and industrial group, T & N plc is to make a $190m cash tender offer for J P Industries (JPI), which is based in the US.

JPI manufactures and supplies automotive components to the North American and European markets.

The group's annual turnover amounts to $400m, of which 84% is generated in North America. JPI's product range consists primarily of plain bearings, gaskets, piston products and camshafts.

T & N chairman Colin Hope notes that the world vehicle manufacturing market is becoming increasingly concentrated in the hands of US and Japanese based manufacturers, which continue to establish manufacturing plants in the major vehicle markets.

It is expected that these customers will require standardized automotive component manufacturing support from factories close to their own regional manufacturing facilities.

Hope says that T & N is well-positioned in Western Europe, and the acquisition of JPI will enable T & N to supply these customers in North America.

T & N controls SA based T & N Holdings, which is also involved in the automotive components industry.

It appears that this acquisition will have little impact on the group's local operations.

But it does strongly suggest that overall group strategy, both locally and overseas, will be to remain highly involved in the automotive components business.

Unfortunately for JSE-listed T & N, that industry is proving very unpopular at the moment judging by the price action of Midas, Sapraco and Fleshmans which have all established new yearly lows within the past month.

T & N is managing to remain above its December 1989 low of 530c, but the share appears extremely weak.

T & N last traded in early March at 620c, but buying interest in the group has been virtually non-existent since.

This has resulted in sellers lowering their expectations, and the seller price has been falling.

At the close of business on Thursday, T & N was being offered at 575c, or 6c below its last traded price.

Earnings for the year ended December, 1988, declined to 69.3c from 87.7c during the previous 12-month period. Although directors anticipate that 1989 will be a difficult trading year, they are confident of producing improved results.
Bearing Man's performance has analysts baffled

BRENT MELVILLE

THE performance of fast-growing engineering group Bearing Man for the year to February should not disappoint a market grown accustomed to a five-year annual compound growth rate in earnings of 97%.

Operating income for the importer and distributor of ball bearings and power transmission products grew by a hefty 80% to R16,4m (R9,1m) on a substantial 66% hike in turnover to R26,4m (R16,2m).

However, the high cost of growth was reflected in finance costs which leaped by 128% to R3,3m (R1,5m) on borrowings of R26,4m, leaving net operating income at R13,2m (R17,7m).

The still inordinately high effective tax rate of 49% slashed off a further R6,5m (R3,7m).

After accounting for an extraordinary item worth R480 000 relating to a purchase premium on several small retail distribution outlets, attributable income was left a still healthy 69% up at R6,5m (R3,9m).

Performance

Earnings were up to 132c (60c) and a final dividend of 28c (20c) was declared, bringing the year's total outlay to 49c — covered 3,3 (4,0) times.

Ahead of, and despite expectations of good results the group's share price dipped 20c last Friday to 475c. The performance puts it on a p/e of 2.6 times and a dividend yield of 8,4%.

Analysts said on Friday that they could not understand the drop. "The share is already undervalued — especially when compared with Bearing Man's listed competitor Hulaco — currently at 1075c a share," said one.

The group's gearing is at a high 160% (80%) with the current ratio down to 1,21 (1,41). NAV rose to 385c (228c) a share. Chairman Reg Sherrell attributed the increase in debt to working capital and infrastructure requirements.

He said, however, that while he was comfortable with the level of gearing he hoped to get it down to under 100% by year-end.

"We carry a lot of stock due largely to the fact that virtually all our product is imported — most from Japan," he said.
They still make supersonic jet fighters and helicopter guns, at the Atlas Aircraft Corporation at Kempton Park. Nowadays, however, there is a new production track in operation — which shows more concern about private motors than combat commanders.

Atlas’s neighbouring associate company, Telcast, which manufactures jet-engine turbin blades, is using its high-tech prowess to improve passenger car performance on South African roads — better turbo engines and better fuel systems.

The results of research and development programmes will be handed over to the motor manufacturers themselves once they are perfected.

Another Armcor off-shoot, the Institute for Maritime Technology, based at Simon’s Town, was originally assigned to develop fool-proof new underwater acoustic/solar systems to guard South Africa’s coastline from intruders.

Treasure chest

The new technology is now being used by trawlers to search for elusive fishing shoals. It is also being used by a private exploration company to search for treasure chests of gold and diamonds off the Atlantic coast.

The behemoths at two more Armcor operations, Kentron and Elektro, developed new weird and wonderful high-tech systems to steer guided missiles with deadly accuracy in bush warfare.

Now a hard look is being taken into using the identical high-tech know-how to clear the decks for South Africa to make its debut as a manufacturer of microwave over — and in the process save at least R300 million a year in import bills.

Kentron and Elektro also made new scientific breakthroughs with night-vision devices that can multiply the power of moonlight or starlight 40,000 times over to spot night raiders.

The system has now been used by a private team of wildlife experts in the Kruger Park to take the first photographs on record of the rare and elusive night-hawk, which has until now tantalised the experts as impossible because the birds take wing only under the cover of complete darkness.

Square-eyed box addicts can thank Armcor technology, crossing the problem of frequency hopping among mysterious wave-bands, for the detectors that bring Mr Net problems.

The precision engineering developed by Armcor is even being used to design and manufacture thinner and better and cheaper beer cans.

Armcor is digging into the mountain of high technology it has amassed in becoming the biggest armaments producer on the continent for use in less martial roles.

And the potential to boost the high-tech capabilities of the entire industrial sector is seen by economists as tremendous — at a moment of growing nervousness that sanctions, boycott and disinvestment threaten to leave South African manufacturers trailing further and further behind as giant strides are taken by overseas competitors.

Behind the scenes, Armcor has already leaked to the private sector whole chunks of the high-tech know-how that has been built up in years of isolation, that forced it to create a sophisticated armaments industry on its own.

The system has occurred as fewer than 975 outside companies have been engaged in the war machine by sub-contracts to manufacture components.

“Naturally, SA, like virtually every other country on earth, will continue to maintain an effective defence mechanism and remain an arms producer,” says an Armcor insider.

But recent peace settlements around our borders are almost certain to reduce the pressure on Armcor production lines — as made obvious in the scaling down of operations that has been started.

“Now the high-tech that has been collected and groomed— laser beams and fibre-optics to electronics and metallurgy can be ploughed into the broader industrial base.”

What now has to be decided is precisely how the future of Armcor should be shaped and where new lines should be drawn between Armcor and the private sector.

The conversion of swords into ploughshares gives the South African industrial sector a brand-new view about the economic outlook.

“Until lately, there may have been worries that South Africa was going to be left behind in the world-wide race in high technology,” says Mr Ron Haywood, deputy director-general of the SA Chamber of Business.

“Because of a blanket of secrecy, most South Africans were largely unaware of what was going on behind the scenes now everyone is learning that Armcor has stayed in pace if not by choice then by sheer necessity.”

Major priority

“Naturally, South Africa, like any other nation on earth, must maintain a sound defence system and one expects Armcor to stick with armaments as a No. 1 priority.”

The value the high technology and research and development has been injected into the process can now begin to be counted in millions and perhaps billions of rand a year — a super launch pad for a new South Africa.

There may also be valuable lessons that can be passed on to exporters.

Armcor, running the gauntlet of the worst of all the political flak, now counts sales successes in no fewer than 25 overseas markets, against some of the sharpest competition that can be imagined.

Despite the odds, it now stands as No. 1 earner of foreign exchange among all South Africa’s exporters of manufactured goods.

Mr Hemedo-Roemer Hatman, a defence analyst and SA correspondent of the authoritative Jane’s Defence Weekly, said: “The process of building up an armaments industry has brought South Africa an impressive research and development infrastructure.”

“Ours has to be harnessed to drive technology in civilian applications.”

“And that can be done with out damaging the country’s ability to provide for South Africa’s defence — it will only take some imagination.”

Armcor has possibly amassed the most advanced high technology know-how in Southern Hemisphere in building a super empire. Now, with the prospect of peace settling on SA’s borders, its operations are being scaled down — and all the high-tech may be a bonanza for manufacturers in the private sector.

MICHAEL CHESTER reports.

Mr Ron Haywood, deputy director-general of the SA Chamber of Business.
Growing wings

Major strides in local aircraft manufacture, avionics and design, development and production of aircraft parts and accessories were highlighted at this week's biennial Aviation Africa show at Rand Airport in Germiston.

With 55 companies exhibiting, the four-day, 30-aircraft show particularly underscored developments in avionics (aircraft electronics) and aircraft manufacturing and maintenance.

Peace in southern Africa is not only opening up export markets for locally developed aircraft technology, designed for African conditions. It is also making the expertise SA developed to circumvent the arms boycott available for civilian applications.

"A major upswing for the aviation industry is expected in southern Africa as a result of SA's improving relations with countries to the north and its more liberal air service policy," says Cor Beek, executive director of the Commercial Aviation Association of Southern Africa.

Unveiled at the show was a prototype of the first composite material, six-seater, utility aircraft, the "Eagle," produced by Ermelo-based Celair. Designed, built and tested locally in conjunction with the Council for Scientific and Industrial Research's division of Aeronautical Systems Technology division (Aerotek), the Eagle sells for about R400 000 and is suited for African conditions.

"Certification with the US Federal Aviation Administration and SA's Division of Civil Aviation should take about 18 months, after which we can go into commercial production," says Celair MD Peter Celliers.

"The Eagle's composite material design follows the process successfully tried in the Celstar GA-1 aerobatic glider built last year."

Dubbed the "flying bakkie" by Beek, the Eagle should meet demanding African requirements by being able to land and take off on short, rough bush airstrips. It also performs well at high altitudes, at speeds ranging from 72 km/h to 290 km/h. According to Celliers, the operating flying distance is about 1 400 km.

Assisting in the testing and development stages, Aerotek offered its sophisticated wind tunnel and other facilities previously used to help Armscor break some aspects of the arms boycott against SA.

"We have been promoting the local aeronautical industry for the past 18 years, but now things are really starting to move," says Aerotek marketing manager George van der Merwe.

Aerotek already handles more than 300 contracts a year and is active in the electronics, theoretical dynamics and the mechanical fields. Last year, a carbon-composite aircraft wing for a propeller-driven aircraft was completed. "We are looking for partners to industrialise the ready technology in this field," Van der Merwe says.

The division has also developed an expertise in the turbine field, though Van der Merwe does not see local manufacturing soon. But in related fields, such as radars, laser technology and electro-optics, he says SA could soon start moving into niche markets.

For example, Barcom Electronics is now targeting the export market with its new R10 000 light aircraft transceiver. Performance Aviation's new 50-watt aeronautical base station — used by air traffic controllers — could also make inroads into markets in South America and eastern and western Europe.

Decca, Aerial Support, Aero Services, Aircraft Parts Manufacturing and Design, Associated Industrial Suppliers, Crusader Aerospace and Field Aviation are some of the other local names that could make an impact on this industry overseas in the years ahead.
Flemingo forms Jarocom

Flemingo group chairman Keith Fleming has announced the formation of Jarocom by combining two subsidiaries, Jarman Mining & Construction Supplies and Clover Compress Air Services.

Brian Jarman and Mervyn van Reenen have been appointed joint managing directors of Boksburg-based Jarocom; which will sell Airman mobile and stationary compressors as well as crawler drill rigs and allied equipment.

Jarocom is looking at an eight to 10 percent share of the R80 million a year compressor market.
Good swap

Activities: Manufactures and distributes industrial and mining products, chemicals and plastics and automotive components

Control: T&N Pte 51%

Chairman: C F N Hope, CE M C Prentis

Capital structure: 23.1m ord. Market capitalisation: R136m

Share market: Price 600c Yields 5.2% on dividend, 11.6% on earnings, PE ratio, 8.7., cover, 2.2 12-month high, 960c, low, 530c Trading volume last quarter, 338,000 shares

Year to Dec 31

| ST debt (Rm) | 19.3 | 12.7 | 30.4 | 60.6 |
| LT debt (Rm) | 7.8 | 17.5 | 16 | 39 |
| Debt equity ratio | 0.34 | 0.27 | 0.38 | 0.77 |
| Shareholders' interest | 0.85 | 0.16 | 0.53 | 0.40 |
| Inc. & leasing cover | 6.3 | 8.4 | 4.5 | 2.3 |
| Return on cap (%) | 15.5 | 26.6 | 14.3 |
| Turnover (Rm) | 130 | 145 | 126 | 391 |
| Pretax profit (Rm) | 16.3 | 20.8 | 26.2 | 36.8 |
| Pretax margin (%) | 15.4 | 14.2 | 11.2 | 9.4 |
| Total assets (Rm) | 28.1 | 27.8 | 18.7 | 69.3 |
| Dividends (c) | 19.6 | 34.5 | 44 | 31 |
| Net worth (c) | 271 | 435 | 433 | 389 |

Despite the economic squeeze and difficult conditions in the automotive parts market last year, T&N's swap of Everite for Asseng's shares has been advantageous. Everite's earnings slumped last year while those of Asseng were much higher.

The directors say the R54m purchase price for the Asseng holding was fair considering Asseng's results. Asseng's income attributable to T&N was about R10m, so the p/e was 5.4. Still, T&N's balance sheet took a knock. The sale of the 25% stake in Everite resulted in a loss of R15.1m, which was written off in 1988. The proceeds were used to acquire the 76% holding in Asseng from parent company, T&N Pte, but the price included goodwill of R19m.

A big dividend paid in commercial by Asseng to T&N Pte in 1987 ensured that its reserves were plundered in the best colonial style.

T&N's directors say there are now insufficient non-distributable reserves to write the R19m off. So, in line with the group's normal policy, goodwill is simply being held unaudited on the balance sheet and will be written off after asset revaluations in 1991 and 1992. If goodwill is excluded, net worth fell 10% to 389c, where it is 35% below the share's current price.

T&N's low dividend, historically, has been criticised on the belief that the British parent's milking exercise continues. T&N also makes no provision for deferred tax or inflation. The ill effects of low cover is seen in the doubling of gearing last year, though it was also raised by R34m in capex, doubled stocks and 55% higher accounts receivable. Figures are not truly comparable because Asseng was not part of the group in 1988.
Weighty air order

One of the world’s largest air separation units, destined for the Messag project, is under construction at Stemauller’s subsidiary SA Linde in Vanderbijlpark.

The plant, designed by Linde TVT in West Germany, costs about R17.5 million and consists of 16 vessels. It includes 22m by 5.5m spray coolers weighing 116 tons each.

To complete construction, the factory has been divided into two sections — one for the manufacture of carbon and stainless-steel vessels and the other for aluminum.
US company to enlarge operation in Boksburg

US-BASED Baker Hughes Inc said it would increase its SA operation, with an eye on export markets, by producing a new range of products at its factory in Boksburg.

John Alich, president of the company's mining tools subsidiary, said the new range would help keep production costs to the mining industry down.

"The skills and expertise are available in this country to do a first-class job. "The local company has even been engaged in significant export contracts for not only countries in Africa but other parts of the world," he said.

Alich gave no details of the size of the increased investment in the SA operation.

"With the positive political moves in the region we see the SA company becoming even more involved in the manufacture and export of high quality products," he added.

Alich said that Baker Hughes had increased the local content of its components to surmount the anti-apartheid sanctions that were aimed at strangled foreign involvement in the SA economy.

Alich made the announcement during his current two-week visit to SA from Dallas, Texas, where Baker Hughes's headquarters is based.

Baker Hughes is one of a dwindling number of foreign companies which have spurned international pressures to disinvest in SA.

A total of 201 US companies have disinvested since 1984.

This leaves 123 firms with direct investment or employees in SA, according to recent figures released by a US-based research institute — Reuter.
Refractories take the heat

If it's too hot to handle, refractories may be the answer.

Refractories are used for any process in industry which requires excessive heat namely where the temperatures are more than 1 000 centigrade to 1 900 centigrade such as for furnace linings. They come in many shapes and sizes from bricks to specially designed and shaped products.

Cullinan Refractories chief executive Mr Ed Harbuz says the steel industry is the greatest user of refractories, taking some 60 percent of production.

Demand declined

Refractories are also used to produce aluminium, platinum, copper, ferro-alloys, bricks, glass and fine ceramics. They are used in the metallurgical industry in general, the cement and lime industry and in power stations.

In South Africa the industry is worth an estimated R400 million to R500 million a year.

Mr Harbuz says demand for refractories declined from the mid-seventies to the early eighties.

"Around the world, the steel industry became more efficient and started using less refractories."

"As a result the refractories industry took a beating."

"However, in the past few years, since about 1985, demand has increased steadily."

"South Africa has followed the world pattern and because of the stable local steel industry we have experienced a steady growth and expect this to continue in the future," he says.

The industry has a large research-and-development function as it is constantly required to develop new materials to support technology changes in its client industries.

"Even a slight alteration in a client's process requires changes to be made to the refractories being used."
Industry’s problem is lack of skills

The shortage of skills is a problem which seems to beset all industries in South Africa, and ceramics is no exception.

Cullinan Refractories chief executive Mr Ed Harbuz says there is a shortage of skills worldwide in the refractories industry.

Mr Harbuz says "The raw materials we use are dug from the earth and either modified or used in the raw state. We control the process which produces the end product and various industries use the products under a variety of conditions slowly destroying the product and returning it to the earth.

"Producing our products requires a complex range of skills and while there are BSc degrees in subjects such as physics and chemistry, there is none in refractories.

"This means we have to take a graduate with a basic degree in one of the sciences and train them in the range of different disciplines required to function in our industry.

"It takes about three years for the graduates to build up the necessary pool of experience and become productive.

"The refractories industry is a challenging career with lots of research and development involved.

"This would suggest that there is little trouble attracting the right people to the industry. However, in the past the industry has kept a low profile and people have not known about the opportunities.

"This will have to change as I estimate there is a need for hundreds of graduates. Joining the industry is not something they are likely to regret, most of the people stay with it throughout their lives.

"Skilled ceramic technicians are like hens’ teeth. Even fitters and turners who are used to working with ceramics are rare.

"We have picked up a number of the people we needed from the UK and we are always on the lookout for people from overseas.

"The company also has a training programme to upgrade the skills of our black staff.

"This has proved successful and we now have a number of skilled people such as fitters who have been developed in-house," he says.

Ferro Industrial Products group divisional manager Mr George Duncan says the shortage of qualified ceramic personnel has only really developed as a major problem in recent times.

"In the past, glaze manufacturers were able to import skills from the UK or Europe. Recently it has become more difficult to recruit staff from the overseas market.

"However, the Pretoria Technikon has, for some time, been trying to bridge the gap by offering a three-year ceramics course," says Mr Duncan.

Continental China Holdings group managing director Mr Bill Paverd says one of the problems behind the shortage of necessary skills is the diversified nature of the industry.

"It is made up of a number of small sectors each with different skills demands.

"Consequently there is not a very large skilled and trained labour pool, both at operational and managerial levels," says Mr Paverd.
Teamcor to shed more activities

Brent Melville

AFTER a refocusing of its portfolio last year, FSI subsidiary Teamcor is further evaluating its manufacturing and distribution businesses, Teamcor chairman Terry Rolfe says in his annual review.

Using the National Bolts operations as a base, Teamcor has expanded and diversified substantially since 1983. It has taken a base of R39m in total assets to over R600m, and R45m in turnover to over R1bn.

In the same period, operating profit has grown from less than R1m to R19m, and total shareholders' interest from R18m to R35m.

Rolfe says that after the corporate and financial reorganisation of FSI's interests in 1988, an operational streamlining was undertaken in Teamcor in 1989.

The principal effect of the streamlining was that Teamcor acquired a controlling interest in Vektra Corporation from Hunts (Teamcor's immediate holding company) for R57.5m.

Interests

Vektra's activities were in two areas, automotive and tools and equipment.

As such, Vektra was constituted as the holding company for Teamcor's automotive interests.

"A further element of the streamlining was the delisting of group subsidiary FS-Team Distributors, with minority shareholders receiving Teamcor shares in exchange for their holdings in FS-Team," says Rolfe.

The transaction also served to increase Teamcor's attributable interest in Elcentre Corporation from 26.5% to 34%.

Rolfe says that this year's objective will be to shed the remaining activities which no longer play a strategic role in the future of Teamcor.

The manoeuvres are intended to buffer the group against the stop-start pressures of economic stimulation and economic discipline, depending upon the prevailing priorities of government, Rolfe says.

"One of the most important challenges ahead to be met is that of remaining internationally competitive in a climate of continuing high inflation and limited productivity gains," Rolfe says.
Pressure on Hunts' margins keeps up

LIZ ROUSE

INTENSE competition and the slowing of industrial and consumer demand have resulted in continuing pressure on both turnover and margins, says Hunts chairman Jeff Liebesman in his annual review.

The group's management team is addressing the situation through a combination of aggressive marketing, asset management and control of expenses.

However, a satisfactory performance is expected in the year ending December 1990, provided there is no significant deterioration in economic conditions.

Liebesman says despite the current difficult economic environment, the 1990s hold great promise. Hunts' companies will benefit materially when there is an improvement in the economy, and especially from a return to stable operating conditions in SA.

Focus

In particular the group, which is 76% owned by W & A Investments, is positioned to take advantage of increased consumer spending in the growth sectors of the SA economy.

Hunts has a clear focus on manufacture and distribution of basic consumer and industrial goods. Liebesman foresees a whole range of opportunities for Hunts, as all South Africans become economically active.

The group will continue to expand geographically and diversity into new market sectors.

The past year was one of challenge and achievement — challenge brought about by the volatile socio-political environment and a dramatic increase in interest rates, achievement through increasing turnover by 23% to R1.6bn and attributable profit by 25% to R60,6m.

Organic growth contributed more than 35% in earnings a share, which rose by 25% to 177c after allowing for conversion of the Teamcor preference shares. The only acquisition in 1989 involved the further expansion of Vektra Corporation's interests in the distribution of automotive replacement parts.
The more the merrier

While SA's two major new manufacturers of autocalysts are coy over the impact of Phase 6 local content benefits on their decisions to invest, the incentives it offers are clearly what attracted Degussa and now Johnson Matthey.

Degussa's joint venture with the Industrial Development Corp — Algorax, in Port Elizabeth — will be commissioned early next year with a manufacturing capacity of 1m units a year (189).

Johnson Matthey has gone one better "Our new R25m plant at Wadeville, Germiston, will have a manufacturing capacity of 2m autocalysts a year and will be aimed at the European market," says executive director Chris Clark. The plant also will produce fabricated metal and chemical products. But the autocalyst manufacture will provide SA car manufacturers with significant export credits, thereby reducing the foreign exchange required to support the industry's imports.

Also instrumental in Johnson Matthey's decision to invest is SA's role as the world's major supplier of platinum and rhodium, essential ingredients in autocalysts. A shortage of rhodium and refinery problems...
Toco to pay interims

INTERIM dividends will be paid by Toco from November, according to its management:

The manufacturer and supplier of industrial products raised turnover above R100 million, and attributable profit grew by 20% to R10.2 million in the year to March.

Earnings of 15c a share were 24% up, and the dividend of 6c was 28% higher. Toco expects the interims to account for a third of the total payout.

The shares have doubled to 104c since management bought Columbia's stake last year. Management holds 52% and institutions 32%.

St Lucie 20/S/9.0
Toco Holdings enjoys a surge in share price

Analysis: STEPHEN RICHTER

AFTER a long consolidation period at the lower levels, Toco Holdings' share price has been surging and is more than 100% above its October low of 46c. It appears investors have been pushing up the price in anticipation of a satisfactory performance for the year ended March.

The group did not disappoint as EPS grew by 24% to 16c, while the annual dividend was raised by 50% to 6c. Operating margins in each division were maintained.

Turnover rose by 47% to R101.7m, but operating profit advanced by only 28% to R13.3m. This reflects faster growth by lower margin divisions, but the overall margin is considered satisfactory at 13%.

Toco is primarily engaged in the manufacture and distribution of industrial products such as lifting equipment, special steels, engineering components, industrial gaskets and hoists. The mining industry is Toco's largest customer while the group is also involved with general commerce and the construction industry.

The relatively low gearing on Toco's balance sheet gives the group room to expand its activities, which appears to be happening. On April 30, Toco announced it had acquired the business and trade name of Reliable Pressings for a consideration of R25m, which was the net tangible asset value of the business. This transaction was effective October 1, 1989, and settlement would be in cash by July 31, 1991, interest free.

Reliable Pressings has traded with Versatile Gaskets, a Toco company, for many years. It is management's intention to make Reliable Pressings an autonomous operating unit within Toco's gasket division.

Toco has completed streamlining operations, upgrading facilities and strengthening operational management in its existing businesses, and the group appears ready to enter a strong growth phase. With Toco's unsecured balance sheet and strong cash flow, it appears growth will be organic as well as coming from further acquisitions.

That places the group in a strong position to look for companies that are having difficulty in the current economic climate. It would be logical to assume Toco could make a few more acquisitions before December.
**Activities**: Manufactures and distributes mining equipment and manufactures electricity meters

**Control**: Directors 54.6%

**Chairman**: A J Hodgson, MD J L Martin

**Capital structure**: 11.8m 42s Market capitalisation R2.8m

**Share market**: Price 24c Yields n/a on dividend, 10.8% on earnings, PE ratio 9.2, cover, n/a 12-month high, 33c low, 18c

<table>
<thead>
<tr>
<th>Year to Dec</th>
<th>'86</th>
<th>'87</th>
<th>'88</th>
<th>'89</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST debt (Rm)</td>
<td>0.04</td>
<td>0.07</td>
<td>0.65</td>
<td></td>
</tr>
<tr>
<td>LT debt (Rm)</td>
<td>0.09</td>
<td>0.14</td>
<td>0.53</td>
<td></td>
</tr>
<tr>
<td>Debt to equity ratio</td>
<td>0.39</td>
<td>0.29</td>
<td>0.28</td>
<td>0.22</td>
</tr>
<tr>
<td>Net &amp; leasing cover</td>
<td>7.8</td>
<td>3.3</td>
<td>1.74</td>
<td>2.21</td>
</tr>
<tr>
<td>Return on cap (%)</td>
<td>21.4</td>
<td>17.9</td>
<td>16.8</td>
<td>22.1</td>
</tr>
<tr>
<td>Turnover (Rm)</td>
<td>6.3</td>
<td>9.0</td>
<td>12.9</td>
<td>22.0</td>
</tr>
<tr>
<td>Pre-tax profit (Rm)</td>
<td>0.8</td>
<td>0.1</td>
<td>0.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Pre-tax margin (%)</td>
<td>10.0</td>
<td>10.1</td>
<td>3.2</td>
<td>5.5</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>4.1</td>
<td>5.0</td>
<td>0.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>2.0</td>
<td>2.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net worth (c)</td>
<td>13.5</td>
<td>14.6</td>
<td>14.1</td>
<td>15.6</td>
</tr>
</tbody>
</table>

Trading volume last quarter, 274 000 shares

The share, though off its 12-month high, is trading at 24c, which represents a premium to net worth and an earnings yield of 10.8%

---

acquisitions and new operations lifted debt
which, in turn, led to some profit erosion
ahead of tax

Operating profit rose to R1.2m in 1989
from 1988’s R400 000 as turnover grew
strongly and margins increased. About 80%
of Minetec’s turnover comes from its mining
division which largely serves the flourishing
coal sector. It now includes newly acquired
Hydratech, which manufactures feeder
breakers, and two companies formed for
the manufacture of roofbolters and blasting
gangs. Minetec also secured the franchise for
Fairchild International mining equipment
Subsidiary Angcon, which produces elec-
tricity prepayment meters and contributes
about 20% of group turnover, turned a 1988
loss of R320 000 into a R140 000 profit in
1989. The market for these meters remained
strong but below expectations

The development and securing of these
various opportunities and increase in work-
ing capital requirements caused debt to sky-
rocket. Interest charges climbed, limiting the
rise in attributable income, though it is still
well up on the previous year. The debt equity
ratio stands at a precarious 1.32 and interest
and debt cover, though still unacceptably
low, have both improved.

The share issue in part payment for Hy-
dratech diluted earnings per share marginally
and no dividend has been declared in an
attempt to build cash resources

MD Jimmy Martin is bullish on activity in
the coal mining sector this year and expects
some early benefits from sales of the Fair-
child low-seam continuous miner. He is cau-
tious about prospects further down the line

---

**MINETEC**

**Taxing times**

A buoyant coal sector and the turnaround of
Angcon Technologies boosted Minetec’s oper-
ating profit last year. However, financing

---

**Minetec**

---

**Chart:**

- **Years:** 1989, 1990
- **Values:** 15, 20, 25, 30, 35, 40
- **Legend:** Minetec

---

"Pan Rastad"
MD Peet van der Walt is forecasting an improvement for this year. He bases this view on plans to rationalise and strengthen the portfolio and on better results expected from the food and pharmaceutical companies. Of the "ailing companies" he says there will be actions and announcements during the course of this year.

Federale's Van der Walt ... portfolio changes planned

Last year's jump in borrowings, which resulted from overstocking in certain divisions, pushed up the group's gearing to 65%—less than two years since the large rights issue in mid-1988. Van der Walt says the intention is to reduce gearing to below 50%, though it is unclear whether that will be achieved in the current year. There are no plans for a refunding.

In view of the economic climate, interim figures in the 1991 year will be down on the year-ago level, but some growth in EPS is expected for the full year.

Andrew McNaught

Federale Volks

Debt soars

When the troubled Federale Volks announced management changes earlier this year it appeared that some hefty rationalisation moves could be ahead. Results for the year to end-March reinforce that view.

Trading margins have buckled, leading to a 9% drop in trading income despite a 13% increase in turnover. More importantly, the interest-bearing debt rose by R190m to R573.6m and finance charges absorbed nearly 40% of operating profit.

That left the attributable earnings down by 26% and, with the bottom line dilution after the 1988 rights issue still continuing, EPS collapsed by no less than 35%.

As far as the trading performance is concerned, the hardest hit sectors were the consumer and agricultural equipment businesses. The attributable profit contribution from motor components and agricultural equipment fell by 28% to R14.5m. The domestic consumer goods suffered from a R23.5m profit to a R2m loss. Services were 14% higher at R29.9m, pharmaceuticals were 1% down at R27.7m and food was only 4% up at R35.4m.

FVB SLUMPS

<table>
<thead>
<tr>
<th>Year to Mar 31</th>
<th>1989</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (Rm)</td>
<td>3.39</td>
<td>3.83</td>
</tr>
<tr>
<td>Trading profit (Rm)</td>
<td>321.0</td>
<td>291.0</td>
</tr>
<tr>
<td>Pre-interest profit (Rm)</td>
<td>347.0</td>
<td>333.0</td>
</tr>
<tr>
<td>Attributable (Rm)</td>
<td>129.5</td>
<td>99.3</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>86.9</td>
<td>56.6</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>21</td>
<td>21</td>
</tr>
</tbody>
</table>

"We envisage a combination of shrinking some operations, mergers and disposals," he says.

The rationalisation will also be aimed at reducing the sensitivity of the group's profits to agriculture and consumer spending. The divisions concerned are now seen as playing too large a role in the portfolio. The effect, he says, will be a narrower focus for Federale, which will concentrate on food, services, pharmaceuticals and core motor component companies.
Teamcor (189)

Motor drive

Activity. Manufactures mining supplies and industrial fasteners, distributes tools, equipment, new and used vehicles, automotive replacement parts and electrical and electronic goods

Control. Hunts (53%)

Chairman. J. Robb, MD A. Schlesinger

Capital structure. 48.2m ords Market capitalisation R132.6m

Share market. Price 276c Yield 9.8% on dividend, 23.5% on earnings, p/e ratio, 4.3, cover 2.4 12-month high, 480c, low, 275c

Trading volume last quarter, 38 455 shares

Year to Dec 31

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST debt (Rm)</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>LT debt (Rm)</td>
<td>76.0</td>
<td>144.5</td>
</tr>
<tr>
<td>Debt/equity ratio</td>
<td>0.63</td>
<td>0.64</td>
</tr>
<tr>
<td>Shareholders' interest</td>
<td>0.46</td>
<td>0.48</td>
</tr>
<tr>
<td>Int &amp; leasing cover</td>
<td>3.0</td>
<td>2.3</td>
</tr>
<tr>
<td>Return on capital (%)</td>
<td>23.3</td>
<td>18.3</td>
</tr>
<tr>
<td>Turnover (Rm)</td>
<td>619.0</td>
<td>1044.0</td>
</tr>
<tr>
<td>Pre-int profit (Rm)</td>
<td>60.7</td>
<td>89.3</td>
</tr>
<tr>
<td>Pre-int margin (%)</td>
<td>9.8</td>
<td>8.6</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>76.0</td>
<td>64.6</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>30.0</td>
<td>26.4</td>
</tr>
<tr>
<td>Net worth (c)</td>
<td>2.04</td>
<td>2.86</td>
</tr>
</tbody>
</table>

* 18-month period

The streamlining and broadening of Teamcor's (formerly Natbol's) activities transformed the group's structure and focus in 1989. Turnover now exceeds R1.1bn and operating profit R89m.

In May last year the transformation got into its stride with the acquisition of 74.9% of Vektra (Fax May 18) and the minority interests of FS-Team Distributors, it also combined the Matus industrial distribution division and HSC Hire Services group with the Tarry Group's industrial division. Teamcor has a 34% interest in Elecentre which transferred its cable and electrical distribution business into Voltex in exchange for a controlling interest in the group, that provided Teamcor with an attributable capital

80

Teamcor (189)

profit of R33.8m

The transformation resulted in an expanded operating base and considerably enlarged capital structure. Turnover rose to R1.044bn from R464m in the previous 12-month period, operating profit and attributable income rose 95% and 84% respectively.

Total shareholders' funds more than doubled and a run-up in debt to finance acquisitions and additional working capital requirements boosted capital employed to R488m from R260m. A five-for-one share split, the issue of additional shares and inclusion of convertible cumulative preference shares (due for conversion this year) diluted earnings per share.

The increased automotive focus is reflected in a fall in margin from 9.8% to 8.6%. Vektra now contributes 45% to group turnover and its margin is a comparatively low 7.3%. The manufacturing, mining supplies and industrial fasteners division, which includes operating company National Bolts, now weighs in at about 22% of turnover, tools and equipment (Tarry group) at 13%, and the electrical and electronic division — comprising Elecentre and Copower — at 20%.

Until the refocus, operating performance had been tied largely to trends in the electronic, mining and civil engineering fields. The change has shifted the bias towards the more-cyclical motor sector. Financial director Jon Brett says a slowdown in activity became noticeable in a number of divisions in the first three months of this current year and, in view of current economic conditions, must be cautious about achieving growth in operating profit this year. Problems experienced in the tools and equipment division, at Gill & Ramsden and GDS Hi-Tensile, should be sorted out.

Brett expects little change in the tax rate from the effective 20.5% this year, assessed tax losses of about R12m still remain. Interest charges are expected to be slightly up but, despite interest cover standing at a low 2.3, Brett says cash flow is strong and the group has no problem servicing or repaying debt.

The market seems uncertain about the group's prospects. The share is currently trading at 275c — a small discount to NAV and at a 12-month low.

Pam Baskind
Management team changes at ADE

The chairman of the board of Atlantis Diesel Engines, P.J van Rooy, has announced changes in the company's executive management team, with effect from July 1.

Hartmut Beckurts, managing director since the establishment of the company in December, 1979, and largely responsible for the success of the ADE project, will retire at the end of June.

He will take up a position as counsellor for the Department of Trade and Industry at the South African Embassy in Bonn in Germany from September 1, where he will continue to play an important role in the promotion of SA industry.

Fritz Korte, who has been with ADE since 1985 and currently holds the position of technical director, will assume duties as MD. Trevor Stone, presently GM of GEC Switchgear, has been appointed director of marketing and public affairs, succeeding Wally Rautenbach, who recently retired.

Stone, a mechanical engineer by profession and an MBA graduate, has held several senior positions in local industry.

Koos Liebenberg, currently senior GM, human resources and administration since August, 1988, has been appointed a director.

John Davies, GM of ADE's foundry division, will join ADE's executive management team as senior general manager.
Self-rescue pack plant is on stream

MINING utility company Cementation (Africa) yesterday officially opened a final assembly plant for locally manufactured self-rescue packs which could save SA an estimated R184m in foreign exchange.

Self-rescue packs, 2kg canisters worn on belts by miners and which generate oxygen to sustain workers in the event of a fire or explosion, are compulsory on coal mines in terms of legislation and are being phased in on gold and other mines.

Until mid-1988 these packs had been manufactured by a French company, Fenzy, which then granted Cementation the right to manufacture the self-rescuers under licence.

Seventy-five percent of the content of the rescuers is now being manufactured by Centec-Fenzy, a department of Cementation Engineering, and assembled in the facility opened yesterday by deputy minister of mineral and energy affairs Piet Welgemoed.

"The cost of self-rescuers will no longer be affected by foreign exchange rates, resulting in a price advantage of between 30% and 40% over imported units," Centec-Fenzy marketing director Tony Monengo said yesterday.

If all self-rescuers used at mines in SA were the Centec-Fenzy units, it would save the country an estimated R184m in foreign exchange, he said.

About 50 mining industry representatives, including French officials from Fenzy, attended the opening.
Otis hit by 63% plunge in earnings

PIERRE DU PREEZ

LIFT and escalator manufacturer Otis has seen its interim earnings to end-May lowered by 63% to R4.7m (R4.7m) reflecting earnings per share of 10.2c (R7.4c)

An interim dividend of 8c (17c) was declared

The operating profit of R5.9m (R9.4m) of the US-controlled group was 38% down on the 1969 figure.

Directors said trading conditions were adversely affected by the change in the mix of business handled. There was also a tail-off in service sales while the sales of new equipment increased.

However, owing to delays in deliveries and installation, some major contracts faced unexpected cost overruns which negatively affected the new equipment results.

Certain contracts under way would also be adversely affected, so the directors had decided to provide an amount of R2.2m to cover foreseen losses.

Should this amount be exceeded, the additional amount would be written off during the second half.

Shareholders must also assume the final dividend would be reduced compared to last year, the directors said.

Otis posted good results for the year to end-November 1969. Taxed profits increased 8% to R6.7m and the dividend was raised to 45c (42c)
Sharp declines for two Danec firms

DICOR and Danglo, both holding companies in the Danec group, experienced radical declines in their attributable incomes in the six months to March.

Danec Mining Supplies, of which Danglo holds 51%, was worst hit with attributable income plunging to only R11,000 after extraordinary items of just over R5m in the previous comparable half-year.

The Danec group is also carrying a high debt burden, a problem compounded in the half-yearly results by difficult trading conditions.

Although an improvement is expected in the second half of the year, the interim results of Danec Industrial Corporation (Dicor), Danglo and Danec Mining Supplies are disappointing after the recovery following restructuring of the group in the year to September 1988.

Danec Mining Supplies was hit by much higher interest charges, and suffered from competitive conditions in the mining division as mines reduced their purchases of consumable goods.

Turnover was up at R36,7m (R22,4m) but interest charges slashed R3,46m (R1,8m) off an operating profit of R3,5m (R4,4m).

Costs have been reduced and certain operations amalgamated so that the mining division can remain competitive in difficult trading conditions.

Directors are looking for improved results in the second half of the year.

Danglo (61% held by Dicor) was support-ed to some extent by the Plastall group (86% held by Danglo), which increased its market share substantially, resulting in a 77% increase in attributable income.

The mining supplies division, plus high interest charges of R3,8m (R3,4m) must be blamed for the fall in Danglo's attributable profits to R1,6m (R7,5m) after extraordinary items.

The decline in Dicor's attributable income to R328,000 (R2,3m) after extraordinary items is attributable to a minor extent to an 8.5% decline in turnover to R124,3m (R132,9m) as profits on sales slipped only slightly from 5.2% to 5.1%, according to directors.

Higher interest payments of R3,5m (R3,5m) took their toll so that income before extraordinary items was eroded by almost 22%.

Dicor directors say further cost reductions are in hand in order to reduce borrowings as far as possible.

Although the group is budgeting for an improved performance in the second half of the year, trading conditions are unpredictable.

Dividends appear a long way off despite valiant efforts to improve the group's performance. Debt was reduced to R29,95m at the September 1988 year-end (1988 R57,58m). Accumulated losses were reduced to R19,22m (R20,91m).
Supply firms wrest squeeze from cutbacks by gold mines

Companies
Still cutting

After showing recovery a year ago, the Danish Industrial (Dicor) group is again seeing profits reported by its listed companies sliding. Problems lie partly with weaker sales and margins, but rising interest charges are also hurting.

Results of holding company Dicor — which holds 61% of Danglo, which in turn has 51% of Danish Mining Supplies (DMS) and 86% of Plastall — reflect deterioration in the operating companies. Sales for the six months to end-March fell 8.5%, the margin dipped from 5.4% to 5.1%, attributable earnings were R1.5m lower at R826,000 and EPS dropped from 2.1c to 1.7c.

The mining industry remains a particularly tough sector, with no pick up in sight while the gold price keeps sinking. DMS thus remains the bugbear, with the interim margin buckling from 4.7% to 4.1% after a R4.3m advance in sales, which edged up to R96.7m.

Need for still tighter asset management is plain enough. The abridged balance sheets show that in Danglo long-term liabilities have been cut from R11.9m to R10.7m, but in DMS have increased from R7.7m to R9m.

With higher rates taking effect, the net interest cover in DMS was only 1.1 times. Interest cover was only slightly more comfortable in Danglo, at 1.7 times.

The rationalisation over the past 18 months continues. MD Bob Wenteler says further steps will be taken to further reduce costs in DMS over the next 12 months. However, improvement has been seen in Danglo's packaging arm, Plastall, which increased its market share and lifted attributable income by 77%.

Wenteler says Plastall is now seeking to expand further, particularly in the flexible plastics field.

Andrew McNally
Between floors

The lift business depends on both the property market and construction industry and, in the six months to the end of May, Otis had problems with both. The mix of business between service sales and new equipment sales shifted in favour of the latter. While both divisions increased sales the service sales grew noticeably more slowly than new sales.

MD Roy Markham, who seems to have been brought in to sort out the company, explains “Though our new equipment business picked up from the end of last year, we were hit by a number of sites being late. This, together with other sites being on time, resulted in a concentration of activity. Overcoming these problems led to cost overruns which hit the operating results.”

Similar conditions are expected for the current six months and R2.2m has been provided against unforeseen losses. The directors state that should this amount be exceeded the additional amount will be written off during the second half of the year.

“We hope this will be adequate,” says Markham, “but we are not confident that the market has bottomed out. While we will do everything to avoid it, we must warn shareholders of a possible cut in the final dividend.”

Looking to next year, Markham feels Otis could resume a growth trend. “Our new order intake is very healthy and we should be able to increase our market share, judging from our knowledge of our customers and the activity level of the industry.”

The service business was chipped by a reduction in modernisation of buildings and hence a reduction in refurbishment of lifts. Many of the potential buildings - those which are 20 to 35 years old - are being torn down rather than renovated.

Otis is taking the knock sooner rather than later through the provision for construction costs at the interim stage, and the next six months should see an improved performance even though it is unlikely to match that of 1989. Next year everything will depend on how the construction industry weatheres the recession. - Gilbert Findlay

<table>
<thead>
<tr>
<th>SUDDEN JOLT</th>
<th>1989</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Six months to May 31</td>
<td>'89</td>
<td>'90</td>
</tr>
<tr>
<td>Operating profit (Rm)</td>
<td>9.4</td>
<td>6.9</td>
</tr>
<tr>
<td>Attributable (Rm)</td>
<td>4.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>27.4</td>
<td>10.2</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>17.0</td>
<td>8.0</td>
</tr>
</tbody>
</table>
quality control and a big expansion on the cards.

The company had a franchise to make Peugeot cycles, the world’s largest single brand, he said. The French factories made about 350 different kinds of bicycle in five sizes and eight colours.

But the Dumbaza plant would concentrate on a few racing models, three sizes of ATBs and children’s BMXs.

Peugeot closed its South African factory eight years ago and Western Flyer took over. Machines are now made to strict French specifications, with frames and paint being sent regularly to Peugeot for inspection.

After battling for years against cheap imports, Western Flyer has joined other manufacturers in asking the Board of Trade and Industries to impose dumping duties on low-price BMX imports from Red China.

Mr Perch said South Africa had no official safety standards for bicycles and was one of the few countries prepared to accept the Chinese models Britain, Australia and Sweden would have rejected them.

“We lack the safety standards of those countries, which include compulsory reflectors front and back and on the pedals, and stress tests on frames.

“Sweden insists on reflectors being painted on the tyres. Australia has the toughest regulations and sends inspectors to Taiwan to check every single bike before it is exported to Australia.”

The company also owns factories in the electronics and furniture industries. These are Genvetus at Atlantis, where 100 workers are employed mainly on making music centres.

The other factory, Sunscene in Johannesburg, employs 150 making outdoor furniture and cushions.

The balance of MBS business is importing electronic and other products for the domestic market.
Cycle firm wins big UK order

By Tom Hood

Thousands of Britons will soon be riding South African-made bicycles.

A multi-million-rand export order for 100,000 bicycles a year has been landed by the new Cape Town-owners of Western Flyer Manufacturing, the country's largest cycle factory.

The plant at Dunbar in the Cape was recently taken over by Merchandise Buying Syndicate.

The cost of the acquisition has not been disclosed, but the factory has stock worth more than R5 million.

Managing director Eliah Perch, whose father had a cycle shop in KwaZulu, won the British export contract "on price and quality standards".

In getting the order the factory had to overcome the handicap of paying 20 percent more for Iscor steel tubing than Taiwanese cycle manufacturers, who get a 20 percent discount from Iscor, said Mr Perch.

The factory is about to start production of a new lightweight ATB (called mountain bike in South Africa), making up 60 percent of the exports.

The new ATB will be cheaper than imported American and Italian machines, the price of which is inflated by the low rand exchange rate.

Production is also being expanded by a full range of lower-priced bikes under the Western Flyer label or house labels for major retailers.

Big changes have been made in the few weeks since the new owners took over, with stricter quality control and a big expansion on the cards.

The company also owns factories in the electronics and furniture industries. These are Genetics at Atlantic City, where 100 workers are employed mainly on making music centres.

The other factory, Sunscene in Johannesburg, employs 150 making outdoor furniture and cushions.

The balance of MBS business is importing electronic and other products for the domestic market.
SHE'S NUTS ABOUT BOLTS

By CHARMAIN NAIDOO

HAZEL McGAW is into screws. But she's also into nuts and bolts. In fact, fasteners of any kind excite her.

The blonde 48-year-old, who has turned her distribution company UTB Fasteners into a multimillion-rand winner, is happiest taking on her male competitors — and she has earned their respect.

Mrs McGaw has been elected chairman of the 50-member Fastener Distributors Association, which recently celebrated its first birthday.

She will base with manufacturers as well as customs and excise officers on duties and surcharges and make members aware of price increases and trends in the industry.

When English-born Hazel came to SA 18 years ago, the nuts and bolts business was the last thing on her mind.

"I got a job as a rep selling industrial fasteners, about which I knew nothing, I soon learnt," she says.

Seven years ago she took a 5% stake in a new fastener company on the understanding that she would run it.

"Three years later my partner wanted to quit. I offered to buy his shares. I had no capital, and the Small Business Development Corporation told me that I was 'too white' for a loan.

"My bank manager laughed at me. A mere woman asking for a loan of R156 000. I asked my partner if I could pay him out of the profits. He agreed."

When Mrs McGaw took full control four years ago, turnover at UTB (short for Ultimately The Best, she says) was R70 000 a month. Today it is R250 000 and growing.

But she has a gripe: "We import most of our fasteners because they are of far higher quality than SA manufactured ones. We've begged manufacturers to make high-quality products and assured them that nearly all distributors will support them. Distributors don't want to pay the exorbitant surcharge and duty and would welcome SA products."

Under the umbrella of the FDA, she hopes to persuade manufacturers to "get off their butts."

"We have brass, copper, iron, steel — the material required to make fasteners. All we want is a reasonable product."

Mrs McGaw admits that she knows little about finance — "I don't understand my balance sheets. My secret is that I do a daily cash flow and once a month I do an acid test — if we paid everyone what they are owed, what would be left? Have we made a profit? Sounds simplistic, but it works."

UTB carries large stocks — at any given time there are goods worth R400 000 in the warehouse.

HAZEL McGAW . . . the newcomer who quickly fastened on to a way of making a turn from fasteners. Picture: GARTh LUMLEY

Gripe

"Screws tripled in price while the cost of living didn't. "
Sugar’s sweet five years

By DON ROBERTSON

THE sugar industry is looking better than it has for the past five years. It has ready markets and the world price has risen fivefold.

Debits of R327m incurred up to 1985 are expected to fall by R70m by the end of this season to R257m and improved cane transport has saved R118m in two years.

Although domestic sales are not expected to rise, the price of sugar will be increased by 13% on August 1. It will rise from R1.994 to R1.316 a ton. A kilogram of white sugar will cost 17c more and 42c extra for 2.5kg. The industry selling price was raised by 11.3% in the past 18 months compared with 24.1% for the consumer price index.

By announcing the increase early, the SA Sugar Association is giving industrial users a chance to build up stocks at the lower price. SA Cane Growers Association chairman Tony Ardonington says deregulation will reduce overheads, improve the use of capital and provide new farmers with ready access to mills.

Mrs McGaw admits that she knows little about finance — “I don’t understand my balance sheets. My secret is that I do a daily cash flow and once a month I do an acid test — if we paid everyone what they are owed, what would be left? It all sounds simplistic, but it works.”

UTB carries large stocks — at any given time there are goods worth R400 000 in the warehouse.
Toyota in R40m boost for Cape suppliers

BY AUDREY D'ANGELO
Business Editor

DURBAN-based motor manufacturer Toyota (SA) expects to give an additional R40m worth of business to Western Cape suppliers in the coming year — boosting its spending here since early 1989 to about R100m, and creating about 1 200 extra jobs.

Its announcement follows one by Wesgro director David Bridgman that investor interest in the Western Cape is growing, with an increased number of inquiries from European and Far Eastern manufacturers.

Toyota's supply director, Ernie Shore, explained yesterday that much of the extra business the company was placing in the greater Cape Town area was due to increased local content requirements.

"We have sourced some of our supplies from the Western Cape for years, either because we could only get them from there — like engines from Atlantis Diesel Engines — or because the quality was better. "But, for logistic reasons, we naturally prefer to source our supplies as near to the factory as possible. We source more than half of them from Natal and the rest from the Transvaal and have rather neglected the Western Cape because of distance."

"But the increased local content requirements mean that we are running out of suppliers within easy reach of Durban and are having to come further afield."

Shore said a contract worth R2,5m a year to supply velour for cloth car seats was given to Court Fabrics of Paarl because, after Toyota had "scoured the country", they were found to offer the best quality.

"We chose them in straight competition with a West German supplier."

Other new suppliers include Gabriel in Retreat, from whom Toyota is currently buying R500 000 worth of gas shock absorbers. Shore expects this to increase.

"We are getting a highly sophisticated immobiliser for the Toyota Hi-Ace from Centralised Electronics in Cape Town, who will probably also manufacture a similar device now under development by Toyota for the Hilux bakkie. This is an additional investment of R2,5m a year and is likely to jump to well in excess of R3m a year."

"Atlantis Foundry is supplying Toyota with R3m a year worth of inlet manifold castings."

And in 1991 STI in Atlantis will start to supply R6m worth of wing mirrors for passenger and light commercial vehicles.

GUD of Atlantis will soon start to supply Corolla and Hi-Ace air cleaners "with an annual value of approximately R1,5m", said Shore.

He said that at the beginning of 1989 Toyota had placed R60m worth of business in Cape Town. By the end of 1991 "the sum is expected to jump to R100m."

"The additional business we shall put in the Western Cape in the next 18 months will be directly responsible for the creation of a further 1 200 new jobs."

Bridgman said investors were showing more interest in the Cape than in other parts of SA, although at present they seemed to be waiting for developments following the recent changes.
Numsa strikers in sit-in

WORKERS at Gabriel SA, manufacturers of shock absorbers, are occupying the company's Retreat canteen as a strike over wage demands continues.

The canteen occupation by more than 200 members of the National Union of Metalworkers of South Africa (Numsa) began on Tuesday after a strike was called in rejection of a wage offer.

On Thursday the company served a Supreme Court interdict on the workers to vacate the canteen by 8am yesterday and return to work. The strikers were, however, permitted to remain in the canteen.
NORTHS INDUSTRIES

Gearing grind

Activities: Importer and distributor of agricultural machinery
Control: Tollgate 70.7%
Chairman: J L Claassen, MD G A Hall
Capital structure: 12.66m ords Market capitalisation R10.1m
Share market: Price 80c; 12-month high, 210c; low, 60c Trading volume last quarter, 52,000 shares

Year to Dec 31

*’89 ’90
ST debt (Rm) 2.7 49.2
LT debt (Rm) — 0.3
Debt equity ratio 3.0 1.92
Shareholders interest 0.82 0.25
Int & leasing cover 4.5 1.4
Return on capital (%) 36.8 11.01
Turnover (Rm) — 89.7
Pre-int profit (Rm) 10.7 5.8
Pre-int margin (%) n/a 9.9
Earnings (c) 60.1 14.5
Dividends (c) — 9.0 8.8
Net worth (c) 184 199

* 16 months to June 30
† Announced

Here is another disturbing testimony to Tollgate Holdings (TGH) old guard’s financial management

In the six-month report period, interest paid absorbed 71% of operating profit, because gearing is over the top

The report covers the six months to December with comparative figures for 16 months to June 1989. This highlights evaluation but changes in the balance sheet and ratios are meaningful

Gearing and the debt burden, as with TGH itself and its to-be-sold Arwa subsidiary, are overwhelmingly large, and shareholders’ interest has fallen significantly. What caused this situation this time?

Lawrie Mackintosh, a member of the consortium that has acquired control of Duross/TGH, explains gearing went out of control when Norths, then a division of Gants, bought the agriculture division of J I Case from the divesting US parent. The purchase was financed with short-term bank borrowings and extended credit, it accounts for the R70m increase in stocks (previously R3m) and corresponding R70m rise in current liabilities (from R46m)

MD Gerald Hall comments that since the business is seasonal, stocks are highest at the December year-end. A programme to reduce stocks is under way

Stressing seasonality, Hall adds that the maize harvest in July/August will see a big reduction in debtors with a corresponding cut in overdraft finance. By end-September, he says, both stocks and debtors should be at "normal" levels and the company “running properly.” To reduce overheads, the 17 retail outlets are to be cut to 14

Trading has been below expectations for the first five months this year, due to weak economic conditions. Turnover and profit are below budget. Nevertheless, Hall reckons sales are well ahead of the industry. With spring and the accompanying busy season around the corner, he hopes conditions will improve and permit “respectable” after-tax profits and a “significant” dividend. But he is not prepared to forecast EPS

By definition, most agricultural-based businesses are subject to the vagaries of the elements. They, therefore, have a high risk factor, in Norths’ case worsened by its 1989 year-end financial structure. It’s a matter of wait and see whether results will be a matter of man’s or a God’s disposal.

Gerald Renson
Aloe closure hits Macadams profit

SYLVIA DU PLESSIS

BAKERY and catering equipment manufacturer Macadams' closure of its Aloe Catering Equipment division during its financial year to end-February came after a dramatic decline in the demand for mass catering equipment from the SADF, Armcor and the mining industry.

Aloe's marketing operations were sold to Crown Food division Vulcan Food Service Equipment from January 1.

Macadams MD Raymond Footart said on Friday that losses attributable to the discontinued Aloe operation were "far in excess" of expectations.

He said the costs of relocations, closing branches, bad debt provision, providing for product guarantees and employing installation contractors to complete contracts were greater than anticipated.

"However, I am satisfied all expenses relating to the Aloe operation have been dealt with during the 12 months to February and that we started off the current financial year with a clean slate."

Due to the unforeseen cost of R4m incurred in the Aloe closure, Macadam posted a loss after this extraordinary item of R3.1m in the year to February translating into a loss of 90.1c (8.3c earnings) a share. The dividend — 1.7c in the previous year — was waived.

While better margins lifted operating profits to R2.4m from R1.6m, interest paid rose sharply to R1.5m (R739,000) due to the costs of financing the Aloe Catering Equipment division and the purchase of its Blackheath headquarters, and eroded growth at the bottom-line.

Directors said they had obtained permission from the JSE and the Registrar of Companies to delay publication of the figures for the period under review in order to complete Aloe's financial statements.
Macadam's back 1898

on track for profits

Feb 7th 30/4/90

information with regard to

the bankruptcy division's

selling price for the farm. The

real estate publisher

hopes to publish this

February 1st 1990

have the list of prices

for the sale of the farm.

However, the sale could

probably be canceled.

Profits emphasized

J. B. Macadam's farm

sold for the highest

price of any farm in the

area. The sale was

conducted in a

professional manner.
Mobsters attack civil engineering projects

the Argus Correspondent

DURBAN — Development in Natal's townships is grinding to a halt and already 3000 jobs in the civil engineering industry are on the line as marauding mobsters make it "virtually impossible" for contractors to work.

"Anarchy prevails," the South African Federation of Civil Engineering Contractors (SAFEC) claimed last week and no responsible manager could expect an employee to work on a construction site where he is open to intimidation and violence, and where his life is in danger.

The unrest has already cost civil contractors R15 million, not including the R36 000 or more being paid each month for security on a single site. SAFEC branch manager Mr Des King said.

Already the future of an important arterial link in Umbumbulu, a contract worth R14 million, is in the balance because of security problems.

Not surprisingly many contractors are no longer quoting for jobs in unrest areas, but with cuts in budgets there is little other work for them.

Some highlights of the seriousness of the situation include:

• An attack on a construction site in KwaMashu near Durban recently in which armed men in a minibus opened fire on workers.

• The recent death of a driver of an earth-moving machine instructed at gunpoint by two men to knock down the wall of a bottle store, which was then looted. The men cut off the driver's legs and necklaced him. The earth-moving machine, worth about R300 000, was set alight, and:

• The inability of a contractor to retrieve plant equipment worth at least R500 000 from the Nagle Dam area after he was threatened by mobsters.

Some contractors have taken on guards armed with short-barrelled, pump-action shotguns and some construction camps are now bordered by electrified fences in a bid to prevent theft and vandalism.

But this has not allayed fears among workers in the industry.
Delta Motor Corporation can import Israeli engines for 50% less than the price of those produced by the company's own plant. The price difference made it impossible for the company to keep unit costs as low as those of the international manufacturers.

Butler-Wheelhouse said the rate at which vehicle prices have risen meant that the motor industry had not yet benefited from increased black spending power. In the 1960s blacks had about 30% of the spending power in SA. By the year 2000 they would have 60% of the disposable income.

"We are about halfway there now, according to statistics," Butler-Wheelhouse said.

Because vehicle prices were so high, blacks were spending this money on things like white goods and video machines instead of cars. But this situation would change.

The white vehicle market was close to saturation but there was room for improvement in the black market. "In 1968 the black market was close to saturation but there was room for improvement in the black market. "In years to come, independent individuals will become more important in black households," Butler-Wheelhouse said.

Delta Corporation identified several such products, without allowing for subsidies.

Butler-Wheelhouse said he did not share the view that SA would become like Brazil with old vehicles on the roads and customers afraid to go to the expense of tooling up for new models.

The market was too competitive for this and there were too many companies interested in the coming explosion of the black market to risk falling behind with new technology.

Butler-Wheelhouse warned, however, that SA faced turbulent times in the short term and that inflation was likely to remain higher than that of its main trading partners for about five years.

This would mean a deteriorating currency and rising import costs.
Brown Boveri shuts down loss-maker

THE motor control gear distribution operations of Brown Boveri's Standard Products division has been closed. Powertech executive chairman Peter Watt said yesterday that ever since Powertech and Swiss-based Brown Boveri entered a joint venture two-and-a-half years ago, this operation, with an annual turnover of 15m, had never been profitable.

The market for motor control gears, primarily used in manufacturing switchboards, was extremely competitive and overtraded Watt said taking hard business decisions in the current economic environment could not be avoided. Even in the medium term, the operation's prospects were not good.

He said that Powertech's turnover was unlikely to be dented by the move.

It was unknown how many of the 100 employees affected would take the re-trenchment package offered or be placed elsewhere in the group.
Demand for ADE products drop 20%

ATLANTIS DIESEL ENGINES (ADE) has suffered a drop of more than 20% in demand for its products as a result of the downturn in the economy—and in the motor industry in particular.

Admitting this yesterday, MD Fritz Korte said another 10% drop was expected in the last half of this year and the first half of 1991.

As a result, ADE will offer early retirement or voluntary retrenchment packages to about 20% of salaried staff.

Korte said yesterday that: "In spite of steps taken to obtain additional export business and to reduce operating costs in sympathy with the reduction in local demand, we are now forced to reduce our manpower costs."

Salaried and hourly-paid employees will be given the opportunity to volunteer for retrenchment or early retirement during this month. ADE will also consult in this regard with the relevant trade unions.
Atlantis gears down workforce

By JOHN VILJOEN, Staff Reporter

ATLANTIS Diesel Engines (Ado) is offering early retirement or voluntary retrenchment to 200 employees, 20 percent of its monthly paid staff, "due to the severe downturn in the economy and the motor industry in particular."

Demand for Ade's products had dropped by 20 percent over the past year, said Ade managing director Mr Fritz Körter.

The forecast demand for the rest of this year and the first half of next year predicted a further decline of 10 percent.

"Ade will also consult in this regard with the relevant trade unions," the company said in a statement.

A spokesman for the National Union of Metal Workers of South Africa said the union's Atlantis representatives had set up a meeting with Ade management for Friday.
ATLANTIS DIESEL ENGINES (ADE)

Crunch time

The reduction of the Atlantis Diesel Engines (ADE) work force by about 20%, announced this week, is part of a wider strategy to maintain a break-even course for the current year, says MD Fritz Korte.

But he acknowledges that it’s going to be extremely tough to keep the giant engine manufacturer out of the red in the face of a forecast 25%-30% cutback in demand for truck and tractor engines, compared with last year.

To trim overheads, ADE is implementing an early retirement and voluntary redundancy package to reduce staff across the board by about 200. Korte says it’s possible the packages will be accepted by more than the target figure.

Last month he said he was fairly hopeful that the domestic economic situation would stabilise and that export opportunities would bolster revenue and allow ADE to break even this year (People July 27). But the outlook for the heavy truck and tractor markets has become gloomier.

“If it was temporary, we wouldn’t have too much cause for concern, but the vibes are that the situation will last for quite a while, well into 1991.”

Korte says cutting staff is only one element of a plan that must be implemented quickly to reduce overheads. Other aspects include cutting the cost of material, shortening lead times, and increasing inventory turnover. ADE still hopes to increase export earnings and is continuing to explore new market opportunities.

The benefit of the salary savings from the staff cuts will not be felt until early next year because of the cost of the redundancy packages.

Korte says the turnover forecast of R650m for this year made by predecessor Hartmut Beckurs in March will definitely not be met, turnover will be substantially lower.

The current situation will also obviously be a setback for ADE’s longer-term plans to seek a JSE listing. Korte says that while a listing is something the company is aiming for, it needs a good profit history before it will be attractive to investors.
Koreans in talks to set up projects in Midrand

CHARLOTTE MATHEWS

A BOLT manufacturing pilot project involving a $1m investment has been set up in KwaNdebele by South Korean businessman Jeung Soo Lee.

And discussions are under way between South Korean businessmen and the Midrand Town Council for a further 100 import replacement projects to be set up in the area over the next three years, a news conference was told in Midrand last week.

Consultant to the South Korean delegation Kurt de Wet said it was impossible to put a figure on the amount of investment this could represent, as there were spin-offs, as well.

"But it is potentially vast sums of money," he estimated. Delegation leader Hyuk Bae Kwan said in an interview several projects were being considered, including housing and property development, manufacturing of electronic appliances and a vending machine assembly plant.

Heavy duties

Asked whether the new projects would all be situated in the Midrand area, he said each industrialist would be guided by his own idea of where he should go.

Kwan himself came to SA two years ago and began to export raw materials to South Korea.

"During that operation I felt definitely we should bring the production factory here to eliminate the heavy custom duties, surcharges, and so on," he said.

"Pricewise we cannot compete with the Taiwanese, but we can compete with the Germans and Italians. Importers here are accustomed to dealing with those countries so we decided to bring a factory here -- and sell here -- to capture that market."

Midrand mayor Alan Dawson said the Midrand Town Council could not offer specific incentives but could facilitate the introduction of South Koreans into the business environment.
Fluid-handling businesses are struggling now and Nel expects some takeover opportunities in the next six to nine months. However, the group has said its acquisition policy is to concentrate on companies with a strong profit history.

At 75c, the share yields 6.7% compared with the 5.9% average for the engineering sector.

Gerhard Slabber

**Activities:** Manufacture and supply of fluid-handling equipment for petrochemical, mining and general industry

**Control:** Directors

**Chairman:** Howard Sacks, MD

**Capital structure:** 14,6m 1ords. Market capitalisation R10,8m

**Share market:** Price 75c. Yields: 6.6% on dividend, 17% on earnings. P/E ratio, 5.8, cover, 2.5 12-month high, 100c, low, 70c.

**Trading volume last quarter:** 38,000 shares

**Year to Feb 28**

<table>
<thead>
<tr>
<th><strong>Item</strong></th>
<th><strong>'89</strong></th>
<th><strong>'90</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>ST debt (Rm)</td>
<td>0.6</td>
<td>4.7</td>
</tr>
<tr>
<td>LT debt (Rm)</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Debt equity ratio</td>
<td>0.27</td>
<td>0.29</td>
</tr>
<tr>
<td>Shareholders' interest</td>
<td>0.58</td>
<td>0.46</td>
</tr>
<tr>
<td>Int &amp; leasing cover</td>
<td>6.4</td>
<td>2.9</td>
</tr>
<tr>
<td>Return on capital (%)</td>
<td>8.3</td>
<td>11.6</td>
</tr>
<tr>
<td>Turnover (Rm)</td>
<td>51.1</td>
<td>33.3</td>
</tr>
<tr>
<td>Pre-int profit (Rm)</td>
<td>0.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Pre-int margin (%)</td>
<td>11.7</td>
<td>10.8</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>3.3</td>
<td>12.8</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>2.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Net worth (c)</td>
<td>53</td>
<td>73</td>
</tr>
</tbody>
</table>

* 8-month period

to 100%.

Management's targets remain ambitious, despite deteriorating conditions. MD Graham Nel expects turnover to grow by at least 25% this year, to more than R400m. He says he will be "very disappointed" if EPS growth is less than 30%. When he took over Meters, he had as objective to produce earnings growth of at least twice the inflation rate.

Nel says Woodrow's major aim now is to reduce excessive stocks — resulting partly from acquisitions — and build up cash which would be available for acquisitions. However, Nel says no such deals are on the cards. This year's earnings should be boosted by a full contribution from the recently acquired Ascoreg, an assembler and supplier of solenoid valves, pressure and temperature switches to fluid-handling industries. Only five months of Ascoreg's earnings were brought to account last year.

Meters Systems has developed a new electronic register system which, management claims, is considered the most advanced available anywhere. Nel says Woodrow is waiting for tests to be concluded by a European client. If these are positive "major" sales opportunities will arise.

Also, Meters recently secured the fuel-loading measurement and control system contract for Mossref at Mossel Bay.

Nel expects growth to be both organic and from acquisitions. A few companies in the

**WOODROW**

F1M 24/8/90

**Aiming high**

Woodrow's recent move to the main board of the JSE follows the rapid growth of two DCM fluid-handling companies, Woodrow and Meters Systems. Woodrow's interests were restructured during the year, with its stake in Meters Systems increased from 65% to 100%.
Tooling up

**Activities:** Conversion of open and closed cell expanded rubbers, plastics and related activities

**Control:** Directors 54.2%

**Chairman:** S L Goldman, joint MDs R M Marx, B D Tinney

**Capital structure:** 24m ord 12m pref Market capitalisation R16.8m

**Share market:** Price 70c Yields 8.4% on dividend, 18.5% on earnings, p/e ratio 5.1, cover 3.6 12-month high, 120c, low, 70c

Trading volume last quarter, 18 600 shares

Year to March 31 

<table>
<thead>
<tr>
<th>Year</th>
<th>'87</th>
<th>'88</th>
<th>'89</th>
<th>'90</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST debt (Rm)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>LT debt (Rm)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Debt equity ratio</td>
<td>0.32</td>
<td>0.32</td>
<td>0.32</td>
<td>0.32</td>
</tr>
<tr>
<td>Shareholders' interest</td>
<td>1.01</td>
<td>1.01</td>
<td>1.01</td>
<td>1.01</td>
</tr>
<tr>
<td>Int &amp; leasing cover</td>
<td>0.75</td>
<td>0.75</td>
<td>0.75</td>
<td>0.75</td>
</tr>
<tr>
<td>Return on cap (%)</td>
<td>8.2</td>
<td>8.2</td>
<td>8.2</td>
<td>8.2</td>
</tr>
<tr>
<td>Turnover (Rm)</td>
<td>10.0</td>
<td>12.8</td>
<td>17.7</td>
<td>18.9</td>
</tr>
<tr>
<td>Profit (Rm)</td>
<td>2.42</td>
<td>3.77</td>
<td>5.37</td>
<td>8.89</td>
</tr>
<tr>
<td>Pro-fit margin (%)</td>
<td>24.2</td>
<td>30.6</td>
<td>35.3</td>
<td>40.3</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>4.7</td>
<td>9.3</td>
<td>16.6</td>
<td>18.3</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>1.8</td>
<td>2.8</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Net worth (c)</td>
<td>9.8</td>
<td>22.8</td>
<td>35.9</td>
<td>43.8</td>
</tr>
</tbody>
</table>

† Year to June 30 * Nine month trading period ‡ Annualised

Latest results from Sondor indicate the phase of near-exponential growth has ended. The white goods market crumbled in the face of tighter HP requirements, it improved since these were eased earlier this year but demand remains restricted by high interest rates. The motor industry, too, has been anything but buoyant. Sondor supplies the bulk of its production to these industries.

In the nine months to 30th June, annualised turnover and profit were only marginally better than those for the previous full year. Chairman Sonny Goldman says the period started well, with buoyant sales in all branches and good profit, but in the second half sales fell sharply, especially in the PWV area. "Due to political uncertainty, increased competition and falling business confidence." Branches in the rest of the country, he says, maintained momentum.

The balance sheet shows little debt, stock has dropped 30%, cash and near cash totals R2,3m; there was strong positive cash flow last year. Even so, after the slowdown in the second half, it was because the effective tax rate fell by 12% that annualised EPS rose by 10.2%

Goldman refers to a strategic decision to produce certain goods locally. Problem is this will involve capital expenditure of R4.5m in plant and machinery, of which R2.5m will be financed by the Industrial and Development Corp.

This, he says, will hit near-term earnings. Long-term, locally produced goods should enable substantial savings, according to management's projections.

Gerald Hushon

F/H 24/8/90

A year ago, the share was trading at 120c. The last transaction was at 70c, placing the share on a 5% yield. Goldman is non-committal about profitability this year. Until the white goods market and motor industry are back on a growth track, Sondor is not going to show the profitability it reported over the previous five years. The share looks fully priced.
**Acquisition boost**

Klpton's acquisition of Austin Safes and Access & Mobility Group stepped up the group's performance in its 1990 year. But a higher tax rate and increase in the issued share capital diluted the gains at the earnings level. In the year to end-June, operating profit rose 81% on a 56% turnover advance. These figures include the acquisition of Austin Safes for the full year and ladder and castor maker AMG for the second six months.

Chairman Nigel Matthews says Austin Safes, which makes security equipment, was the group's star performer. Though divisional contributions are not revealed, the 1989 annual report states Austin Safes turnover at about R24m for the year. This indicates the performance of the group's other divisions was not that impressive.

Matthews says trading at the Gardwel (manufacturers and distributors of personal protective equipment and clothing) and Sapco (manufacturers and distributors of pneumatic tools, lifting and welding equipment) divisions was ahead of budget until about February, but deteriorated thereafter in line with general economic conditions. The decline in demand appears to have bottomed out though.

The sale of the under-performing Harvey & Russell division and contribution of high-margin Austin Safes and AMG helped to boost the operating margin to 10.9% (9.4%). Since listing in 1987, Klpton has consistently increased its operating margin.

The group remains conservatively financed: interest cover was 10 times and debt/equity 34% at year end. A higher tax rate, rather than interest payments, detracted from the operating performance. Matthews says assessed tax losses have been depleted, pushing the effective tax rate up to 42% (34%) which he considers to be close to the norm.

Attributable profit rose by 70% but a 35% increase in the number of shares in issue — a result of the acquisitions — limited EPS growth to a quarter.

Matthews is cautious about prospects for this year but the inclusion of AMG for a full year, continuing demand for Austin Safes' products and more stable conditions at Gardwel and Sapco, should bolster Klpton's earnings — though not to the extent seen this year.

*Pam Baskind*
Vitrex in growth plan

ARCHITECTURAL products producer Vitreex's R500 000 acquisition of Bitcon Industries will add impetus to its growth programme, says MD Alan Friedman.

Bitcon Industries, a local manufacturer of fire, security and transformer doors, was established 10 years ago and has supplied safety doors to, among others, Eskom power stations, the Reserve Bank in Pretoria, and Iscor.

Initially it produced pressed metal door frames, office partitioning and curtain walling, says Friedman.

But after the sale of the company to James Haslam, who later formed the Underhold Group, management structure changed and the company—Tenon Contracts was acquired to reinforce and expand the Bitcon partition side of the operations.

Bitcon Industries soon diversified further and under the leadership of John Aander, developed a range of stainless steel products, fire doors and bullet resistant security doors.

Among recent developments by Bitcon is a new lightweight, and economic fire-resistant core material for fire doors, Tenon Contracts, which is now also owned by Vitreex, has developed a fire resistant demountable drywall partition currently awaiting an SABS fire rating (35).

Friedman expects the range of products to complement Vitreex's existing lines.
**COMPANIES**

**Toco to pay out interims**

**By Liz Roux**

Toco Holdings, the manufacturer and international marketer of industrial products, intends to start paying interim dividends this year, having paid only annual dividends before.

Chairman Paul Todd says in his annual review the first interim will be paid in November for the six months ending September. About one-third of total dividends for each year will be declared at the interim stage. Toco earned 16c a share in March 1990, up 24% on the previous year, and lifted the annual dividend 20% to 6c.

Todd says that, subject to there being no significant change in the trading environment that existed at the time of writing (July 30), the board expects earnings and dividends will be at least maintained in the current year.

He warns, however, that the group is not immune to unpredictable change on the socio-economic front.

Todd says Toco will continue to concentrate on organic growth, while being aware of the strategic advantage that its underpinned balance sheet offers for making acquisitions which will be of solid value to shareholders.

Attention will continue to be paid to asset management to ensure that interest cover and gearing remain within prudent limits, says Todd. The group's gearing was only 25% at the end of March.

---

**Sasol expects its profits to improve**

**By Zilla Effat**

Sasol, which posted an 18.3% rise in earnings in the year to June, expects its profits to show an improvement in the current year.

Chairman Joe Stegmann says growth will come from strict cost controls, restoring the Secunda plants to optimum production levels and the commissioning of the propylene/polypolypropylene project.

However, earnings growth could be further boosted if world oil prices remain above $23 a barrel as they have recently.

In line with the tariff protection structure for the synfuels industry, Sasol enjoys no protection or benefits once world oil prices go over $23 a barrel.

When prices reach $38.70 a barrel, it pays back 25% of the income above that amount a barrel until the accumulated "protection" amount is previously enjoyed has been recovered.

Stegmann says the tariff protection framework currently makes a takeover of the outstanding 50% in Sasol 3 economically viable.

Negotiations with government for this stake, which will be worth billions of rand, and the means of financing it, are under way.

While Sasol has huge capex projects in the pipeline, it has no gearing. Thus it could fund the acquisition through increased borrowings or a rights issue.

While petrochemical activities are seen as the main growth source of the 1990s synfuels will remain the mainstay of Sasol's business for the foreseeable future, Stegmann says.

New projects amounting to R2.6bn are under construction or have been approved and petro-chemical projects worth nearly R2bn are being investigated.

Most new projects are based on adding value to existing chemical streams while aimed at import replacement, they have a strong export focus.

Stegmann says Sasol aims to gradually increase dividend cover — 2.2 times in the year to June — if operating results permit it.

Sasol also changed its method of accounting for deferred tax from the comprehensive to the partial basis in the year to June, the effect of the change was abnormally large because of the completion of some high value capital projects and R2.3bn was transferred to the equalisation reserve.

Stegmann expects the tax rate to fall to normal levels in the current year.
TPN's profitability down

EDWIN UNDERWOOD

TPN Investments (TPN), whose subsidiaries manufacture and distribute industrial fasteners, has reported an 11% fall in earnings a share to 74c (83c).

This came on a 10% drop in net operating income from R74m to R68m for the year to end-June. A dividend of 33c (33c) has been declared with a 21 times cover.

The directors said the group's (undisclosed) turnover increased by 32% compared with the previous year, but overall profitability and attributable earnings declined, mainly due to low profit margins on exports.

No indication of the group's operating expenses are given.

Earnings attributable to ordinary shareholders declined by 11% to R5.7m (R6.4m) along with a 26% fall in retained income to R1.9m (R2.7m).

On the balance sheet current liabilities were down 44% to R4.5m (R8.7m). But long term liabilities rose 60% to R3m (R1.9m).
RACY

COSTLY CHASE

Activities: Holding company of Hendler’s Industrial Carriers and Diesel City

Controls: Directors 46%

Chairman: I J Jacobson, MD A C Jacobson

Capital structure: 25.7m ords Market capitalisation R7.7m

Share market: Price 30c Yields 6.7% on dividend, 25% on earnings, p/e ratio 4, cover 3.7 12-month high, 75c, low, 30c. Trading volume last quarter, 955 800 shares

Year to Mar 31

<table>
<thead>
<tr>
<th></th>
<th>'88</th>
<th>'89</th>
<th>'90</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST debt (Rm)</td>
<td>1.9</td>
<td>4.7</td>
<td>6.7</td>
</tr>
<tr>
<td>LT debt (Rm)</td>
<td>0.7</td>
<td>5.2</td>
<td>6.2</td>
</tr>
<tr>
<td>Debt equity ratio</td>
<td>0.18</td>
<td>0.56</td>
<td>0.64</td>
</tr>
<tr>
<td>Shareholders interest</td>
<td>0.84</td>
<td>0.48</td>
<td>0.43</td>
</tr>
<tr>
<td>Int &amp; leasing cover</td>
<td>24.9</td>
<td>10.2</td>
<td>3.6</td>
</tr>
<tr>
<td>Return on cap (%)</td>
<td>14.1</td>
<td>17.4</td>
<td>12.6</td>
</tr>
<tr>
<td>Turnover (Rm)</td>
<td>32.2</td>
<td>46.2</td>
<td>86.9</td>
</tr>
<tr>
<td>Pre-int profit (Rm)</td>
<td>3.8</td>
<td>6.1</td>
<td>5.4</td>
</tr>
<tr>
<td>Pre-int margin (%)</td>
<td>11.7</td>
<td>13.3</td>
<td>9.6</td>
</tr>
<tr>
<td>Earnings (a)</td>
<td>11.5</td>
<td>14.2</td>
<td>7.5</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>5.6</td>
<td>6.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Net worth (c)</td>
<td>68</td>
<td>66.9</td>
<td>71.5</td>
</tr>
</tbody>
</table>

Racy’s chase for market share has ended in a 75% drop in EPS, after turnover rose by 21% and finance costs by 21%. But management seems to be satisfied with the expansion policy and capital spending of R1m is budgeted for this year.

Income is derived from the national transport carrier, Hendler’s, and the diesel engine rebuilders, Diesel City.

Chairman Ivor Jacobson expects gearing will return to 50% this year, “if nothing unforeseen happens.” He also hopes to see an 8% return on assets managed and a 20% return on shareholders’ funds. These targets look some way off, given the 1990 year’s return on equity of only 10.5%.

When the recent expansion will benefit earnings is unclear. Market share was boosted at the expense of operating margins, though management is seeking an improvement in these this year. The market share gains encouraged the group to enlarge its transport fleet, which was funded by borrowings.

It has now become necessary to conserve cash. Cover has been lifted to four times and dividends will in future be declared only once a year.

Earnings were also affected by an increase in the effective tax rate, which has now risen to the full rate.

The Diesel City subsidiary is performing satisfactorily and should do better as the cost of buying new engines continues to escalate. Management is looking for 30% turnover growth this year, though that looks optimistic.

Near-term prospects will depend on the economy and fuel prices, neither of which look favourable. The share has slumped to 35c from the 75c high a year ago.

Gerhard Stehler

dividends will in future be declared once a year.

Earnings were also affected by an increase in the effective tax rate, which has now risen to the full rate.

The Diesel City subsidiary is performing satisfactorily and should do better as the cost of buying new engines continues to escalate. Management is looking for 30% turnover growth this year, though that looks optimistic.

Near-term prospects will depend on the economy and fuel prices, neither of which look favourable. The share has slumped to 35c from the 75c high a year ago.

Gerhard Stehler
Earnings dive for Maxmech

MAXMECH Mechanical Seals, which did not publish its year-end results within the prescribed period, posted a 70% drop in attributable earnings for the year to end February 1990.

Results published today show a loss of R108 000 before taxation — incurred on the discontinued investment in the specialized field of metal bellows — which resulted in lower operating margins (18%).

Although turnover increased by 28% to R6.6m (R5.6m), operating margins fell to 3.3% (6.5%).

Earnings, which slipped to 1c (2.3c) a share, followed two years of disappointing results from the JCM-listed supplier of sealing devices.

An extraordinary item, reflecting the net cost of the write-down of the discontinued investment and a profit made on the disposal of an operating division, resulted in a loss of R28 000.

However, management were optimistic that Maxmech had addressed its high cost structure through an internal restructuring.

Notwithstanding difficult trading conditions for the short to medium term, Maxmech expects better results in the current financial year.
Maxmech cuts back to improve results

By Derek Tommey

Maxmech Mechanical Seals' profit dropped sharply in the year ended February but the directors say that as a result of disposals and closures shareholders can look forward to significantly better results.

The company had a taxed profit before extraordinary items of R28 000 in the year ended February. This compares with a taxed profit of R33 000 for the previous financial year. Tax took R35 000 (R57 000). Turnover rose by 28 percent from R4.6 million to R5.9 million while operating income rose from R302 000 to R316 000. But finance costs jumped to R253 000.

Income attributable to shareholders after extraordinary items was R25 000 (R113 000) equal to 1.6c (2.3c) a share. The net asset value of the company's shares at February 28 was 29.8c (58.1c).
ADE reveals long-awaited plan to stay in the black

BY EDWIN UNDERWOOD

ADE, the Cape-based manufacturer of diesel engines and components, has announced its long-awaited plan to prevent the company from slipping back into the red.

ADE supplies about 95% of the total market of diesel engines for heavy commercial vehicles, 75% for medium vehicles and 80% for the tractor market.

The company’s strategy includes increasing its market penetration, focusing on exports, lowering its prices and a rethinking exercise with stringent parameters to increase inventory turnover.

ADE is faced with rising costs, an easing domestic market and tougher international competition. It recently cut its workforce by nearly 20% or 500 employees.

A month ago, it introduced a tough rationalisation programme and announced a new management team.

“Now, says ADE MD Fritz Korte, “we are having to address the pricing issue especially if we want to compete successfully in overseas markets and improve our domestic market share”.

Earlier in the year, there was criticism that ADE’s price increases were well above average in respect of locally manufactured diesel engines and transmissions. But Korte says that he has targeted our price increases for next year to 10% below inflation, depending on fluctuations in the exchange rate and how soon the promised savings can be realised.

There has been a 33% drop in forecast tractor sales to 4 000 units for 1990, a reduction in the heavy truck demand and reductions in customer’s stock levels.

Total market retail sales for diesel engines suffered a 6% fall to 19 798 units in 1989 and a further 18% drop to 16 709 units is expected this year. However, sales of 16 000 units and 15 000 units respectively are forecast for 1991 and 1992.

ADE will only produce about 14 500 engines in 1999 and 13 500 engines in 1999 for the tractor and truck market due to destocking by vehicle manufacturers.

To remain profitable, ADE will have to achieve a R815m turnover on its sales mix. While ADE expects its share of the industrial engine market to grow by 30% by 1992, the replacement parts market is said to have a potential real growth of 15% a year and the Phase VI local content regulations opened new markets for component business both locally and internationally.

Orders for component sales worth R39m for this year have been received and estimates for 1991 are set at R39m.

ADE also plans to penetrate the industrial engine market by 10% to 20% in the short term and gain export orders for components where ADE has established plant and expertise. The reduction of input costs is being discussed with the licensee and ADE is negotiating with local suppliers for a reduction in the price of materials.

Although Japanese manufacturers appear to have the ability to price ADE out of the international market, its licensors, Daimler-Benz and Perkins UK, are giving it the technological backing it requires.
ADE faces new threats

By REG RUMNEY

NEW threats imperil strategic diesel engine maker Atlantis Diesel Engines

ADE was set up at the beginning of the Eighties to counter a possible truck embargo and for import replacement.

Ironically, in past years it has begun to look like a good idea on economic grounds, holding out hopes of big savings in foreign exchange. Since the plant was instituted the company has been profitable only over the past three years.

It needs turnover of R600-million to break even. Turnover this year is expected to fall short of that.

ADE MD Fritz Korne said at the Electra Mining Exhibition in Johannesburg this week that ADE had been badly hurt by a plunge in truck and tractor sales

The forecast for tractor sales this year is now a new low of 4 200 units, down about 2 000. Medium truck sales have held up, but heavy truck sales are forecast at 7 500, 2 200 less than were sold last year.

As a result ADE has had to trim down, retraining hourly and monthly paid workers, and had made a strategic decision to keep a lid on prices. It also plans to increase market share penetration in industrial engines from 10 to 20 per cent and increase component exports.
**Activities:** Manufactures, markets, installs, services and reconditions a complete range of equipment for the banking and confectionary industry

**Control:** 41% (1989 51%) held by directors

**Chief executive:** R J Pouhart

**Capital structure:** 15.4m ords Market capitalisation R3.4m

**Share market:** Price 22c Yields —% on dividend, 26% on earnings, p/e ratio, 3.8 12-month high, 27c, low, 10c Trading volume last quarter 232 800 shares

<table>
<thead>
<tr>
<th>Year to Feb</th>
<th>88</th>
<th>89</th>
<th>90</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST debt (Rm)</td>
<td>7.32</td>
<td>8.03</td>
<td>6.89</td>
</tr>
<tr>
<td>LT debt (Rm)</td>
<td>0.21</td>
<td>1.49</td>
<td>2.58</td>
</tr>
<tr>
<td>Debt equity ratio</td>
<td>0.63</td>
<td>0.78</td>
<td>2.3</td>
</tr>
<tr>
<td>Shareholders' interest</td>
<td>0.35</td>
<td>0.30</td>
<td>0.18</td>
</tr>
<tr>
<td>Int &amp; leasing cover</td>
<td>1.81</td>
<td>1.68</td>
<td>1.37</td>
</tr>
<tr>
<td>Return on cap (%)</td>
<td>10.5</td>
<td>9.3</td>
<td>11.1</td>
</tr>
<tr>
<td>Turnover (Rm)</td>
<td>31.0</td>
<td>41.9</td>
<td>37.7</td>
</tr>
<tr>
<td>Pre-est profit (Rm)</td>
<td>2.10</td>
<td>2.34</td>
<td>2.67</td>
</tr>
<tr>
<td>Pre-est margin (%)</td>
<td>8.8</td>
<td>5.6</td>
<td>7.1</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>6.0</td>
<td>5.0</td>
<td>5.7</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>2.4</td>
<td>1.7</td>
<td>—</td>
</tr>
<tr>
<td>Net worth (c)</td>
<td>45.4</td>
<td>48.7</td>
<td>28.9</td>
</tr>
</tbody>
</table>

**The past two financial years must have been nightmarish for Rammund Pouhart, now CE of Macadams Bakery Supplies. After transferring the listing of the group to the JSE's main board in 1989, everything seemed to go wrong.**

The Aloe division was badly affected by "the dramatic decline in demand for mass catering equipment from Aloe's two major customers, the SADF/Arasscor and the mining industry. The plant bakery division, which manufactured one-off large commercial ovens, did not perform to expectations. So this division was subcontracted on a royalty basis. Large raw material price increases hammered margins.

The interest bill climbed significantly, due as much to the purchase of the head office complex in 1989 for R4.2m as to the increased interest rates and a debt position that was already too high. Former chairman Wolfhard Schumann departed.

Results for the past two years have not been good. Turnover in the 1990 year fell by 10.2%, interest payments rose by 60% on a record R103m total debt and the pre-interest margin reached a low of 5.6% in 1989. And, on the face of it, profitability was devastated by the R3.1m loss recorded in 1990.

However, in reality, net income after tax was 14% higher in 1990 than the previous year. A R4m write-off of goodwill and other factors relating to the Aloe division pulled attributable profits down into the large loss reflected in the accounts.

In his review, Pouhart emphasizes that margins are back on track; the bakery division is performing well, focusing on the original activities has been restored and the operation is on a much more secure financial footing. Having sold the head office complex on a leaseback deal for a profit of R2.1m, which will only be reflected in the 1991 accounts, and having collected about R3m from debtors associated with the Aloe division, interest-bearing debt is likely to be reduced to about R5m at year-end. Interest payments will reduce accordingly.

Financial director Kevin McEvoy says the half year to end-August should reflect attributable earnings of about R500 000. A repeat performance in the second half will restore the group's credibility, particularly as it will be trading off a much healthier, though smaller base. The dividend was passed in 1990. It is likely to be restored next year.

_Gerald Hirsch_
Benz ‘missed targets for years’

Own Correspondent
JOHANNESBURG — Mercedes-Benz SA’s East London plant had not met its weekly production targets once in the past five years because of industrial relations problems, Mercedes-Benz spokesman Ms Wendy Hoffman said at the weekend.

Ms Hoffman said go-slow and absenteeism at the East London plant were responsible for the shortfalls in production. She said chairman Mr Chris Kopke had expressed concern that labour problems were the single greatest threat to the firm’s viability.

But the firm was confident the National Union of Metalworkers (Numsa) would agree to procedures under discussion, which would provide a stable future for all plant employees.

Production had been at a standstill since mid-August, when Numsa members staged a sit-in to demand the company withdraw from the industry’s national collective bargaining forum.

Our East London correspondent reports that companies ancillary to the Mercedes-Benz plant are bracing themselves for the possibility that production at the factory will not be resumed this year.

Two weeks ago these companies, which supply components to Mercedes-Benz, began laying off workers as no end to negotiations between management and Numsa was in sight. It was feared that if Mercedes-Benz was not back on stream by the end of the month, it might not open until next year as it would have to close for the Christmas industrial holiday during December.

Turn, which supplies engine blocks to Mercedes-Benz, has laid off 155 of its 250 workers. The Wilsonia factory’s financial manager, Mr Jan Mans, said last week that his company was preparing for “the worst scenario.”

Mr Mike Crosby, financial director of National Convertor Industries (NCI), which makes Mercedes-Benz interior fittings, said his people were working two days a week until there was “something definite to go on.”

If production was suspended until the end of the year NCI would probably retrench staff.

The department manufacturing wire-harnesses for Mercedes-Benz at Kromberg and Schubert had been closed.

And Mr Roger Wass, general manager of Fellex, which manufactures seating foam rubber, said he was aware of the talk about no production until next year, but did not believe it.

If it did happen Fellex would have to retrench 40% to 50% of its workforce. However, it was managing to keep people employed by finding alternative work.

None of the companies would disclose losses suffered since the hundreds of Mercedes-Benz workers went on strike on August 16.

Kromberg and Schubert, Turn and Fellex said they would consider releasing the figures soon.

Mercedes-Benz had said its plant was losing R13,5m a day since the strike began.

East London Chamber of Commerce director Mr David Groom said the region could lose up to R200m a year and up to 10 000 jobs if Mercedes-Benz closed down its plant.
Dicor offers little relief

The market performances of troubled mining and supplies group Danech Industrial Corporation (Dicor) and its stablemates has done little in the past few weeks to comfort disappointed shareholders.

Market perception is at an all-time low. Danglo subsidiary Plantall, despite turning in a reasonable performance for the six months to March, is lagging at a 12-month low of 45c, while ailing Danglo itself yesterday slipped 2c to a low of 6c a share before climbing back to 8c.

Pyramid holding group Dicor has slipped several cents since it issued a cautionary last week. Its current share price of 7c is a far cry from 1997's 140c level. Its market capitalisation has dwindled from its issued capitalisation of R31.3m to a meagre R5.5m — a drop of 88%.

While Dicor directors were tight-lipped as to the reasons for the cautionary yesterday, market speculation was that it entailed a radical restructuring which could involve a change in group control. TrustBank is rumoured to be involved, in an attempt to recoup some of the roughly R13m owed to it by Dicor.

Industry sources believe co-founder Neville Parry, reputed to be holding to the UK for business opportunities, could well be left out in the cold as a result of the restructuring.

Group MD Bob Westerhijl yesterday refused to furnish details of any restructuring plans. He said a further announcement would be made in "about a week".

Last year major rationalisations put the group back in the black following a disastrous 1998 financial year, fuelled by large extraordinary losses, poor earnings and soaring debt. The rekindled optimism in the group was shortlived as the group again slumped on poor operating performances and gearing problems for the six months to March.

Danech Mining Supplies, owned 51% by Danglo, pulled group earnings down significantly for the first six months of this year — posting a bottom-line profit of only R11 000 after extraordinary items. Earnings were somewhat alleviated, however, by the relative star of the stable, Danglo subsidiary Plantall, which showed a 77% increase in attributable income for the six-month period.
Saldanha finds a R1 500-million platform for export success

By TOM HOOD
Business Editor

EXPORT inquiries for R1 500-million worth of oil-field equipment have flowed into Saldanha since the completion of the 14 600-ton platform for Mossgas.

It could mean 750 new jobs, mostly highly skilled and well-paid, for several years.

The inquiries come from South American and African countries and are for five platforms similar to the Mossgas one finished two weeks ahead of time and within a R300-million budget.

The Saldanha yard has gone all-out to seek export orders, according to officials of Geocore Offshore, the operating company.

A world boom in oil exploration has been caused by the Gulf crisis, which doubled oil prices in a few weeks and made a number of oil deposits payable for the first time. The low rand could also help South African companies undercut other countries.

First in Africa

The Saldanha platform was the first to be fabricated and assembled on the African continent. At its peak, the project employed 126 workers, 80 percent of them from the Western Cape.

Mr Bernard Smith, managing director of Mossgas, said the Mossel Bay project was now clearly commercially viable with world oil prices increasing to $40 a barrel.

"We estimated Mossgas would be viable at a price above $30," he said.

"Mossgas will provide the cheapest cash-cost fuel in this country at any reasonable petroleum price."

He also estimated Mossgas would save the country R24-billion a year in foreign exchange, doubling earlier calculations.
acquisitions in its new role as an industrial holding company. Executive chairman Brian Joffe says acquisitions will be in trading, distribution or light manufacturing companies in major industries.

With effect from July, the group has been restructured. Bicorp is now a pyramid company holding 60% of Bidvest, which in turn

100% of CaterPlus, 50% of Justine, 52% of Afcon and 76% of Afpac. CaterPlus and Justine were acquired from Bicorp.

The results for the year to end-June cannot be compared meaningfully with the 1989 year, as at that time Bidvest had only its motor and property interests, which it disposed of in March 1989. 1990 figures also do not include the latest restructuring, which was completed after the financial year-end.

The report does, however, give pro forma figures that show the effect of the new structure had it been in place during the 1990 year. Turnover would have been more than 200% higher at R363m and attributable earnings more than 250% greater at R85.7m. With 8.2m instead of 2.3m shares in issue, EPS would have dropped from 241c to 237c.

Joffe says the reason for restructuring is to clean up what had become a double-pyramid structure when, in July 1989, the group bought Afcon, which makes and distributes fastening and packaging equipment and materials.

Afcon's operating arm, Afpac, has disposed of its operating assets to Afcon, and will become a cash shell holding R48m - coincidentally the same amount as the rights issue raised from disposal of these assets.

Joffe says Afpac will be reclassified a cash shell and its listing suspended pending acquisition of assets that meet the JSE's requirements. Should that not happen within six months of reclassification the share will be delisted and the cash refunded to shareholders.

The outlook for the current year will depend largely on the resilience of the subsidiaries CaterPlus, a manufacturer and producer of foods to niche markets, which fell directly under Bicorp during the year, was the group's best performer because of its non-cyclical nature. Turnover rose 35% to R244m, while operating profit was 44% higher at R19m.

Afcon, which is Bidvest's principal investment, bore the brunt of the recession and saw volumes decline and margins squeezed. Attributable profit fell 2% to R7.7m. Details of Justine's results are not given, but Joffe says they were better than anticipated.

The newly structured group has the benefit of being relatively ungeared. Its 7.5% times debt/equity ratio is in line with averages for the industrial holdings sector. Prospects for the year ahead are unlikely to be much improved, because of the continued downturn in the business cycle. However, CaterPlus's non-cyclical nature, and the good return the group will earn from its R48m cash, will help.

BIDVEST

ANOTHER LEAP

The Bidvest rights issue closed last week with R48m raised from outside shareholders. The amount, including R7m from the Afcon rights issue, will be used by Bidvest to fund

Bidvest's Joffe

cleaner structure

France

Activities: Principal activities include manufac-

ture and distribution of fastening and packaging
equipment and materials.

Controls: Bicorp 60%, directors control 39% of

Bidcor.

Executive chairman: B Joffe.

Capital structure: 2.4m ordinary shares, market capitalisation R4.2m.

Share market: Price 1 800c. Yields 5.3% on
dividend. 13.4% on earnings, p/e ratio 7.5;

cover, 2.5; 12-month high, 2 200c; low, 1

750c; trading volume last quarter, 9 440 shares.

Year to Jun 30

%98 99 %98

ST debt (%m) 0 4

LT debt (%m) 3.7

Debt equity ratio n/a n/a

Shareholders’ interest 0.85 0.66

Less leases leased cover 51.1 201.7

Earnings (%m) 24 22.6

Debts (%m) 85.9 115.1 383.3

Pre-int profit (%m) 11.9 17.1

Pre-int margin (%) 13.8 14.8

Earnings (%m) 267.7 241.3 237

Dividends (%m) 100 96

Net worth (%m) 1 798 1 198 1 041

* Pro forma includes acquisitions after year-end.

† Reflects motor and property interests only.

Rebecca Fornyby

Source: J D Andriessen

111 • FINANCIAL MAIL • OCTOBER 5 • 1990
Other Acts to go with demise of Group Areas

EDITH BULIRING

PRETORIA — The scrapping of the Group Areas Act, expected to take place during the next parliamentary session, would result in the abolition or amendment of nearly 80 other parliamentary Acts and provincial ordinances, a senior government official said yesterday.

The most important Acts to be affected were the Black Communities Development Act, the Black Local Authorities Act and the Population Registration Act.

A special technical committee under the Planning and Provincial Affairs Department was set up last month to study the affect the scrapping of the Group Areas Act would have on other legislation.

The technical committee, consisting of officials from all the relevant departments and the four provincial administrations, would report its findings to cabinet before the next parliamentary session.

The official said the committee would examine all legislation based on race that could lead to discriminatory actions, making the scrapping of the Group Areas Act ineffective.

Government had learnt its lesson over the Local Government in Free Settlement Areas Act, which had been basically ineffective because of other existing legislation. Many of the Acts that would be affected were those that were passed separately by the three Houses of Parliament since 1983 leading to population groups being treated unequally.

The committee’s brief was to look at the Acts where they related to the possible discrimination against a particular group. Many of the Acts, based on population groups would have to be scrapped or amended to make the Acts “universal,” the official said.

Poor tractor sales testing new lows

TRACTOR sales to the end of September declined by 26.6% to 3,699 units compared with 4,195 the previous year, SA Agricultural Machinery Association chairman Aubrey Gouws said on Tuesday.

He said farmers were expected to purchase just more than 4,000 units this year, the lowest recorded, at about R25,000 for a 58kW tractor, compared with 5,407 last year.

Gouws said the sales drop in September was due to poor agricultural conditions in most wheat-producing areas. Unless good rains fell by early November, less than two million tons would be harvested.

High interest rates and uncertainty among farmers following government reform initiatives also remained as obstacles in respect of agricultural machinery purchases.

He said the average age of tractors in SA was about nine years, compared with five to seven years in other Western countries.

Gouws said sales of other agricultural equipment, such as self-propelled combines which ranged between R300,000 and R500,000, were expected to be in the region of 180 and 200 units, down approximately 15% on last year.

For balers, this year’s market would be down by 30-35% against last year.
STOCKHOLM. — An application to invest more than four million crowns in SKF's ball bearing plant in Uddhagen in the Eastern Cape was granted by the Swedish Board of Commerce last week. Mr. Edgar Schindler, agent for SKF in South Africa, said, however, that the new machinery had not yet been ordered for the plant and that the plant was complete and work was still being improved. Mr. Schindler said that the new machinery would only increase output and improve workmanship, and that new machinery would be needed at the plant. When asked if the company had not already been in South Africa for a long time, Mr. Schindler replied that the company had been in South Africa for many years and had not been asked to leave. The decision was based on the grounds that it was in line with existing legislation and that the investment was needed to increase production. The investment was also in line with the company's policy of expanding new investments in South Africa and may help to improve the company's position in South Africa.
Results reflect organic growth as well as expansion through acquisition. The balance sheet remains sound and further acquisitions may be on the cards this year.

Disposal of the instrumentation and valve divisions of Harvey & Russell for R4.3m helped boost the operating margin to 10.9% and transform a 56% turnover rise into an 80% operating profit improvement.

Growth in turnover was partly thanks to the inclusion of Austen Safe (bought in August 1989 for R6.4m) for a full year and AMG (bought in January 1990 for R10.8m) for the second six months. Joint chairman Nigel and Robin Matthews say trading conditions became increasingly difficult, except in physical security products, for which the market is large and still growing.

The broad customer base of Castor & Ladder (distributes castors and wheels) and Forleser (makes aluminum ladders and scaffolding) offered protection from severe downturns in some industries. But Sapco (manufactures and distributes pneumatic tools, lifting and welding equipment) was hit by low activity in gold mining.

Depletion of assessed tax losses pushed the effective tax rate from 34% in financial 1989 to 42%. This and the issue of shares to fund the two acquisitions limited earnings growth.

The balance sheet remains healthy. Acquisitions did lift interest-bearing debt from R4.6m to R8.3m but strict working capital control and strong cash flow allowed interest costs and debt to be contained. Debt equity ratio and interest cover both improved.

This year, the Matthews intend to concentrate on growing existing businesses, increasing market shares and developing new products. They also want to take advantage of the new export incentives. There are already export markets for Gardwel (protective clothing and equipment), Sapco and Austen Safe, but they will be expanded.

Further acquisitions are not ruled out, but "balance-sheet ratios will be preserved." Difficult trading conditions are expected, except for physical security products. It seems unlikely that 1990's growth rate will be repeated. The report does not detail divisional operating performance, making an assessment of management difficult, and the impact of acquisitions hard to determine. This may explain why the earnings multiple and dividend lag the average of the industrial holding sector.
Vision and energy beat off liquidation

JAGUAR Catering Equipment is an extraordinary "creation".
It represents the vision and energy of its owner, former newspaper owner and management consultant John Theo.
A newcomer to both manufacturing and stainless steel catering equipment, Theo bought a company on the brink of liquidation.
It had not a single product drawing, no production scheduling system, and no trained and stable workforce.

"Spur-of-the-moment" investment, Theo tackled the task in three stages.
"It's the same as treating a trauma patient. You have crisis, stabilisation and then transformation."
"In the stabilisation stage, one looks for a return to profitability and, finally, one looks for growth," says Theo.

He built up a management team of complementary administration, financial and production skills and the company embarked on staff training and recruitment.

Over 2,000 drawings for each component part of the products manufactured had to be prepared, checked and committed to a CAD/CAM system.
Wastage of raw materials such as stainless steel was reduced from 23% to 7% — largely due to moving from the use of sheet metal to coil, using Jaguar's custom-manufactured de-coiling and slitting machine.

"It took 18 months and substantial investment," says Theo.

But positive results were rapid. Turnover has risen each year — by 16% to February 1993, 15% to 1992 and 22% to 1990.
After three years, turnover has risen by 63% on the 1987 base year in which Theo took over.

Jaguar is today the largest manufacturer of the SA catering industry in products such as stainless steel tables, cold rooms, fish fryers, sinks, toasters, grillers, pie warmers, baines marie and wrapping machines — a product introduced as a logical use of off-cuts.

Proactive spirit in
Tecfin beats the squeeze on margins

Marie C. du Plessis

VENTURE capital market company Tecfin Investments managed to withstand tight trading conditions in the six months to end-August 1990, despite the squeeze on operating margins.

The company has interests in clothing and nuts and bolts and was listed in August last year. Results published today show that margins contracted to 11.5% in the first six months compared with the 13.9% for the full 1989 financial year.

Turnover of R4.6m almost equaled the R4.7m for the year to end-February, generating an operating income of R531 000 compared with the previous year's R61 000. Attributable income came in at R203 600 from last year's R296 000.

The interest bill arising from Tecfin's R5.8m acquisition of Bolt-Up in February restricted earnings growth. Earnings a share of 0.9c were posted compared with last year's 3.1c.
Mine pack wins award

By Derek Tommey

A new mining pack (left) developed by four South African companies has been awarded the prestigious Cullinan Chairman's Design Award.

The pack is expected to lead to substantial cost savings in the mining industry and to increased safety.

Called the Packsetter, it comprises a specially designed wooden pack on top of which is placed a pre-stressed bag made by Nampak subsidiary Tufbag.

The bag can withstand pressures of up to 400kPa.

When the pack is put into place the bag is filled with a special grout made by Fosroc with a lightweight pump designed by Nicro.

The bag takes up the contours of the hanging wall and provides a far wider area of support than the normal pack.

The grout is designed to have the same crumbling rate as the wood in the pack.

Colin Sawyer, managing director of HL&H Mining Timber, which was the prime mover in the design project, says the pack has been hailed as a major breakthrough by the mining industry.

It is the first time that a mine support has been able to meet the strict Chamber of Mines requirements for active stope support.

The pack could be installed in far less time than the traditional packs. It could be installed close to the stope face. The packs were not blasted out so that timber wastage was reduced.
Government to investigate motor trade

"And the thoughtless, dishonest or incompetent actions of a small number of people can endanger the interests of the many who have reason to be proud of their work."

Durr said the investigation would also focus on "the law relating to consumer transactions concerning motor cars."

Meanwhile, he urged the federation to update its code of conduct in view of changes in the economy and customer base and the increasing emphasis on consumerism.

The President of the Motor Industries Federation, Chris de Weert, said it had looked into 1,047 complaints in the past year and found 408 to be justified and 468 unfounded. Of the others, 2 were unsolved and 119 still pending.

De Weert said 627 of the complaints were about repairs and 225 about the sale of used cars.

Opening the conference, Durr said an estimated 259,000 people were employed in the motor industry "and many more in transport-related industries and activities such as the road freight and passenger transport systems."

"Of this total, some 37,000 are in manufacturing, approximately 61,000 in components manufacturing, with the balance of 165,000 being involved in sales, maintenance and servicing activities."

"A fluctuation of only 10% in employment in this industry may mean added employment of 28,000 employable people — or it may mean the direct creation of 26,000 new jobs."

This explained Durr, was one of the reasons local content requirement had been boosted "to develop this sector into not only one of the key players in the SA economy but also a participant to be reckoned with in the global motor vehicle industry."

The results, he continued, were "very encouraging, the industry having performed far better than initially expected."

Teething problems were being attended to by the government in close liaison with the industry.

"We are integrating our industry into the global market. But successful global trading brings the need for global competitiveness and internationally ac-
COMPANIES

Profit increase for Sondor

Under testing economic conditions the group's earnings on share also rose 15% to 8,74c (7.4c). Industrial unrest and work stoppages at motor manufacturing plants in Port Elizabeth and East London in the Eastern Cape adversely affected most Sondor operations, causing turnover to creep up a mere 2.5% to R9,7m (R8.5m).

George Copeland said the first six months were the group's more productive period. The period thereafter only included five working months due to the general factory shutdown during the December holidays.
Soviet hopes and fears

A delegation from the University of the Western Cape recently visited Moscow and Leningrad as guests of the Soviet Afro-Asian Solidarity Committee. It consisted of Rector Janes Gemwel, Vice-Rector Jaap Durand, and history professor, Collin Bundy.

Here, COLIN BUNDY comments on some impressions of the visit:

...
Valard turnaround a new credit to Valhold

INDUSTRIAL supplies company Valhold has consolidated its reputation as master of the quick turnaround by reviving the struggling automotive component manufacturer Landlock — now Valard — during the four-month period since its reverse takeover in June this year.

Valard’s earnings per share moved to 7,6c for the four months since takeover compared to a loss of 10,6c in the then Landlock’s first five months of its financial year.

A dividend of 3,1c was declared by the directors, the first since 1994.

The major restructuring of Landlock took place in June when Landlock sold Garlock, SA’s largest manufacturer of brakes and clutches, to Auto Industrial for R22m and acquired all Valard’s businesses in return for an issue of shares which changed control of the troubled group.

Valard changed its name to Valhold, becoming the pyramid company of Landlock which, in turn, changed its name to Valard.

Valhold directors said after a significant rationalisation programme, the losses incurred by Landlock businesses had been stemmed.

“Whilst business conditions are expected to remain tight, the future profitability of the group is soundly based.”

Despite successes with Landlock, Valhold’s consolidated results reflected the general downswing in the economy. Attributable income increased marginally to R3,9m (R3,7m) for the six-month period ended September, while earnings per share edged up to 7,2c (6,9c). Group interest more than tripled to R3,1m (R1m) for the financial period.
The hot seat with no frills

By MAGGIE ROWLEY
Business Staff

A MAJOR plan of action being undertaken at Atlantis Diesel Engine (ADE) will be the make or break of the huge diesel engine manufacturing plant in the next two years.

Facing not only an easing domestic market but tougher international competition and rising costs, ADE was forced to cut its workforce by nearly 20 percent or 500 employees three months ago, has introduced further austerity measures to reduce overheads and is going all out to increase production.

Heading up the new streamlined Cape manufacturer is Argentine-born Fritz Korte, a "no-frills" man with a big heart and clear vision who is determined to succeed.

The sole ornamentation on his desk is a placard with the motto: "The first duty of those in high positions is to set a good example to others." in large print And it is a motto by which he abides.

In the five months that he has been in the hot seat he has done away with a number of executive privileges.

"While these are minor measures towards reducing operational costs it is important for management to be seen to be playing its part and it has helped spread a cost conscious attitude around the plant," he said.

Mr Korte, 48, who was born of German immigrant parents, qualified as a mechanical engineer after completing his schooling and worked for Daumler-Benz (D-B) in South America and Europe for 18 years before coming to South Africa with his wife and three children in 1985 as general manager of ADE's D-B plant.

"We jumped at the chance not only because it was a new challenging job but also due to the unfavourable political and economic climate in Argentina. We wanted a better environment for our children and I am extremely optimistic about the future of this country."

"While South Africa is a developing country, its basic structure is sound and its natural wealth and population give it an advantage over other developing countries."

"The country will no doubt have to go through a difficult period of finding the way but there is a lot of good will around and people in this country can solve its problems," he says.

ADE was started in December 1979 as a time when tractor and truck sales were peaking. In the early 1980s tractor sales topped nearly 25 000 units a year and truck sales about 30 000.

"Even the most pessimistic forecasts at the time would have been for combined sales of 30 000 and consequently ADE was built with a capacity to manufacture 40 000 units a year - less than a third of which is presently used."

While more than 20 000 engines were sold last year, sales this year had dropped off sharply due to the economic climate. Total sales this year are expected to be just over 14 800 - 3 340 tractor and 11 460 truck engines against 7 078 and 13 308 last year.

The protracted strike at the Mercedes-Benz plant this year had, he said, cost the D-B plant about 1 200 units.

Prospects for next year are even worse with combined sales of 14 690 - 4 420 tractor and 10 270 truck units.

ADE requires 17 000 units a year to break even and

See page 3
Steering ADE through difficult times

From page 1

through its rationalisation programme is aiming to reduce this to 16 000 in the short term and even lower in the long term.

"Once the economy picks up and demand rises to the 20 000 unit level we will be back in a comfortably profitable position," he said.

ADE, which is unique in the variety of products it manufactures, has a right to exist, he says. "But it has to earn this right.

Although the company enjoys a 50 per cent protection over foreign engines it has to pay a 10 per cent duty on imported components.

"It's unfair of our critics to expect us to compete directly with overseas markets which have economies of scale and more concentrated production.

"In addition the products we manufacture under licence from Mercedes Benz in Germany and Perkins of the UK are top of the range.

"Even European products are not price competitive with the Japanese models," he said.

The price difference between products manufactured here and in Europe is about 30 to 40 percent.

Close gap

"We are aiming to bring these down by about 20 percent in the next two years and close the gap even more in the long-term. If we don't we will not survive and succeeding requires being proactive."

Thanks to their licensees, ADE had access to the latest technology. However, the low and dropping volume of tractor sales could not justify the upgrading to the latest technology.

"But as you say in South Africa, 'a boer maak 'n plan' and we took elements necessary to improve certain functions such as fuel consumption and power and next year will be able to offer the latest technology at the same price.

"This is a prime example of the combination of overseas technology and South African ingenuity."

He said there were already signals that the rationalisation programme introduced in August would enable ADE to retain cost increases at levels below the rate of inflation next year.

"We have a long list of action that still has to be taken to improve our profitability and to become more competitive on the international market."

Operational costs had been addressed but the positive effects of the retrenchments would only be felt from January next year and a profit sharing incentive scheme is being investigated to motivate remaining staff.

Further savings

Further savings would be realised once the assembly plants for Perkins and D-B were combined next year.

Mr Korte said ADE was now striving to reduce input costs and was negotiating with both licensees and with local suppliers.

The company was also looking to increase sales in the local market by manufacturing industrial engines and was investigating producing high volume components not necessarily related to their present products.

"We are analysing a couple at the moment but a precondition is that they be high volume which will not only provide us with economy of scale but will also help carry us more easily through economic downturns."

ADE is to step up exports to offset the softening domestic market. It is already exporting to Britain and Germany and will be exporting to Brazil and Argentina from next year. All in all exports are expected to rise to about R40 million next year from R23,5 million this year and R18,4 million last year.

He said ADE had produced profits in the past couple of years but had accumulated losses from 1983 and 1984, which would have been wiped out if sales had remained above the 20 000 level this year.

"Once the full benefits of the rationalisation programme and our product expansion plans are felt I am confident there will be no looking back," he said.
ADE goes into austerity mode

MASSIE ROWLEY

Africa with his wife and three children in 1985 as general manager of ADE's D-B plant.

We jumped at the chance not only because it was a new challenge but also due to the unfavourable political and economic climate in Argentina. We wanted a better environment for our children and I am extremely optimistic about the future of this country.

While South Africa is a developing country, its basic structure is sound and its natural wealth and population give it an advantage over other developing countries.

Difficult times

"The country will no doubt have to go through a difficult period of finding the way but there is a lot of good will around and the people in this country can solve its problems," he says.

ADE was started in December 1979 at a time when tractor and truck sales were peaking. In the early 1980s, tractor sales topped nearly 25,000 units a year and truck sales about 30,000.

Even the most pessimistic forecasts at the time would have been for combined sales of 30,000 and consequently ADE was built with a capacity to manufacture 40,000 units a year less than a third of which is presently used.

While more than 20,000 engines were sold last year, sales this year had dropped off sharply due to the economic climate. Total sales this year are expected to be just over 14,000 — 3,340 tractors and 11,388 truck engines against 7,078 and 13,300 last year.

The protracted strike at the Mercedes-Benz plant this year had, he said, cost the D-B plant about 1,200 units.

Prospects for next year are even more dire with combined sales forecast of 14,690 — 14,630 tractors and 10,270 truck units.

ADE requires 17,000 units a year to break even and through its rationalisation programme is aiming to reduce this to 16,000 in the short term and even lower in the long term.

Once the economy picks up and demand rises to the 20,000 unit level, we will be back in a comfortably profitable position," he said.

Although the company enjoys a 50 percent protection over foreign engines, it has to pay a 10 percent duty on imported components.

"It's unfair of our critics to expect us to compete directly with overseas markets which have economies of scale and more concentrated production."

"In addition the products we manufacture under licence from Mercedes-Benz in Germany and Perkins of the UK are top of the range.

"Even European products are not price competitive with the Japanese models," he said.

The price difference between products manufactured here and in Europe is about 30 to 40 percent.

"We are aiming to bring these down by about 20 percent in the next two years and close the gap, even more in the long term. If we don't we will not survive and succeeding requires being proactive," he said.

Thanks to their licensees, ADE had access to the latest technology. However, the low and dropping volume of tractor sales could not justify the upgrading to the latest technology.

He said there were already signals that the rationalisation programme introduced in August would enable ADE to retain cost increases at levels below the rate of inflation next year.

"We have a long list of action that still has to be taken to improve our profitability and to become more competitive on the international market."
Klipton a sound prospect

Klipton performed admirably in the past year, despite tougher conditions in all areas except physical security products. Prospects for the current year are less exciting, but earnings growth should remain above average.

In the annual report, joint chairmen IN Matthews and RWH Matthews say the emphasis will be on improving organic growth by lifting market share and product development. The group is involved in the manufacture and distribution of specialised products. These include castors and wheels, ladders and scaffolding, lifting and welding equipment and safety and security equipment.

In the past year Klipton made two significant acquisitions, Austen Safe and the Access and Mobility Group, which have contributed to higher group profitability and have broadened target markets.

In the year to June, group turnover rose 56 percent from R57 million to R89.9 million and operating profit by 81 percent from R5.4 million to R9.7 million.

Net interest expense rose only seven percent to R4.9 million, which allowed pre-tax profit to go from R4.5 million to R8.7 million.

Diagonal Street

LYNN PEACH

An increase in the effective tax rate from 35.7 percent to 42.1 percent limited the rise in taxed profit to 70 percent from R3.5 million to R5.1 million.

After deducting outside shareholders' interest, attributable profit rose from R2.9 million to R5 million.

Based on a higher number of shares in issue, earnings per share grew 29 percent from 46.7c to 58.6c. The dividend was 19c (18c).

The balance sheet shows improved strength, with gearing down from 37.1 percent to 34.4 percent and a cash balance of R3.3 million (R500 000 a year ago).

Net asset value has, however, depreciated from 174c a share to 144c.

Klipton, priced at 310c, is trading on a P/E ratio of 5.3 and a dividend yield of 5.1 percent. The share appears realistically priced.

COMMENT: The share has been in an uptrend for over a year. Two months ago it touched a high of 340c before falling back to 310c. A decline below 300c will signal a trend reversal.
Charlotte Mathews

Industrial products manufacturer and supplier Toco Holdings is negotiating to acquire either some of the companies of provisionally liquidated Spectrum Industrial, or some of its assets.

Announcing a strong performance from the group for the six months to September and its first interim dividend of 25c a share, Toco Holdings chairman Paul Todd said Toco was offering R1.75bn for Spectrum and some of its companies.

If this offer was not approved by creditors and the Supreme Court, Toco still had the right to acquire some identified assets of the Spectrum group for a lesser sum.

Spectrum, whose shares are suspended from the JSE’s retailing and wholesaling sector, is a distributor of industrial components, tools and hardware.

Todd said this fitted in with Toco’s activities. Toco has four divisions — lifting equipment, special steels and metal treatment, gaskets and automotive products.

In the six-month period, Toco boosted turnover by 11% to R6.6bn. Operating profit grew faster by 38% to R8.9bn.

Operating margins had improved to 15.8% from 13.8% but Todd said there had been strong trade by divisions with a high value-added component and more normal margins were expected for the year.

Interest payable tripled because the group had raised its stock levels to increase market share in some areas. Todd expected interest cover, now 4.8 times (10.3 times) would fall by the year-end.

Attributable profits improved by 21% to R5.8bn but on an increased number of shares in issue earnings rose 16% to 8.8c.
Buoyant Toco pays maiden interim

Toco Holdings, manufacturer and international marketer of industrial products, lifted earnings a share 16 percent to 8.8c in the six months to September. Chairman Paul Todd says that in view of the company's steady progress and the board's confidence in the future, the directors had decided to pay an interim dividend of 2.5c.

Turnover rose 11 percent to R$68,8 million. Buoyant trading in divisions with a high value-added component helped to boost the operating margin to 15.8 percent, leading to a 38 percent jump in operating profit to R$8,9 million.

The increase in interest paid from R$30,000 to R$1,9 million reflected the decision announced last year to increase stock levels.

"Steps are being taken to reverse the resulting reduction in interest cover to 4.5 times for the period under review, and cover for the full year is expected to be in excess of our target of five times."

"The 16 percent increase in earnings a share is in line with our long-term objective of achieving growth in excess of the rate of inflation."

— Sapa.
CONSORTIUM TAKES CONTROL OF DICOR AT A COST OF R1.3M

CHARLOTTE MATHEWS

CONTROL of mining and supplies group Daneco Industrial Corporation (Dicor) has passed to a consortium consisting equally of group MD Bob Wenteler and stockbroker Jan Silvis for R1.3m in cash.

Former chairman of Daneco subsidiary Dango, Neville Parry, does not feature in the new arrangement.

Wenteler said last night Parry had wanted to get out of the business and was in England pursuing his own interests. Wenteler said the deal was perfectly amicable.

According to an announcement made today, Wenteler and Silvis have bought 26 million Dicor shares or 49.8% of the share capital at 5c a share. A standby offer is being made to minorities.

Dicor shares closed at 7c yesterday.

Institutional shareholders, who hold 13.9-million Dicor shares or 28% of the total number of shares, have undertaken not to accept the consortium’s offer of 5c a share.

In the six months to March Dicor posted earnings of 1.7c a share against 2.1c in 1989. Directors said activity in the group’s mining sector was particularly disappointing.

Dicor’s board has been re-constituted with J Rabinowitz as chairman, Bob Wenteler as group MD and Chuck Henderson and Jan Silvis as directors. The boards of Daneco, Daneco Mining Supplies and Plastail have also been re-constituted.

No further reorganisations would be made to the group as a result of the change of control. The standby offer opens on November 16 and closes on December 7.
Proposed sale of Maxmech to be resisted by minorities

Some minority shareholders in Maxmech Mechanical Seals (Maxmech) are up in arms about the proposed sale of Maxmech’s business to executive directors and controlling shareholders, Ivan Dettmann and Dave Grobler, for R500 000 in cash.

They say this amount is too low and is well below the net asset value of Maxmech, a DCM-listed supplier of sealing devices.

It was announced recently that the 56.72% controlling stake in Maxmech would be sold to Quad Industries for R300 000 and that the business concern of Maxmech would then be sold back to Dettmann and Grobler for R150 000. Quad Industrial Resources would be reverse listed into the Maxmech cash shell.

One of the dissatisfied minority shareholders, Peter Frankle, who resigned as financial director in September 1999, said after Maxmech’s AGM on Friday this amount was equivalent to 10c a share while the net asset value amounted to 28.6c a share.

Frankle believed the interests of minorities were being prejudiced by the transaction.

However, executive chairman Mike Lang said Maxmech’s real value diverged from its public valuation. He said the stock market was not necessarily an accurate guide to a company’s valuation.

“Companies that do not pay dividends do not have any real intrinsic value to shareholders, and do not belong in the public field. People buy shares for dividend yield and capital gain, both of which are lacking in Maxmech at present,” Lang said.

But Frankle said the company’s assets amounted to about R1.5m, and that it was understood that a partial asset strip was contemplated by the buyers. He said, for example, the sale of one division would raise R700 000 to R800 000 — the equivalent of 14c to 16c a share.

Lang rejected the allegation of asset-stripping and said the board was concerned to return Maxmech to profitability. Maxmech posted a 78% drop in attributable earnings for the year to end-February.

Maxmech shares have shown a steady drop from 45c in 1998. They last traded at 11c on November 16.
Inflation in January felt the impact of last year’s prolonged spending spree.

As measured by the consumer price index (CPI), it rose by 0.8 percent in January to 13.5 percent, Central Statistical Services (CSS) said in Pretoria yesterday.

The monthly rate of increase in January was 1.6 percent (0.9 percent in January 1988) and was the largest monthly rate of increase since March 1987.

Last year, inflation showed a decline from an average of 18.6 percent in 1986 and 16.1 percent in 1987 to 12.9 percent.

January's rise was fuelled by increases in the prices of food, housing, medical care and new vehicles.

The marked deceleration in food prices last year prevented the total index from rising more rapidly in the second half of 1988.

But in January food prices were 13.2 percent up on the same month last year, and 1.6 percent higher than in December.

Low point

Non-food items have reached a low point and could increase strongly in the near future, says Sanlam economist Johan Louw.

"We expect this trend to continue in the coming year and, at this stage, foresee an average inflation rate in the order of 15-16 percent for 1989," he said yesterday.

"This rate is much higher than those of our major trading partners and will place further pressure on the external value of the rand," Mr Louw said.

Last year's 20 percent decline in the value of the rand against the dollar made a substantial contribution to higher consumer prices, via higher import costs for producers.

Major reason

But analysts regard demand-pull factors as the major reason for the rise in consumer prices.

They link the increase to factors such as the growth in money supply, an increased demand for credit and the public sector’s pay hikes.

"The buoyant nature of the economy, impacted on by higher inflation rate," Simpson-McKee economist John Banos said.

The increase is seen as a timely reminder to the authorities that government and consumer expenditure will have to be curbed in order to restrain not only the rate of increase in consumer goods prices, but to protect the current account of the balance of payments."
Frankle claims an offer of 25c was made for control earlier this year and that this was rejected. He also contends that Dietmann and Grobler intend to strip the company of its assets once the deal is through.

MaxMech chairman Mike Lang rejects these claims. He says an offer was faxed to the company by a nameless consortium but that when clarification of the offer was sought communications ceased abruptly. He feels it was not a bona fide offer but a thinly disguised attempt to gain access to confidential information.

He also says a sale of assets is not contemplated. Since joining the company 15 months ago his primary objective has been to return the company to full profitability and rebuild the balance sheet, he does not see an asset strip as compatible with this. A leasing agreement may be entered into, whereby a subcontractor will lease some production capacity.

Lang contends the share price reflects the company’s earnings profile. MaxMech has paid a dividend only once since listing and the prospect of this changing in the next couple of years is slim. Earnings will be retained and investment in new machinery made in an effort to improve competitiveness. He feels minority interests will be better served by an investment in Quad.

To block the deal, at least 25% of shareholders will have to vote against it at a general meeting in about three weeks. Only Frankle owns a large block of shares and, as there are at least 500 other holders, the possibility of getting this number of votes together seems remote.
Cash-shell bid for Maxmech draws flak

Business Times Reporter

CONTROVERSY has broken out over a proposal by the directors of Maxmech to buy the assets of the Springs-based seal-making company and to leave it a cash shell.

Douw Grobler and Ivan Dettmann, with 33% and 24.8% of the equity respectively, are offering 10c a share for the assets. There are 5-million shares in issue, valuing the offer at R500,000.

Director P.M. Frankel with 10.1% of the company and shareholder Gaborov Lou, who has 23%, say the offer is inadequate. Published net assets at last balance sheet were R28,6c a share.

Consortium

Mr Lou claims to have put together a "consortium prepared to pay 28c a share cash for the same assets. He says the controlling shareholders and chairman Michael Lang, refuse to consider his offer and that the minority is being prejudiced.

Mr Lang says the offer was a rough document on a fax containing "the unacceptable condition that Maxmech present the mystery consortium to open its books. He asked Mr Lou to prove the bona fides of his consortium before opening the company's books to it. Mr Lou has yet to comply.

Mr Lou's auditor, Bruce Morrison & Associates, says it made the offer on Mr Lou's behalf. It faxed a copy of the offer to Business Times. It contained an undertaking to place deposits. The auditor did not certify ability to pay.

Mr Lang refuses to consider getting an outside valuator to assess the assets of Maxmech or even to appoint outside auditors to value them, saying it would be too expensive.

A chartered accountant says the sale of assets, as opposed to a scheme of arrangement, can be achieved with an ordinary resolution, which requires a simple majority. It appears that Mr Dettman and Mr Grobler could steamroll the sale of assets through.

But Mr Lang says proof of the directors' bona fides is that special resolutions requiring a 75% vote in favour will be put to a meeting of shareholders. The minority, with 41%, is in a position to block the deal.

Employee

Mr Lang says he is an employee of the company, not a shareholder. He was employed 15 months ago to bring it to better account. He believes the medium-term outlook is poor and the company needs to retain earnings, not pay dividends. In these circumstances, it would be better off in private hands.

Mr Lang says the assets to be reversed into "the cash shell have better earnings and dividend prospects.

Legislation empowering a Takeover Panel is expected to become law in January. It will be interesting to see whether this offer meets the requirements of the new law.
SANLIC has produced another set of dismal results. Its annual report says major problems areas have been identified and addressed to

if this profitability will occur. Latest figures show a net loss of R6.5m from a net profit of R411,000 in the 1989 financial year. Acquisitions and sales of various businesses appear to have not helped.

Sanic has been completely restructured through the purchase of Pace Consumer Products, KTC and Greatrex for 42.8m compulsorily convertible debentures. The deal took place in March 1989 but was not consolidated in the 1989 balance sheet as it was approved by shareholders only in October that year. Greatrex distributes DIY hardware and tools to the retail trade while Pace distributes electrical products. Sanic also bought AMD Agencies — in July 1989 — for R1.4m cash and 1.4m ordinary shares, and FS Consumer for R4.7m cash in September 1989.

The safe and key factories and brass foundry were sold for a total of just R1.1m in January and May. Notes to the cash flow statement show a net loss on the sales of R462,000. The loss arising from these operations before they were sold amounted to R2.2m, and even before this the loss for the year was R3.5m.

The only part of the business which remains the same as the previous year is Sanic, which distributes security products such as key cutting machines and locks. The group has obviously decided to opt for distribution activities only.

Purchase of the new businesses has taken its toll on EPS and debt. The increase in issued shares, as well as the net loss, caused EPS of 3.6c in 1989 to deteriorate to a loss of 5.8c. Interest-bearing debt nearly tripled to R22.2m, pushing finance costs up to R2.5m.

The debt equity ratio is an uncomfortable 1.8.

To raise additional funds the group is considering a rights issue. It would have to be a big one to strengthen the balance sheet adequately.

Management hopes dividends will be resumed in the short term. Investors appear unconvinced — the share price has continued to plummet and has reached 21c. There is little evidence that management has yet got the group into better shape, though it says operating expenses have been reduced significantly.

Beverley Popham
MACHINERY AND EQUIPMENT EXPORTS 1990
Atlantis to make parts worth R30m

CHARLOTTE MATHEWS

ATLANTIS Diesel Engines will manufacture components worth R10m for the local motor industry and R20m in export components this year, according to a statement released yesterday (189).

ADE plans to increase exports to about R100m at constant value by 1997.

A spokesman from the company said yesterday it was difficult to say whether this represented growth in market share, but the Phase VI local content programme offered the whole market opportunities for growth.

ADE's expansion would be in products off the lines where it was already producing parts for its own engines. It would not require capital expenditure over and above the R120m previously announced to increase local content of its components from the current 55% to around 83% in 1997.
SMITH MINING FIRM 30/7/90

Targeting exports

After a year of rationalisation, Smith Mining is looking to grow through the development of its export market and acquisitions.

In the 1989 year, pre-tax profit rose modestly 15.1% on turnover growth of 17.9%. A slight reduction in the pre-interest margin reflects difficulties in the first half with previous acquisitions and stiff competition. A healthy cash flow enabled the company to slash its debt and have R2.5m cash earmarked for acquisitions this year. Export incentives and assessed losses helped to reduce the tax rate to 35% (45%).

Management concentrated on consolidating and rationalising operations after the acquisition of six companies in the past three years. The operations of all subsidiary companies were divisions of Smith Mining Equipment in January. Chairman Dave Stevens expects that this will improve control and streamline the sales effort.

Exports expanded significantly and Stevens expects these to accelerate. He predicts that, as a percentage of turnover, exports will rise from 4% to 12% in 1990. A separate division has been established to concentrate on this market. Smith Mining has established markets in Europe, Australia, the US and Africa; possibilities in South America are being investigated.

All other divisions are forecasting improved performance this year, 90% of turnover relates to the local mining and exploration sector, where the outlook appears favourable, with several new shaft systems announced. Stevens believes the recent tax changes affecting mining companies will lead to increased exploration and mining activity.

Returns have remained high and the rationalisation and strong balance sheet suggests shareholders will continue to benefit. The share looks fair value.

Pam Baskind
R11-million export deal for tools and sheet metal

The Argus Bureau

PORT ELIZABETH — Delta Motor Corporation has landed two major export contracts.

The corporation has a two-year R11-million contract to make press tools for a joint truck programme in Europe and has been awarded a major export contract by Opel to supply sheet metal for the European market.

In a statement, the company said it was also negotiating to buy a major car rental company Delta and Tollgate Holdings, which controls Budget Rent-A-Car, have entered preliminary negotiations for Delta to acquire the rental company.

It is understood that the corporation's offer has been accepted but there are still details to be sorted out. But confirmation of the impending deal has been given by both companies.

According to the statement, the award of the Opel export order follows the installation of five new presses, representing an investment of R12-million which will increase its press shop capacity by 33 percent.

Recently, the company has acquired an air-conditioning operation and a plastics plant in Port Elizabeth and an electronics company in Pretoria.

The plastics plant, Industrial Mouldings, allows the corporation to produce its own plastics needs for vehicles far more cheaply than before.

The air-conditioning company Connosseur Air has already won its first major order since Delta took it over — air conditioners for Volkswagen's CitiGolf.
### Dreaming of a listing

Hartmut Beckurts isn't shy to admit it; had it been run on private sector principles, Atlantic Diesel Engine (ADE) might not have made it this far.

Nine years after its creation by the IDC, the sole local producer of truck and bus diesel engines is profitable and dreaming of a JSE listing.

It's a novel experience for a company that has faced opposition to its existence even since before it was born. Had the IDC not continued to view it as a strategic asset, rather than a purely financial one, it might not have survived.

Beckurts doubts whether the private sector ever would have created such a company. Even if they had, with the many setbacks we had, most of them would probably have thrown in the towel, he says. Beckurts retires as MD of the ADE plant at the end of this month to become trade and industry councillor at the SA embassy in Bonn. His successor will be technical director Fritz Korte.

Years of losses provided ammunition for ADE's critics who maintained government should stay out of the motor industry. Truck companies, too, were unhappy at the possible consequences of being forced to abandon willing overseas sources for a single local engine supplier.

Some of their fears were realised. When the industry seriously misread the market in the late Eighties—a situation that was admittedly as much the fault of truck companies as it was ADE's—huge waiting lists built up while ADE struggled to catch up with demand.

Industry executives are still unhappy at being so reliant on one company. They point out that a production problem at ADE can bring the whole industry to a standstill. Costs are also passed on down the line. Assemblers complain of above-average ADE price increases year—increases that will inevitably make their way to vehicle users. ADE says that increases are below the rate of inflation and unlikely to exceed 13.9% for 1990 as a whole.

Beckurts, however, is happy with the way ADE is performing. Besides a brighter financial picture—the company is shy about disclosing figures—stemming in part from tighter cost controls and a slimmer staff, the company is diversifying into the manufacture of other components and hopes to become the sole supplier of diesel engines to the country.

The latter ambition may be thwarted. Although ADE has modified prototype engines it believes it can serve all diesel bakkies, vehicle manufacturers aren't so sure. Only two companies have taken up ADE's offer to test the engines in their vehicles. The others aren't interested.

The current market for diesel bakkies is only about 18,000 a year, from a total bakkie market of more than 115,000. "Unless we get the cooperation of all the manufacturers, it won't be a viable operation," notes Beckurts.

He is more optimistic about other projects. If vehicle assemblers give the go-ahead, ADE is ready to invest R100m to cast, forge and machine petrol engine crankshafts. Beckurts estimates ADE would be ready to go into production with them within 18 months and, now that ADE is responsible for financing its own investments, he suggests one possible way of meeting the capital bill.

Beckurts sees diversification as an ongoing process. The company has already tendered to manufacture aluminum cylinder heads and he is also interested in blocks, flywheels and camshafts. Bearings and springs are among other components on his shopping list. Some, though, ADE won't touch. Beckurts can't see the company, for instance, trying to manufacture fuel-injection components.

Phase Six of the local content programme, which encourages local manufacture of high-value components, has helped to stimulate ADE's diversification but, despite the advantages to local companies, Beckurts insists ADE won't produce or purchase anything locally that costs more than an import that has incurred the imposed cost of 50% import duty.

"We must be able to source it at a discount. The moment it's more than the import, we will stop it. ADE wouldn't have got off the ground without protection against imports. Now we must come up with the goods."

Phase Six also encourages exports, an area in which Beckurts expects ADE to profit increasingly in coming years. From R20m this year he expects export earnings to reach R90m by 1997.

The company is barred by licence agreements from exporting only engines, although there are some regions, particularly the African continent, where licence-holders are prepared to look the other way.

For the most part, ADE engines are exported as part of larger units, such as earth-moving equipment, buses, boats and generator sets. As the company becomes more active in producing machined components, the latter will constitute a bigger part of the export mix.

"We've only recently entered export markets, so we are reaping the first benefits," says Beckurts. ADE's limited size, by world standards, also helps. "It's not worth the whole of big plants to do some components with limited production runs. We have the flexibility to do them and are being allowed to tender for an increasing number of contracts."

He estimates ADE's status as sole diesel engine supplier saves the country about R330m a year in foreign exchange, a figure that will grow steadily.

It is this kind of long-term savings and the importance of a strategic local industry to ensure SA's transport industry keeps rolling, that convinces him the decision to create ADE was correct. It has also led to the existence of a wide range of automotive engineering skills that would otherwise have remained unseen in SA.

He hopes investors will soon have the chance to echo his confidence. Beckurts acknowledges that ADE's position as a profitable, tax-paying concern is novel and, with the industry facing another lean period, it will take some time for ADE to build up the track record needed for a successful JSE listing.

But, with the move towards privatisation of enterprises, pressure is building on the IDC to release some of its more successful companies.

Beckurts is confident it will cut ADE loose if the opportunity arises.

"We will be listed but I don't know when. My guess is three to five years."
By TOM HOOD
Business Editor

EXPORT business worth tens of millions of rand is expected to be chalked up by Delta Motor Corporation as a result of installing a R12 million line of heavy presses in its Port Elizabeth plant.

Sheet metal parts made on the presses will be sold to the crash-replacement market in Europe, particularly replacement body panels for Opels.

Delta has also landed contracts worth R11 million to make press tools for a joint truck programme in Europe.

"This is evidence that the company can compete as a highly capable supplier in the international toolmaking market," says Mr Willem du Plessis, Delta's director of manufacturing and assembly.

Besides exports, Delta expects to sell 40,000 vehicles on the home market this year, said chief executive Keith Butler-Wheelhouse in an interview this week.

Big strides have been made since he and six co-directors took over the plant in a management buy-out from General Motors of the United States three years ago, he said.

Not only has all debt been paid off, but the company has considerable cash reserves and plans to spend more than R150 million on plant replacement without borrowing a cent.

"To spend R100 million a year on capex from a R1.4 billion turnover is not unusually heavy in a business such as ours," said Mr Butler-Wheelhouse.

"We were fortunate not to have any long-term debt when we took over.

"Through careful management we have been able to run the business for more than three years and finance all developments internally and not go to the institutions for funding. We have a balance sheet that owes debt to no one and we have a very big cash balance."

Apart from a strike over redundancies at the time of the takeover, Delta has been strike-free ever since, he said.

One reason could be incentives to gain worker loyalty. The company is one of the few to pay education fees of employees' children in a scheme covering free secondary and tertiary education, books, tuition and university residence fees.

"Since we took over there have been only three days when one or other of our suppliers of 12,000 parts were not hit by strikes."

In fact, the motor assembly plant was idle on Thursday through a shortage of components which suppliers could not deliver.

After years of stagnation while General Motors considered disinvesting, Delta, under its new bosses, has also gone on the takeover trail and expanded in several directions to secure important supplies.

It took over Connaught, an air-conditioning company. Besides making air-conditioners for its own vehicles, Delta has secured a contract to make air-conditioners for Volkswagen's City Golf Industrial Moulding, also taken over recently, will let

---

Delta tools up for exports

---

Delta produce its own plastic requirements more cheaply. This Port Elizabeth factory currently makes shoe mouldings.

Another acquisition was a Pretoria electronics company which developed a new electronic fuel injection system. This system will be installed in Opel cars and may be sold to competitors for their vehicles.

Delta also expects to get a flying start into the market for catalytic converters, benefitting from the experience of Opel in Germany as European governments clamp down on air pollution and exhaust emission from vehicles.

---

boom
Over-invoicing at Nampak being probed

Demonstrating its customary capacity for embellishment, the market appears to have contrived a rather exaggerated version of some over-invoicing at Nampak.

The facts as explained by MD Don McCartan are that about three weeks ago certain allegations were made internally by Nampak employees.

These concerned the relationship between a South African engineering company and one of Nampak’s operations to which it supplies machinery.

Specifically, the allegations referred to over-invoicing of equipment sold by the engineering company to Nampak.

Management instituted an internal investigation which is still being conducted, but which appears already to have revealed some irregularities.

At this stage, according to Mr McCartan “indications are that no material sums are involved and the irregularities probably won’t affect our earnings. But if they are material, we will disclose them on the income statement.”

Mr McCartan stresses that the over-invoicing only affected one of the group’s operations and had nothing to do with any foreign exchange transactions.

In sharp contrast, the story circulating in the market is that the over-invoicing amounts to around R40 million and involves fin and deals.
Gabriel rides shocks

By MAGGIE ROWLEY
Business Staff

RETREAT-based Gabriel SA, manufacturers of suspension products for the automotive industry, has come through the toughest year of its history.

Steering the company through the harsh impact of high interest rates, the economic downturn and labour unrest, is British-born Fred Keywood who says that in spite of all the problems which have beset the industry he is optimistic that the next financial year will see the company back on a growth path exceeding the rate of inflation.

An engineer by profession, Mr Keywood came out to South Africa from England in 1965 when he joined Plessey on the production engineering side.

At the time Plessey held 35 percent of the equity in Gabriel SA — which was founded in 1962. Mr Keywood was transferred to Gabriel as production manager in 1969, divisional manager in 1976, and general manager in 1978 and a director of Gabriel in 1979. He was appointed MD in 1982 when Maremont Corporation has been acquired by Arvin Industries, a US-based multinational conglomerate.

Since then Maremont Corporation has been acquired by Arvin Industries, a US-based multinational conglomerate.

Fred Keywood ... back on a growth path.

However, sanctions have taken their toll and the US parent company has come under great pressure to divest.

"By increasing our export market we are able to ride the trough more easily," he says.

"Many US companies in South Africa, especially those who were not doing as well, have buckled under the pressure. But we have been here a long time and we have a long-term commitment to South Africa.

"This pressure will no doubt remain until greater political stability is achieved." While they did export to the US, they had to look for new markets and trade with Europe remained strong.

High interest rates, he said, had impacted heavily on disposal incomes and people were simply not buying cars and were putting off repair work, except for that really necessary.
Gabriel riding the recession, labour unrest

From page 8

required by law such as new tyres and silencers, for as long as possible.

New passenger car sales, he said, had averaged about 200 000 units a year for the past couple of years and expected increases in sales had not materialised. Forecasts were that sales of new passenger vehicles would not increase dramatically in years to come.

The average life of a car, he said, had increased in recent years from five years to eight and a half.

Mr Keywood said the downturn in the economy had been compounded by widespread industrial action in the motor manufacturing industry throughout the year which had resulted in production losses by a number of vehicle manufacturers, which they supplied and more recently in their own factory where 273 workers were downed tools three weeks ago.

Difficult period

In order to meet the requirements of auto manufacturers for original equipment, they had been forced to airfreight their products to make up for lost time.

"Losses, resulting from the unlawful strike, to date are more than R2 million," he said.

"In addition, the strike has resulted in the loss of certain export markets which will take an immense amount of work to rebuild.

"All in all, the state of the industry and the economy has severely impacted on the automotive industry. We have been going through a very difficult period, and have survived better than most. But if conditions do not improve shortly, I believe many component manufacturers will find it difficult to survive."

Gabriel holds about 70 per cent of the replacement market in South Africa and about 45 per cent of the OE market.

Results for the current financial year ending September 30, were expected to be well behind forecasts. However, he was optimistic that interest rates would drop towards the end of the year or early next year, boosting the economy and that conditions on the labour front would normalise.

"Sales forecast for the 1990/91 financial year are expected to be back on target and in line with growth projections."

He said that due to limited public transport people in South Africa would always require cars.

"However, before we see any major upturn we will have to attract much more foreign investment, which, in turn is unlikely to occur prior to greater political stability being achieved."

"I don't see this happening quickly but when it does industry will reap the benefits," he said.

The government would also have to review company tax which presently stands at 50 percent.

Mr Keywood said the industry had also faced a major challenge in having to adapt from the mass-based phase 6 of the government local content programme to the value-based phase 6 programme.

"Phase 6 is really a foreign exchange saving and export complimentation and the transition is proving to be a major challenge to both vehicle builders and component manufacturers."

"Under phase 6 component manufacturers are able to share the government export incentive programme. The only proviso is that they have to cede their exports to a motor manufacturer to share the incentive."

Mr Keywood is president of the National Association of Automobile Component and Allied Manufacturers which represents 170 000 employees in the automotive and allied industry.
Gabriel riding the recession, labour unrest

required by law such as new
tires and silencers, for as
long as possible.

New passenger car sales, he said, had averaged about 200,000 units a year for the past couple of years and expected increases in sales had not materialised. Forecasts were that sales of new passenger vehicles would not increase dramatically in years to come.

The average life of a car, he said, had increased in recent years from five years to eight and a half.

Mr. Keywood said the downturn in the economy had been compounded by widespread industrial action in the motor manufacturing industry throughout the year which had resulted in production losses by a number of vehicle manufacturers which they

supplied and more recently in their own factory where 263 workers downed tools three weeks ago.

The company, which had employed more than 500 people directly and indirectly, provides jobs for at least triple that, was presently training casual workers and hoped to return to full production by the end of August, he said.

Difficult period

In order to meet the requirements of motor manufacturers for original equipment they had been forced to airfreight their products to make up for lost time.

"Losses, resulting from the unlawful strike, to date are more than R2 million," he said.

"In addition the strike has resulted in the loss of certain export markets which will take an immense amount of work to rebuild.

"All in all, the state of the industry and the economy has severely impacted on the automotive industry. We have been going through a very difficult period, and have survived better than most. But if conditions do not improve shortly I believe many component manufacturers will find it difficult to survive."

Gabriel holds about 70 percent of the replacement market in South Africa and about 45 percent of the OE market.

Results for the current financial year ending September 30, were expected to be well behind forecasts. However, he was optimistic that interest rates would drop towards the end of the year or early next year, boosting the economy and that conditions on the labour front would normalise.

"Sales forecast for the 1990/91 financial year are expected to be back on target and in line with growth projections."

He said that due to limited public transport people in South Africa would always require cars.

"However, before we see any major upturn we will have to attract much more foreign investment, which, in turn is unlikely to occur prior to greater political stability being achieved."

"I don't see this happening quickly but when it does industry will reap the benefits," he said.

The government would also have to review company tax which presently stands at 50 percent.

Mr. Keywood said the industry had also faced a major challenge in having to adapt from the mass-based phase 5 of the government local content programme to the value-based phase 5 programme.

"Phase 5 is really a foreign exchange saving and export complimentation and the transition is proving to be a major challenge to both vehicle builders and component manufacturers."

"Under phase 5 component manufacturers are able to share the government export incentive programme. The only proviso is that they have to code their exports to a motor manufacturer to share the incentive."

Mr. Keywood is president of the National Association of Automobile Component and Allied Manufacturers which represents 17000 employees in the automotive and allied industry.
IT'S A NEW-LOOK GIANT

By DAVID CARTE

new shares and lay out R14.6-million cash. The new shares have been placed with institutions to improve marketability of Standard Engineering shares. Malbank's stake in the company declines from 92.5% to 72.3%.

Potential

After the deal, Standard Engineering will comprise:
- 100% of Astas Holdings, whose 68%-held subsidiary Astas Engineering makes gearboxes and axles for SA and foreign car- and truck-makers.
- 100% of Hall Longmore, which makes 55,000 tons of large steel pipes a year.
- 71% of Union Carriage, manufacturer of locomotives and rolling stock.
- 100% of Drill Steels, maker of drilling bits.
- All of Fluid Holdings - importer and distributor of pumps and other equipment mainly for the mining industry - and Abertech.

Standard Engineering chairman Hugh Brown says Astas and Union Carriage have suffered severely in changed environments. But he thinks the new look gives Standard Engineering the potential for great growth. "The logic behind the group is that these are mature engineering companies dependent on the economic cycle. We aim to offset their SA cyclicality through exports."

Mr Brown says Union Carriage is sailing out of the doldrums brought about by the railways' huge cutbacks in the 1970s.

Managing director Bob Bingham has done a superb job winning export contracts, mainly in Taiwan. Turnover in the year to 1989 was only R18-million. We expect to double that this year and from 1991 export orders already secured will ensure that we top R100-million a year."

Upgrading

Following the formation of Consumer Corporation, Mr Brown expects SA orders for rolling stock to supplement export orders.

Hall Longmore has picked up export orders of 12,000-15,000 tons of steel piping. Its ERW mill is to spend R18-million upgrading its seamless pipe plant to qualify for the stamp of approval of the American Petroleum Institute.

"Then we can increase prices by about 70% a ton to $490," Mr Brown hopes that Astas will also be able to offset the decline in the motor industry through exports.

He expects Standard Engineering's performance to spurt, starting this year. Accounting will be conservative until earnings are likely to be about R25-million, or 8c a share.

Mr Brown confirms that Standard does not yet have a group chief executive. He hopes an appointment can be made from within the ranks in the next year.
High inflation hits Macadams

By AUDREY D'ANGELO
Business Editor

THE downturn in Europe is hampering Macadams' export programme, CEO Raimund Pouliарт says in the annual report. And SA's double digit inflation is making it harder to compete in overseas markets.

In spite of this Pouliарт forecasts that the bakery supply group, which suffered losses through its subsidiary Aloe, will return to profitability in the current year.

It has been helped in this by the sale and lease-back of its Blackheath factory at a capital profit of R2,1m.

"Financially, the group faces the future from a much sounder footing," says Pouliарт.

"Interest bearing debt has been cut dramatically, first through the discontinuation of Aloe with its associated costs of financing debtors and stock and second, through the sale of our Blackheath factory on a favourable lease-back basis."

He continues "Having learnt the lessons of the past and with our focus once again on our core business we look forward to a return to profits in the second half of this financial year."

Pouliарт explains that Aloe, which manufactured equipment for mass catering, was faced with a "dramatic decline in demand" from two of its major customers, the SADP/Armscor and the mining industry.

However, Pouliарт continues, "the bakery division performed commendably in the year under review. Demand remained steady and production was characterised by a notable increase in local content, a major contributor to the improvement in margins."

The group will continue to manufacture a limited range of mass catering equipment which will be marketed and installed by Vulcan.

"Our export programme is being somewhat hampered by the downturn in Europe, where it is becoming increasingly difficult to penetrate the market to any degree."

"It has become clear that pricing is the key but SA's double digit inflation places us at a major disadvantage against our European counterparts."

"Nevertheless we believe that the new export incentives announced by the government will be of considerable assistance — more particularly as our products fall within the most favoured Category 4 and thus enjoy maximum advantage."

"Clearly, we will continue to explore every opportunity in our drive to seek new foreign markets."

Pouliарт warns, however, that "escalating demands by the trade unions and the ever-present threat of strike action" could result in a loss of jobs.

"We, as a labour intensive industry progressively reducing our reliance on imports, remain particularly vulnerable. It would be wise to accept that an unrealistic negotiating stance could result in further retrenchments."

Macadams lifted net income before tax and interest to R3.6m (R2.3m) in the year to June 30. But the interest bill rose to R1.7m (R1.1m) and extraordinary losses resulted in an attributable loss of R3m compared with an attributable income of R811,000 the previous year.
Machinery export boom shows increase of 35%

ANDREW GILL

MACHINERY exports have grown by more than 35% this year and are set to continue rising as one of the fastest growing export categories.

From January to July this year the sector's exports jumped 35.4% to R740.1m from R546.6m in the first seven months of 1989.

The machinery or capital goods sector comprises machinery and mechanical appliances, electrical equipment, sound recorders and reproducers, televisions and parts and accessories of such articles.

Since the beginning of the year machinery exports have consistently outshone last year's figures.

At more opportunities opened up for SA exporters in various overseas markets and previously clandestine deals became acceptable, machinery exporters would be able to take advantage of niche markets with underdeveloped engineering industries.

So said Breyer Development Services MD John Bell, who pointed out there were various developing and parallel developing countries (in engineering terms) that had small or non-existent engineering bases.

They were predominantly in the southern hemisphere, ranging from South America to Australia to South-East Asia.

The niche market SA exporters should be looking for were countries presently importing from developed countries like the US and Britain.

In South America Chile was an important client for SA, he said. It was a rapidly expanding economy with low import duties and a predominantly minerals based economy.

It needed mining and other machinery and SA equipment was ideally suited to the conditions prevailing in the country, he said.

Australia was a similar case with mining equipment similar to SA standards but local manufacturers did have a fair amount of protection.

The greatest concentration of demand, he said, was in the Association of South-East Asian Nations (ASEAN) countries where some of the fastest growing economies were working from an underdeveloped engineering industry.

SA could export cheaper products to the countries, with instances where SA equipment was half the price of other products, he said.

Their standards were very similar to SA's because they were both derived from British standards.

In July capital goods exports were 31% higher at R118.1m from R90.4m in July 1989.

The largest difference was in January, up 101.8% to R107.3m from R51.6m.

Imports decreased steadily this year, although they were still substantially higher than exports.

In the period January to July this year they were 8.8% lower at R638bn from R675bn in the corresponding period last year.

Other value-added sectors to have shown strong improvement were the vehicles, aircraft and vessels category — up 72% to R87.1m and the prepared foodstuffs, beverages, tobacco and manufactured tobacco substitutes category — up 18.8%.
Stainless casting for big time

STAINLESS-STEEL casting looks set for major growth in an industry which may have reached saturation point.

Once dubbed the Cinderella of the stainless-steel industry, it has grown tremendously in recent years and is now on a par with Europe’s best, says Dame Slabbert, managing director of Stelloy Stainless Precision Castings.

“We are bullish about the long-term future of the stainless-steel casting sector and see large growth in three main areas. There is likely to be growth as a result of further import replacement. There is also an opportunity for exports and, in spite of the attitude of many industrialists, we expect the industry to move from traditional materials to more sophisticated alloys,” says Mr Slabbert.

Three or four specialist stainless-steel casting foundries provide most of SA’s requirements, worth between R50-million and R89-million a year.

Mr Slabbert says, “If we can produce castings which meet all international specifications adhered to so rigidly on projects such as Mossel Bay, there is no reason why we cannot compete internationally.”

Stelloy has started exports and hopes to lift them. There are, however, problems. SA exporters have been held back because of difficulty in transporting bulky products and supplying intermediate products to be included in a finished product.

“These difficulties can be overcome if the inspection procedures are specified and acceptance standards agreed on up front.”

Major customers, such as pump and valve manufacturers, are now able to source more of their castings in SA, making them less dependent on imports.

The third area of expansion for the casting industry will result from manufacturers switching from traditional materials to more sophisticated alloys. Although they are more expensive, they prolong a product’s life because they are more resistant to wear and corrosion.
COMPANIES reliant on business from Eskom are being squeezed as the electricity colossus cuts expansion.

The last of nine huge power stations — Majuba — is under construction and companies which have specialised in the supply of power generation equipment know that after this they will have to look elsewhere for new business, says Peter Wingrove, new chief executive of the Sleva group.

There is already talk of mergers or joint ventures, rationalisation programmes or co-operation agreements among the big names in the power generation industry, he says.

Sleva has been the subject of just such a move. Boiler Components Manufacturing, Stein Industrie and Walthier Environmental Systems, all linked to the French Alstom Atlantique group, have now started operating under the Sleva name.

Between them, they supply project management expertise, thermal fired boilers, wet and dry milling installations and electrostatic precipitator equipment for the control of emissions.

The grouping of these companies follows the merger of General Electric Corporation of the UK and Alstom Atlantique.

"We want to retain our skills in the power generation industry, but to generate new business in other industries," says Mr Wingrove.

The new group will also concentrate on exports of power generation equipment and two orders have already been secured.

The first is for the design, supply and installation of a large boiler for a paper mill in Israel and the second is for the project management, most of the purchasing and manufacturing for two coal and bagasse-fired boilers in Reunion.

"In diversifying our business from power generation, we can draw on the experience of our principals in France who found themselves in similar circumstances several years ago when the French moved away from coal-fired boilers to generate electricity.

"Their efforts at securing export orders for industrial boilers have been most successful," says Mr Wingrove.

In Eskom's annual report for the year to December 1989, chairman John Macze said that because growth in demand for electricity would be lower than expected in the 1970s, the capital expansion programme was being reviewed.

"Certain projects were delayed or deferred and some were cancelled. In the process, we initially planned a reduction of R1-billion in our spending for the five-year period to the end of 1989. The actual saving is going to be much bigger at R2.7-billion," he said.

In the last annual report, chief executive Ian McIvor said that Eskom had an installed capacity of 14 144MW, of which 3 025MW is in reserve or mothballed.

At present, it is expected that this excess capacity will be absorbed by the end of the 1990s.

Spread

"The situation is being carefully managed and we are using this opportunity to upgrade plant not in use with the objective of extending its life. This defers the need for new plant."

John Munn, marketing director of DB Thermal, says the company has a spread of activities which will help it through the tough times. He does not expect a lot of business from Eskom until perhaps 1993 and in the meantime the company has taken steps to overcome this.

DB Thermal has other activities in processing and in environmental and thermal engineering.
TOCO HOLDINGS FIM 26/10/90

LOOKING FOR GROWTH

Activities: Manufactures and distributes industrial products

Chairman: P Todd, MD  A Goodman.

Capital structure: 65.8m ord  Market capitalisation R63.9m

Share market: Price 97c  Yields. 6.2% on dividend, 18.3% on earnings, p/e ratio, 6.1, cover, 2.6 12-month high, 105c, low, 45c

Trading volume last quarter, 1.4m shares

<table>
<thead>
<tr>
<th>Year to March 31</th>
<th>'88</th>
<th>'89</th>
<th>'90</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST debt (Rm)</td>
<td>3.7</td>
<td>5.9</td>
<td>10.4</td>
</tr>
<tr>
<td>LT debt (Rm)</td>
<td>0.8</td>
<td>2.5</td>
<td>6.3</td>
</tr>
<tr>
<td>Debt equity ratio</td>
<td>0.10</td>
<td>0.26</td>
<td>0.49</td>
</tr>
<tr>
<td>Shareholders' equity</td>
<td>0.58</td>
<td>0.48</td>
<td>0.43</td>
</tr>
<tr>
<td>Int &amp; leasing cover</td>
<td>27.7</td>
<td>13.2</td>
<td>6.8</td>
</tr>
<tr>
<td>Return on cap (%)</td>
<td>21.2</td>
<td>26.1</td>
<td>23.8</td>
</tr>
<tr>
<td>Turnover (Rm)</td>
<td>26.1</td>
<td>69.3</td>
<td>101.7</td>
</tr>
<tr>
<td>P/E int profits (Rm)</td>
<td>6.3</td>
<td>10.4</td>
<td>13.1</td>
</tr>
<tr>
<td>P/E net profits (%)</td>
<td>23.2</td>
<td>15.0</td>
<td>12.9</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>17.7</td>
<td>12.8</td>
<td>15.8</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>2.7</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Net worth (c)</td>
<td>26.9</td>
<td>30.6</td>
<td>35.8</td>
</tr>
</tbody>
</table>

* 32 weeks only

This industrial supplies manufacturer and distributor believes it is well placed to weather the pending economic storm

Chairman Paul Todd has no doubt that trading conditions will be difficult this year but expects Toco to significantly increase market share, through both strong sales and the acquisition of smaller competitors

Todd says Toco performed well in the first five months Half-year figures, due early next month, are expected to be in line with the objective of a 30% annual return on assets — last year it was 27%

The company will, for the first time, declare an interim dividend. According to Todd, this will be about a third of the annual dividend, so a conservative forecast is at least 2c a share

The crunch, says Todd, will come during December and January, when some customers may be unable to absorb the traditional drop in turnover “Quite a few companies may hit the wall when their turnover drops in December,” he says

Toco’s broad spread of business — last year lifting equipment generated 36% of attributable earnings, specialised steel and heat treatment (29%), gaskets and industrial components (27%) and automotive products (8%) — as well as its base of more than 5,000 customers and 500 distributors is expected to help buffer the downturn. A strong emphasis on direct mail marketing and telesales enables Toco to keep costs of sales low

The company generates about 3% of earnings from exports to the rest of Africa. This is expected to grow steadily. Its participation in the export market and substantial accumulated tax losses enabled the company to enjoy an enviable tax rate of 18% last year. A similar rate is expected this year

Management, which bought control from Columbia in May 1989, has a good track record of tight financial controls

In the year to March, attributable earnings rose 28.5% to R10,19m on turnover up 46.8% to R101,66m. Though net interest-bearing debt more than doubled to R11.65m and cash reserves of R1.6m all but evaporated, debt to equity was still a healthy 0.49

Unlike many rivals, which are looking to reduce stocks, Toco has kept stock levels relatively high to increase market share. Cash tied up in finished goods climbed nearly 40% compared with a nearly 47% rise in sales — to R13,12m last year

Though such a strategy is expensive, Todd believes that with good controls the consequent cost can be contained. He points out that most competitors source products from Toco and this is likely to continue

Todd says takeover talks with a couple of firms are taking place. With the current economic climate the price of these purchases is likely to be attractive

Difficult trading conditions in the industrial and mining sectors are expected to temper earnings for the year to March but, barring a disaster, real growth could still be within reach. In the longer term Toco looks set to benefit from greater market share and a possible reduction in the number of competitors

Samos, Cape Town

FINANCIAL MAIL • OCTOBER • 26 • 1990 • 119
Aggressive Bell Equipment takes overall honours

HEAVY equipment design and manufacturing company Bell Equipment, a privately owned company which is a wholly owned subsidiary of I A Bell & Sons Ltd, has been named the overall winner of the 1990 State Presidents Export Awards.

The Richards Bay-based company, which manages to increase export sales by a phenomenal 146.47% comparing 1990 to 1989, and by 144.65% comparing 1989 to 1988, has managed to increase its export sales from 11.66% comparing 1988 to 1987, by 16.77% comparing 1989 to 1988 and by 22.12% comparing 1990 to 1989.

Improved


Of the products exported, 68% of raw materials used are from SA.

Bell Equipment MD Gary Bell says the company's success in export achievements relates to its identification of and penetration of niche markets which, by working closely with identified markets, enables it to produce a suitable product or range of products demanded by overseas customers.

"Aggressive direct marketing by Bell outlets in preference to dealer networks in the major markets has also played a role in making Bell an international market leader in saw equipped, mechanised Feller Bunchers in the south eastern US despite being in competition with international manufacturers," he says.

Bell, with almost 1500 employees, has established itself in the world sugar cane market as a supplier to more than 25 cane growing countries.

Primary

Its primary business is the design and manufacture of a range of materials handling equipment with specific applications in the sugar cane, timber, mining and construction industries.

"In the past year, tough conditions abroad forced us to our full potential," Bell says.

"For example, the R25 articulated dump truck, marketed in Australia, met not only with head-on competition from many well established European sources, but also certain ergonomic issues which had to be addressed before acceptance was gained.

"These modifications have been incorporated as standard features and it is being successfully marketed in Australia," he says.

To facilitate exports and service, the company has established assembly manufacturing plants in Mauritius and New Zealand, and, in the past two years, opened sales offices in Singapore, Perth, Brisbane, Tasmania, Chile and Harare.

Bell also has a licensing agreement with a company in Brazil which manufactures cane and timber loading machines of similar design to Bell's original.

In addition, a marketing manager was seconded to the US operations last year to help establish the articulated dump truck market.
New markets open for safe firm

VOLKSKLUIS, the exporting arm of the local safe manufacturing company Ntyak Security, has recently made inroads into new markets, says chairman Arun Green.

"In the past six months we have opened up markets in Hungary, Poland, Finland and Scandinavian countries and we are working on hot leads in the Soviet Union, Czechoslovakia and Albania," he says.

Other markets include the US, UK, Europe, Africa and Australasia.

"Our success in exporting has been achieved through undertaking regular export trips to the market and potential marketplaces, through obtaining the internationally accepted American Underwriters Laboratory Label (the US equivalent of the SABS label) and by manufacturing a product comparable with any of its type in the world," he says.

Great success has been achieved from exposure at trade fairs and shows and huge potential exists in neighbouring countries, he says.

"We have also recently established agencies in Namibia and Gabon and are working closely with a large Spanish safe-making company. We have also established an agency in Hungary," he says.

In the US, Volkskluis has full sales and distribution rights at Mutual Safe Co, in Missouri, and in the UK, the company's sales and distribution company, Rhino International, is based in Kent.
By Lynn Carlisle

World-class products, identification of niche markets and strong back-up were the key factors behind the export success of Bell Equipment SA, which was named the 1990 overall winner of the State President’s Award for Export Excellence.

Family concern Bell Equipment of Richards Bay, was last night presented with a floating trophy, medallion and certificate by Dr Anton Rupert, founder and chairman of the Rembrandt Group.

Bell Equipment MD Gary Bell says the company manufactures a range of haulage and materials handling equipment for use in the sugar cane, timber, mining and construction and related industries.

From an annual turnover of R300 000 in 1976, Bell Equipment will sell machinery to the value of R260 million worldwide. It has a staff compliment of 1 500.

Dominant factors which account for the company’s phenomenal growth are its major emphasis on service and after-sales support, both here and abroad, and its local design principle.

“We also work closely with identified markets to ensure that product development results in a suitable product or product range,”

Mr Bell adds that aggressive direct marketing by Bell outlets in its major markets, in preference to dealer networks, has also been a contributing factor.

Progress can be gauged by a 144.6 percent rise in exports in year-end February 1989 over the previous financial year and a further 146.4 percent upsurge in the 12 months ending February this year, when exports accounted for 23.2 percent of total sales.

The company’s philosophy calls for maximum local content in the manufacture of its machinery, and currently produces all machines with a local content in excess of 80 percent by value.

Bell SA also has an international marketing organisation with infrastructural links in the US, South America, Australia, New Zealand, Singapore and Zimbabwe.

Turning to some of the more notable successes, Mr Bell says the company is a leader in saw-equipped, mechanised feller bunchers in the south-eastern US despite competition from world producers of this range.

“We have also established ourselves in international sugar cane markets where we supply 25 cane growing countries with our products.”

Its mining equipment is also a big export item. This year it sold six underground low-profile dump trucks to Australia in the face of strong traditional local and European competition.

However, Bell SA’s largest export market is the US, where sales commenced in 1986 and which now account for 40 percent of its exports.

Africa, excluding SA, is the second largest market accounting for 39.6 percent of Bell’s total exports.

Other business is being conducted in South-East Asia, Mauritius and Indian Ocean territories, New Zealand, Australia and South America.

While SA imports major construction plant from Japan, Europe or the US, Bell Equipment has competed favourably by virtue of design and development of a wide range of locally made equipment suited to SA and overseas conditions.

Its overseas achievements have not only earned SA valuable foreign currency, but also saved the country a substantial amount of forex.
Saflec impresses foreign market

Hi-tech security equipment manufactured by Johannesburg-based Saflec has impressed international organisations, including a number of embassies, police forces and military units abroad.

According to Saflec CE Bill Young, the company's export drive in the past three years has resulted in exports increasing 1200 percent.

"While this was off a low base, exports increased 343 percent and accounted for 52 percent of total production at year-end February 1990. In 1989 they were up 496 percent on the previous year," he says.

Saflec's export achievements have earned the company a runners-up merit award in the manufacturing category.

Claiming almost 100 percent local content, the company's series of walk-through metal and bomb detectors and various other specialised hi-tech equipment are used to detect concealed weapons, precious metals and high value items.

The equipment and its capabilities have been sold to various business organisations, foreign embassies and police forces of several countries. All of SA's embassies have also installed certain equipment supplied by Saflec.

Mr Young attributes export success to the quality of its products which he claims rank with the world's best and company marketing strategy.

Export strategy includes displaying equipment on major exhibitions held annually in Europe, the US and Far East.
AN EXPORT market of R200m a year can be opened for local machine tool manufacturers if the Board of Trade and Industry amends its import duty policy and an affordable steel price is introduced, says Koppel Elga MD Chris Bell. (189) (188)

Bell said in an interview the Board of Trade and Industry's proposed phasing out of import control to encourage an internationally competitive industrial sector would harm local machine tool manufacturers.

Koppel Elga, SA's largest machine tool manufacturer, has been tooling up for almost two years to increase exports, and expects to earn about R12m from orders to Far East and Europe next year.

SA was able to meet local requirements for pressbrakes, hydraulic presses and guillotines, but local merchants favoured selling more profitable imported machines, he said.

If import duties were abolished without some compensatory measure, the local machine tool industry could die because of an inability to generate export markets from the current base. The cost of producing internationally competitive machines was enormous.
BASIC METALS

1990
Metkor faces positive year

LIZ ROUSE

METKOR Group's prospects remain positive thanks to the momentum-generated by past actions taken in all the group companies to improve profitability and to generate new business.

Chairman Floors Kotzee says in his annual review that these actions should offset the expected downturn in the economy in general and car sales in particular, which are bound to influence the group negatively.

He says the entry of Unko into the world vanadium market early in 1990 is expected to improve the prospects of this associated company.

While Kotzee approves the steps taken by the authorities to improve the economic and social environment, he criticises the export programmes.

He says it is of concern that excessive time has been lost in clarifying the rules of the different programmes which are desperately needed for the private sector to plan its supportive actions effectively.

Metkor's turnover rose by 19.8% to R2.9bn in the year to September 1989, while attributable income climbed 52.1% to R55.7m, despite a 37% increase in finance charges.

Dividend distribution was raised to 1.85c (1.5c).
ISCOR gains 35%  

Own Correspondent  
JOHANNESBURG — Iscor's market capitalisation has increased by R1.8bn to just under R5bn in the two months since its JSE flotation.  
Yesterday's closing price of 270c means shareholders who subscribed to the issue in November have gained 35% on their investment.  
Iscor said it would invest R2bn in capital projects over the next five years.  
MD Willem van Wyk said yesterday Iscor would spend upwards of R1bn a year over the next three years, dropping to about R600m annually until 1996.  
New board members were told of the plans at the group's first board meeting held at the end of November.  
"The bulk of the investment — most of which is to be funded internally — would be on new plant and upgrading of existing works," Van Wyk said.  
Though Iscor no longer had State guarantees, it was financially sound and had a low gearing, which in the longer term would allow for external funding.  
Capacity was being increased at the Ellisras coal mine and the hot-strip mills at Vanderbijlpark.  
Efficiency was being improved at Iscor's works — with the installation of new continuous casting machines, the building of new chrome plating lines, and new methods of producing liquid iron.  
Van Wyk said the new developments would not result in layoffs.  
He forecast a 20% improvement in taxed earnings, and agreed with the prospectus forecast that earnings would be about 52.7c a share, with a dividend of 17.5c a share for the year to end June (equivalent to a dividend yield of 6.5% and a P/E of 5.1 on the prevailing share price).  
High local stocks and a slowdown in the local market would tone down orders a bit for the second half of the year.
Vansa has good prospects, says analyst

Despite Vansa Vanadium's share price showing some weakness in the next six months, the shares should be accumulated as the company is undervalued and has good quality long-life mines.

This recommendation is made by Edey, Rogers & Co analyst Peter Hibberd in an update of the company's prospects this year.

The position of Vansa's chrome (Winterveld) and platinum divisions (Harplats) remain sound. However, the vanadium market has undergone changes with Hiveld halving its contractual price from $3.50/lb to $1.10/lb.

Hiveld's preference was to stabilise the market in the $3.50-$4/lb. Instead it will attempt to rationalise the industry with shock tactics and remove some potential overseas entrants.

Vansa has contracts for 3,000t it plans to produce this year.

Hibberd says the slump of the vanadium market will make 1990 an awkward year for Vansa. Earnings could decline by 50% (63c a share in 1989) but the dividend may be maintained at 25c as the company is debt-free and has about R20m in net liquid assets.
Usko's gearing up takes its toll

GEARING itself as the world's largest producer of vanadium pentoxide flake has taken its toll on JSE- and LSE-listed Usko.

With vanadium prices on the decline and raw material prices escalating, brokers say the rating of the share has declined. It has lost 21% in the past three days, dropping from R40c to 270c by yesterday. Usko was trading at 650c six months ago.

Decrease

According to the annual report for the year to end-September, the group is investing R21m in one of its Vereeniging production facilities and has R5,5m committed towards the purchase of a 20% indirect holding in Rhombus Vanadium, which will supply magnetite ore for the production of up to 9 000 tons of vanadium pentoxide flake annually.

However, the price of vanadium has decreased significantly. Highveld Steel & Vanadium recently announced its first quarter vanadium price of $2,50/lb, down from the $5,60/lb price set in the fourth quarter of last year.

Usko's results paint a less than pretty picture. Pre-extraordinary income was down 15% over the previous year at R25,8m (R32,5m), despite a healthy 25% increase in turnover to R543,8m (R434,9m).

Steel sales increased by 18.5% to R336,4m (R285,3m) and non-ferrous sales rose by 54% to R248,3m (R165,6m). However, the contribution of steel to sales dropped from 63% of turnover in 1986 to 54% last year.

After allowing for a R1,5m loss from its new special metals (specifically vanadium pentoxide flake) division, and preference and ordinary dividends of R5,7m, and R3,5m respectively, retained income dropped by 30% to R16,1m (R23,1m).

Chairman Floors Kotzee is not optimistic about the group's immediate prospects. He attributes the poor performance to "uncontrollable" escalating raw material prices which "exceeded the increase in the production price index by far".

Kotzee said that the increases in prices of steel scrap, copper, aluminum and alloys could not be fully recovered in product prices and resulted in a sharp increase in net current assets. Current assets climbed by 53% to R253,5m (R166,4m) with stock of raw materials jumping by 122% to R35,3m (R15,9m).

Profitability

Current liabilities leapt by 91% to R148,3m (R77,6m), resulting in a drop in the current ratio to 1.71 (2.21). Interest charges leapt by 80% to R14,2m (R7,8m).

Kotzee expects vanadium project to have a favourable effect on group income in the near future, regardless of the recent lower export prices. He adds it should positively contribute towards the group's profitability, especially from 1993 onwards.

He says that while the demand for the company's steel products should shrug off pressure on margins caused by inflationary raw material prices, the lower demand for aluminum conductor from Eskom will lower sales of non-ferrous products.

During the year shareholders approved that the A and B preference shares be converted into ordinary shares on the basis of fully diluted attributable earnings.

After the implementation of the conversion, Iscor, Metkor, and the general public hold 29.7%, 23.1% and 42.1% respectively.

In addition, earnings of 73.1c (90.5c) — based on an ordinary share capital of 29,8-million shares — reduced to 49c (50.5c) a share — based on 50,1-million shares in issue.
World first as Iscor corex plant commissioned

PRETORIA — The world’s first commercial corex — or coal-reduction — plant for the production of liquid steel has been commissioned by Iscor at its Pretoria works.

The new plant, erected by an Austro-German consortium using SA equipment and labour, does away with the use of expensive and ever-diminishing coking coal reserves.

It can directly use a variety of cheaper, readily available non-coking coals, leading to a direct operating cost saving of about 25%.

The new plant has an annual production capacity of 300 000 tons, but further development work could lead to a single production unit with an annual capacity of 1.5 million tons.

The corex system is cleaner and more environment-friendly with the majority of gases created being processed for further use in other parts of the Iscor works.

The 36 tons of slag tapped approximately every two hours are sold to cement manufacturers.

EDWARD WEST reports that Iscor spokesman Piet du Plessis said yesterday the plant had been commissioned early in December 1989.

Only Voest Alpine, the Austrian-German consortium, could disclose the cost of the project, he said.

Du Plessis said the production plant’s effect on Iscor’s earnings was not yet known because Iscor had just taken over the plant.

The multi-million rand plant had originally started up in 1987, though it had not been commissioned then, according to newspaper reports. While the process had worked well, the plant had been hit by a number of shutdowns resulting from temporary stoppages in nitrogen and oxygen supplies and materials handling failures.

Then, on February 14 1989, the plant, still in its experimental stages, was stopped for planned maintenance, newspapers reports said.

Du Plessis said there were a number of peripheral problems at the outset of the plant’s development, but these were all part of a learning curve involved with the development of any project not attempted before.

The problems had now been cleared up, he said.

In November, Iscor MD Willem van Wyk said Iscor would consider establishing a steel semis plant in Saldanha Bay if the corex plant in Pretoria was a success.

Du Plessis said yesterday this remained a possibility. Plans to develop the semis plant were shelved about 15 years ago as steel prices plummeted worldwide in the wake of an oil crisis.
Iscor’s first results

match up to forecast

BRENT MELVILLE

iscor, in its maiden disclosure since its November listing, has posted results in line with its prospectus forecast — but its directors doubt the ability of the giant to meet its earnings prospectus forecast.

Against the backdrop of a severe oversupply situation in the international steel markets at the end of last year, Iscor directors fear that keen competition and "substantially" lower world dollar prices will have an adverse impact on group earnings for the second half.

In addition, steel production for the group was hampered by a marked economic slowdown and production setbacks at the Vanderbijlpark works. Dispatches of steel during the half year amounted to a lowered 2.567-million tons (2.574-million), of which 68% (60%) was supplied locally.

For the first six months, however, bottom-line income was up 20.3% at R428m (R354m), with a commensurate rise in earnings to 23c (19.1c) a share. The prospectus put earnings at about 52.7c, with a dividend of 17.6c a share to end June.

Directors are relying on the strong financial position of the group to meet the forecast final dividend.

Turnover showed a 20.3% growth to R2.1bn (R2.5bn) with operating income up at a marginally less 10.8% at R217m (R219m). However, a halving of net financing to R125m (R285m) left income before tax 20.3% up at R650m (R463m).

On a virtually unchanged effective tax rate of 23% the tax man was allotted R127m (R133m), leaving income after tax up 20.2% at R423m (R350m).

Gearing was down to 14.3% (16%) with loans remaining virtually unchanged at R941m (R933m), and interest-bearing debt up by only R56m. However, the current ratio was down to 2.6 (3.2).

Over the period capex amounted to R479m of the year’s R750m commitment.
Old Messina exits gracefully

By Derek Tommy

Messina, which is about to become a platinum producer, had net income of R50.4 million (1988: R45.7 million) before extraordinary items from a turnover of R246.4 million (R400.3 million) in its final year as a copper, diamond and coal producer.

Earnings before extraordinary items for the 12 months to December were equal to 398c (382c) a share.

Messina has declared an unchanged final dividend of 50c, making 82c (75c) for the year.

Since the end of December the group has sold for R11.5 million all its mining assets other than its platinum interests.

It reports that the Lebowa government has confirmed its acceptance of the mineral lease submitted by Messina Platinum Mines over the area under its control.

The South African Development Trust Corporation is to submit to its Minister the mineral lease in respect of the area under its control.

Negotiations are continuing for a lease over the farm Doornvlei, which is held in trust for the Mphahlele tribe.

Sales of subsidiaries and associated companies during the year realised R30.9 million in cash and resulted in a group surplus of R22.5 million.

At the end of the year, cash on deposit amounted to R114.3 million and will be used to finance the development of Messina Platinum Mines.

The April 1988 offer by Impala Platinum for a 55 percent shareholding in Messina became unconditional on last November.

The acquisition was concluded on February 16, this year, with a 69 percent acceptance by minority shareholders.
Assore's income soars at halfway point

ASSOCIATED Ore & Metal Corporation (Assore), whose income derives largely from its interest in Anglovaal's Associated Manganese Mines (Assmang), scored another profit jump in the six months to December. 

Attributable income soared to R27,17m from the 1988 half-year's R9,14m on a 77.9% (90.3%) increase.

With earnings up at 194c a share from 63c, the interim dividend has been lifted to 96c from 80c.

Assore's interim report states that in the past, Assore only accounted for dividends actually received. It has now decided to change the policy to account for dividends declared by Assmang out of profits earned up to the end of the Assore group's financial year.

Comparative figures will be adjusted accordingly at the year-end.

Assore has a 65% interest in Assmang and owns Ore & Metal, which has two chrome mines, in Rustenburg and Zeerust. The chrome concentrates are sold to Assmang's refinery, Ferroloy, and are in turn marketed by Assore.
Assmang lifts net profit by 189%

INCREASED sales tonnages of manganese and iron ores, higher US dollar prices and the weaker rand combined to lift Associated Manganese Mines of SA's distributable profit by 189%, the company's 1989 annual report showed.

The Anglovaal subsidiary and producer of manganese, iron ores and chrome alloys consolidated distributable profits for the year to December 1989 increased from R51,5m in 1988 to R149,7m.

However, Hersov points out that during 1988 Assmang acquired the 31% balance of Ferrailloy not already held by it for R67,1m. Consequently, the consolidated results were not strictly comparable with the previous year's.

Ferrailloy has a consolidated tax profit of R72,1m (38,3m) as a result of sharply higher dollar prices combined with the weaker rand.

Assmang's turnover more than doubled from R185,4m in 1988 to R406,5m which resulted in an operating profit R123,2m higher at R175,5m. Other income rose to R45,7m (R27,8m) mainly due to increased dividends received from Ferrailloy.

Manganese ore dispatches rose by 284 000 tons to 1 783 000 tons, while iron ore sales were 50% up at 2 216 000 tons. Although ferro-manganese sales volumes declined from the previous year's high levels, they were still satisfactory.

Ferrailloy's capex for the year totalled R10,5m (R3m) most of which was spent on the first phase of an additional furnace for the Cato Ridge ferro-manganese works.

The new furnace would have an annual capacity of 50 000 tons of ferro-manganese and Assmang expected to commission the furnace during the second half of the current year at a cost of R59,7m.

Hersov expected demand and prices for manganese and iron ores to remain at satisfactory levels during 1990. Demand and prices for ferro-chrome had fallen considerably since the third quarter of 1989 and it was not expected they would recover materially during 1990, Hersov said.
Iscor blow to privatisation

CRUMBLING market sentiment towards Iscor had dealt government’s privatisation plans a severe blow, market analysts said yesterday.

A demoralised market left the steel giant at an all-time low of 200c a share yesterday – 15c below its issue price. A total of 560,000 shares traded hands in feverish trading which saw the share briefly touch a low of 195c.

The prevailing price means Iscor’s market capitalisation has shed R1.6bn since its R3.8bn high in January, to R2.2bn.

J D Anderson analyst Dave Russell said Iscor had done more damage to privatisation than last week’s protest march on the JSE by members of four public sector trade unions.

However, one analyst said the fall in the price did not make sense based on the attractive rating Iscor enjoyed. The current price puts Iscor on a historical price-earnings ratio of 4.2 times and a dividend yield of 8.9%.

"Iscor was very reasonably priced at 200c," he said.

The analyst said there could be a variety of reasons for the depressed confidence levels, ranging from the perception that Iscor would take a knock from the new government stance on Lphi reserves to Iscor’s interim stage disclosure that it was unlikely it would meet prospectus earnings forecasts by year-end.

Russell said the cyclical downswing in raw steel production was well under way. "World monthly crude steel production is down 4.2% on last year with SA’s year-on-year raw steel production down by 10.6% for the month of February."

"Taking into account that Iscor accounts for 78% of SA steel production, this will have impacted accordingly," he said.

Iscor spokesman Piet du Plessis said yesterday there were indications that conditions in the international steel market would start improving from the second half of this year.
Investors bemused at Iscor shares

By TREVOR WALKER,
Business Staff

THOUSANDS of first-time share market investors in Iscor have watched bemused at the topsy-turvy fortunes of their investments since the launch of the shares last year.

The giant steel producer's share price has fallen below its opening price of 225c fixed on the Johannesburg stock market on November 8 last year.

Over-enthusiastic forecasts concerning the future course of the rand, the-gold price and the company's expansion plans have led to a steady reversal in the share price in recent weeks.

Iscor listed 1.85 billion shares including an offer of 150 million to the public at 200c a share. This was eventually over-subscribed four times.

Public interest

Huge public interest in the offer was stimulated by a widespread television and newspaper advertising campaign which led to complaints that the company was openly touting its stock. This is forbidden under JSE rules.

But the company argued that as this was the first major privatisation of a state asset and as the company was seeking the widest possible spread of its shares among the public, the “hype” of the advertising campaign was justified.

The campaign created unprecedented interest in Iscor and the stock market in general.

When the shares were allocated to the public the 200 000 people who had applied for up to 1,000 shares each received their full allocation.

Prior to this Iscor placed no fewer than 1.215 billion shares among the country's major financial institutions.

When the shares traded for the first time on November 8 last year trading was described as “frenzied and chaotic.”

Quick profit

Many small investors and even some sizeable institutions had taken up shares in the hope of a quick profit.

Among many, before and after the listing, this remained the main issue.

As the price moved up towards 250c a share more people began to sell and take their profits.

But many hung on even when the share reached a peak of 285c.

Now the share has come back close to its issue price of 200c and has touched this level during one session. It traded at 213c yesterday.

A city broker had a few encouraging words for confused investors. He said the share was unlikely to fall below 200c.
GFSA feels pinch of lower base metal prices

The financial results of the base metal companies in the Goldfields of SA group for the March 1990 quarter were affected by the decline in metal prices, with the exception of lead and zinc which improved marginally compared with the previous quarter.

Overall coal sales of Gold Fields Coal were lower during the quarter at 2,65 million tons against the previous figure of 2,39 million tons. Profit after tax was marginally higher, however, at R4,31 million (R4,24 million), as the cost of sales were kept down to R80,4 million (R86 million).

Rooberg Tin's lower tonnage of ore treated at 75 000 tons (77 000 tons) and the continuing decline in the tin price on the international market resulted in the company increasing its loss after tax to R1,67 million from the previous R522 000.

Black Mountain Mineral Development company, with lower tonnage treated reported a sharp drop in profit after tax R7,25 million from the previous quarter's R13,79 million. Sales were down from R6,9 million to R6,1 million with the cost of sales virtually unchanged at R8,2 million.

Zinc Corporation of SA's net sales were lower at R14,64 million (R20,83 million) in spite of an increase in production of 25 449 tons (22 611 tons). Profit after tax was accordingly lower at R6,23 million (R10,32 million).

O'okiep Copper Company's lower production and sharply lower net sales of R7,2 million (R13,38 million) resulted in a lower profit after tax R6,3 million (R14,27 million).

Gold Fields of Namibia's net sales increased to R1,09 million compared with the previous loss of R3,91 million. Net profit was accordingly higher at R718 000 (R682 000). — Sapa
UnCorrespondent

Iscor to spend Rs. 36 bn on capital projects

Other improvement bucket plans to include up to 20% (or 40%) higher production

about 2.5 times

Iscor would also go

If production at full capacity

Iscor had become an

one month of which is ex-

about 70% of Iscor's

about 10% of Iscor's

about 33% of Iscor's

about 20% of Iscor's

about 50% of Iscor's

about 25% of Iscor's

about 5% of Iscor's

about 15% of Iscor's

about 80% of Iscor's

about 90% of Iscor's

about 100% of Iscor's

about 110% of Iscor's

about 120% of Iscor's

about 130% of Iscor's

about 140% of Iscor's

about 150% of Iscor's

about 160% of Iscor's

about 170% of Iscor's

about 180% of Iscor's

about 190% of Iscor's

about 200% of Iscor's

about 210% of Iscor's

about 220% of Iscor's

about 230% of Iscor's

about 240% of Iscor's

about 250% of Iscor's

about 260% of Iscor's

about 270% of Iscor's

about 280% of Iscor's

about 290% of Iscor's

about 300% of Iscor's

about 310% of Iscor's

about 320% of Iscor's

about 330% of Iscor's

about 340% of Iscor's

about 350% of Iscor's

about 360% of Iscor's

about 370% of Iscor's

about 380% of Iscor's

about 390% of Iscor's

about 400% of Iscor's

about 410% of Iscor's

about 420% of Iscor's

about 430% of Iscor's

about 440% of Iscor's

about 450% of Iscor's

about 460% of Iscor's

about 470% of Iscor's

about 480% of Iscor's

about 490% of Iscor's

about 500% of Iscor's

about 510% of Iscor's

about 520% of Iscor's

about 530% of Iscor's

about 540% of Iscor's

about 550% of Iscor's

about 560% of Iscor's

about 570% of Iscor's

about 580% of Iscor's

about 590% of Iscor's

about 600% of Iscor's

about 610% of Iscor's

about 620% of Iscor's

about 630% of Iscor's

about 640% of Iscor's

about 650% of Iscor's

about 660% of Iscor's

about 670% of Iscor's

about 680% of Iscor's

about 690% of Iscor's

about 700% of Iscor's

about 710% of Iscor's

about 720% of Iscor's

about 730% of Iscor's

about 740% of Iscor's

about 750% of Iscor's

about 760% of Iscor's

about 770% of Iscor's

about 780% of Iscor's

about 790% of Iscor's

about 800% of Iscor's

about 810% of Iscor's

about 820% of Iscor's

about 830% of Iscor's

about 840% of Iscor's

about 850% of Iscor's

about 860% of Iscor's

about 870% of Iscor's

about 880% of Iscor's

about 890% of Iscor's

about 900% of Iscor's

about 910% of Iscor's

about 920% of Iscor's

about 930% of Iscor's

about 940% of Iscor's

about 950% of Iscor's

about 960% of Iscor's

about 970% of Iscor's

about 980% of Iscor's

about 990% of Iscor's

about 1000% of Iscor's
Iscor plans R3.6 billion to reduce pollution at two plants

Iscor's planning and corporate planning managers have announced plans to spend R3.6 billion over the next three years to reduce pollution at its Vanderbijlpark plant.

The plans are the result of a joint agreement between ITC and the Department of Environmental Affairs.

The agreement involves the development of a new product line that will facilitate the production of stainless steel.

Iscor's managing director, Mr. WIllson, said that the company has been considering the production of stainless steel for some time.

The new product line will be implemented in phases, with the first phase expected to be completed by 2021.
Corroded profits

Vansa's management is right to be apprehensive about this year's second half.

Though vanadium prices have just been increased by market leader Hivold, the market is highly uncertain. When that comes on the back of a 7% interim turnover fall, and 80% wiped off the first half's operating profit, the immediate outlook is distinctly dodgy. To make matters worse the advent of full taxation led to a 90% cut in the first half's earnings to 33c from 343c.

The interim period coincided with a downturn in the vanadium market when Hivold, the price trend-setter, cut its benchmark vanadium price from US$7.50/lb in the second quarter of 1989 to $6.30 in the third quarter and $5 in the fourth.

This calendar year's first quarter saw Hivold halve its producer price to $2.50 and adding insult to injury, the rand strengthened at the same time to erode severely Vansa's trading margin. Still, there is some encouragement in the fact that Hivold's producer quote was raised in the second quarter to $4.20/lb.

Excess inventories had been accumulated by foreign steelmakers early last year and, though they had fallen by end-1989, they were fully liquidated only during January 1990. The spot price then began to rise as end-users found readily available material hard to obtain and put upward pressure on the producer price.

The chrome operations did not fare any better. Sales volumes fell significantly as consumers worldwide sat with high stockpiles of both ferrochrome and stainless steel. Unlike the vanadium market, that for ferrochrome remains oversupplied.

Vansa says it is to spend R4m on a metalurgical plant to recover platinum group metals from discarded material. It has the resources to finance that despite the poor profit outlook.

Shares have steadily underperformed the market over the past year, though they have had a brief run since the low of 365c at the end of February this year. At their current price of 475c, the shares fully discount any near-term vanadium price increases and do not discount the possibility of oversupply developing by year's end.

Gilbie Pedley
Samancor launches R15m welfare trust

EDWARD WEST

SAMANCOR has invested R15m in a trust to finance projects aimed at improving the quality of life in communities and areas surrounding the group's mines and works, Samancor MD Hans Smith said yesterday.

The trust, a separate financial entity known as the Samancor Foundation, would spearhead the group's social responsibility activities, he said.

It had been decided to establish the foundation with a lump-sum endowment in a year when Samancor's earnings were at a reasonably high level. This would make the foundation immune to the effects of business cycles and would ensure its consistent operation through lean as well as good years.

The interest generated by the fund, at present rates about R3m a year, would be used to support projects nominated by the management of Samancor's operations.

About 20 projects were being considered, including an old-age home in Witbank.
Tin outlook is bad news for Rooiberg

EDWARD WEST

TIN producer Rooiberg's recovery depends on a rising international tin price which has remained low and steady at a spot price of between $6 000 and $6 500 a ton since February.

The price last November was $9 500 a ton.

Rooiberg's 875c share price at the close of Friday's trading was at a PE ratio of 4.9.

Rooiberg Tin showed a taxed loss of R1.7m for the quarter to March 1990 due to depressed prices. Efforts were being made to reduce costs and the labour complement.

A Frankel Kruger Vineirne analyst said there appeared to be no upside potential in the tin price. An abundance of cheaply produced tin reserves in Brazil and China could keep a lid on 'tin prices in the long term. If the tin price remained depressed for very long, no tin producer in SA could survive.

However, Rooiberg held R7.2m in cash reserves at the end of 1989, which could see the group through troubled times.

Rooiberg Tin spokesmen could not be reached for comment on Friday.
Feeling the heat

Uisko's poor interim performance reflects not so much weaker conditions in the steel industry as the serious effects of being over geared when interest rates are rising.

Operating income was 23% up at R17.8 million but most of this was wiped out by an interest bill of R13.5 million, 141% higher than a year ago. The interest payment for the six months was almost equal to the R14.9 million paid during the whole of last year.

At the end of the 1989 financial year, Uisko's debt stood at R147.4 million, having risen by R92.1 million. This was largely to meet additional funding for the investment in Khovan (R5.3 million), construction of a vanadium pentoxide plant (R18 million) and redemption of R30 million worth of preference shares.

The vanadium plant is being commissioned and the division should make a contribution to income during the current six months, though the extent of it has not been made known. The interim announcement mentions a "reduced financial burden" but no-one from the company was available to comment. One can only assume the group intends to repay some of its debt as interest rates are unlikely to fall much between now and the end of September.

The vanadium price, which collapsed in the second half of last year, has shown signs of recovering, with Highveld Steel & Vanadium having raised its contract price to $4.20/lb for the 1990 second quarter. Some believe interest rates will start to fall during the fourth quarter of this year. That should benefit the group during the 1991 financial year, so perhaps the worst is behind.

Crippling Interest

<table>
<thead>
<tr>
<th>Six months to Mar 31</th>
<th>'88</th>
<th>'89</th>
<th>'90</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (Rm)</td>
<td>195.0</td>
<td>249.0</td>
<td>294.2</td>
</tr>
<tr>
<td>Pre-interest profit (Rm)</td>
<td>14.4</td>
<td>16.7</td>
<td>19.0</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>9.9</td>
<td>10.2</td>
<td>5.5</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>24.2</td>
<td>25.2</td>
<td>14.0</td>
</tr>
</tbody>
</table>

The directors' statement, that "the profit for the year will not deviate substantially from the profit of the previous year," implies a quadrupling of the first-half performance during the second half. This remains to be seen, but, at 270c, the share looks fully priced for now.

Gihan Panday
Higher prices lift GFSA\(^{185}\) base metal companies

Higher average prices for copper, lead and zinc in the June quarter led to a general improvement in GFSA's base metal companies.

The coal division reported higher tonnage milled and increased sales of 2,1 million tons (2,0 million tons).

Thus, combined with a lower tax bill of R3,4 million (R5,9 million), boosted tax profit to R9,1 million (previous quarter R4,3 million) Capex rose to R2,1 million (R1,1 million).

Rooberg Tin's lower cost of sales help offset the drop in ore treated to 60 000 tons (75 000) and sales of R4,3 million (R6,1 million) The taxed loss was lower at R893 000 (R1,7 million).

Zinc Corporation reported higher sales revenue despite a drop in tonnage sold to 18 977 tons (22 887). Taxed profit rose to R3,6 million (R6,2 million), Capex rose to R2,0 million (R1,3 million).

O'Keeffe Copper's higher milling and sales, which increased to R41,5 million (R37,9 million), lifted taxed profit to R13,7 million (R9,3 million).

Black Mountain Mineral Development saw taxed profit rising to R14,9 million (R7,2 million) Capex was R2,7 million (R51 600)

Capex at Notnam Platinum was R168,4 million (R49,3 million) Taxed profit was R3,3 million (R24 million)

Gold Fields Namibia had improved sales of R102,3 million (R70,1 million), lifted taxed profit to R3,7 million (R718 000) — Sapa.
Iscor shares are facing a long haul

Thompson says there is probably little downside risk in the current share price, given that holders will probably not be inclined to sell below the original issue price.

Also the share must at some stage overcome the present period of indigestion, permitting a rating based purely on fundamentals.

But although disillusioned investors have been selling Iscor, the outlook suggests the shares are cheap at their extremely depressed price.

Consider:
- The rand-dollar rate has declined moderately, thereby reducing export receipts which account for more than 30 percent of Iscor's turnover. And "logistical" problems relating to Iscor's export drive have been overcome.
- Western Europe's steel industry is already recovering. Although European production of basic steel was down by 2.3 percent in the first five months of 1990, against this period last year, the May figure revealed a rise.
- It could be the start of a sustained upswing, as steel companies begin to benefit from the reconstruction of East European economies.
- Iscor is starting to benefit from improved access to foreign markets, as unofficial boycotts diminish in intensity. It has, for example, achieved a breakthrough with exports of iron ore to Poland.
- Iscor is stepping up its involvement in beneficiation.
- A R159 million joint venture with Dorbyl to manufacture seamless steel tubes will go ahead, and there is the distinct possibility that a semisteel plant will be launched at Saldanha Bay. Iscor may also enter the stainless-steel market.
- Rising exports should have helped ensure that Iscor's earnings a share reached 48c in the year to June 1990.

The original dividend forecast of 17.6c will almost certainly be met. On this basis, the prospective dividend yield is a generous 8.8 percent.

Although the domestic steel market is weak, expected international improvement should lead to a further export boost.

Hence, it would not be surprising to see Iscor earn at least 5c a share and pay 20c in the current financial year for a forward yield of 10.1 percent.
EDWIN UNDERWOOD

EC iron imports reach 10-year high

SA IRON ore exports to the EC jumped 36% to 4.2-million tons last year from 4.8-million tons in 1988, boosting EC iron ore imports to a 10-year high.

Iscor mining products GM Emile Reads said last week SA's three main western European customers had made slight adjustments to their production techniques to accommodate SA exports, which were slightly cheaper. Subsequently, certain technical difficulties, which resulted from dealing with other iron ore exporters, were overcome.

Simpson, Spence & Young's (SS&Y) July monthly shipping review said EC imports of iron ore rose 6% to 124.8-million tons in 1989 — the highest level of the decade — compared with 127-million tons in 1988.
Samancor overcomes price crash

In spite of the collapse in ferrochrome prices, Samancor succeeded in achieving further growth in income and earnings in the financial year to end-June.

Results for the year show sales of R2.52 billion – only fractionally lower than those of the previous reporting period, which covered 15 months.

Net income rose by 18 percent to R58.8-million on an annual basis, compared with the previous year's rise of 6 percent, with growth in the number of shares issued after the acquisition of the Gencor Chrome interests.

A final ordinary dividend of 60c and a further extraordinary dividend of 40c were declared, making a total of 1.00c for the year.

These results illustrate the benefits Samancor derives from being a multi-commodity producer whilst one of our major product lines suffered a decline, the others held up well and continue to look positive,
Bleak outlook for SA's tin producers

THE recent drop in the London Metal Exchange tin price to a 44-month low of about $8 055 a ton does not bode well for SA producers, industry sources said at the weekend.

An industry spokesman said that none of SA's tin producers had been operating at a profit even before the price fell to its low and this would put existing mines under additional pressure.

Inco's UIS tin mine in Namibia is already threatened with closure.

Union Tin Mines temporarily suspended tin recovery operations earlier this year and GPSA's Rooberg mine showed a drop in ore treated, with further drops predicted.

Should the price remain at this level or drop further, local producers will seriously have to consider whether they can sustain these continued losses, with the threat of closure being quite real, industry sources said.

After the tin crisis which followed the collapse of the International Tin Council's (ITC) tin price support scheme in 1985, the market took a plunge, but recovered in 1987 when a supply control scheme was instituted by the Association of Tin Producing Countries (ATPC).

Frankel Kruger Vinterene mineral analyst Kevin Kartun said SA tin mines had very high fixed costs and annual production cost increases were greater than the rate of inflation.

Recent substantial increases in production costs and more mine openings planned in major producing countries, as well as the flooding of the market by Brazil and China, contributed to the downturn in price.

Brazil, which together with China operates on voluntary quotas and does not have to adhere to association quotas, has recently announced that it will join the association.

In this event, adherence to association's quotas could have an effect on the supply and subsequent price of tin.

The tin market was in a state of change and was trying to adjust to the new supply and demand pattern. SA manufactures tin almost exclusively for its local market — in the region of 2 000 tons — with producers just meeting local demand.

The SA market plays a minute part in the world picture, with Brazil, the largest tin producer, producing about 50 000 tons a year.

Prospects for the industry look increasingly bleak and unless the tin price increases markedly, which seems unlikely given the oversupply in the world market, it will be faced with a difficult choice.

However, Kartun believes that it would not be an entirely bad thing if SA began to import low cost tin from abroad.
USKO opens 610m 31.1.1979 new plant

ROBERT GENTLE

USKO, specialist steel manufacturer and producer of copper, cable and aluminium products, yesterday formally commissioned its £610m vanadium recovery plant in Vereeniging, which will supply about 10% of world consumption.

Vanadium is primarily used as an additive in the steel-making process to enhance quality and shock resistance, and is also used in the chemical, ceramic and paint industries.

The plant, a joint venture with vanadium company Rhomex, is running at a production rate of 5,000 tons of vanadium pentoxide a year, which represents about 10% of world production. Phase II, to be implemented at a later stage, will push this to 9,000 tons a year.

The plant opens at a time when declining demand for steel, large stockpiles and a growing supply on world markets have resulted in a sharp decline in vanadium prices in recent months.
PRICE PRESSURES

One of the JSE's weaker performers this year must be Usko, a 29.7%-held Iscor associate. At 165c, the share is down by more than 50% from the year's high of 340c, and more than two thirds have been shaved off last year's high of 540c.

The fall from grace is not difficult to understand. In 1988, when the vanadium price was booming, the company launched a plan to convert its defunct direct reduction plant at Vereeniging to produce vanadium pentoxide.

When President F.W. de Klerk officially opened Usko's new vanadium recovery plant last month, the spot price of vanadium pentoxide was languishing at just below $3/lb. That compares with nearly $12/lb in the second quarter of 1989 when the plant was commissioned.

Other producers are running well below capacity and have cut their prices. The world's largest producer, Highveld Steel & Vanadium, set its contract price for the third quarter 1990 at $3.35/lb. This was up from $2.50/lb in the first quarter but still less than half the price of $7.50 for the second quarter of 1989. Most vanadium is sold at contract rather than spot prices and Highveld — also the lowest-cost producer — tends to lead the market.

Within the next few months, Usko expects its plant to attain the initial capacity of about 5,000 t/year. That level would add about 7% to world vanadium production and Usko's capacity is capable of being increased by a further 4,000 t if justified by market conditions, at relatively low capital cost.

Whereas the slump in the ferrochrome market is mainly caused by overcapacity in the stainless steel industry, the demand for vanadium is largely influenced by consumption of special steels. About 85% of vanadium goes to the steel industry, 9% is used as an additive to non-ferrous alloys, 3% in chemicals and ceramics and 1% in cast-iron production.

Like many other commodities, the world steel market enjoyed a boom during the late Eighties, but that appears to be over — as was shown by recent results from Iscor and Highveld. Local producers estimate that world steel output in 1990 will be down by several percentage points on last year.

As de Klerk commented at the plant opening, "Vanadium prices have declined sharply in recent months because of a decline in the demand for steel, large stockpiles and a growing supply on world markets. Though a renewed upsurge in the steel market is forecast in the near future, market conditions will probably remain difficult."

Usko's management is clearly taking the view that the investment in vanadium production — which made use of existing infrastructure — will pay in the long term. It is also hoped that income from the company's other operations will help cushion the impact of the price slide. Given the capacity held by Highveld and new production from other producers such as Vansa, and the slackening world economy, uncertain profit prospects for Usko's vanadium could keep a lid on the share price for a while.

Andres McNally
Vansa stops main business activity

Vansa Vanadium, suspended on the JSE on Friday, said yesterday it was ceasing mining and production of vanadium pentoxide at its 250-tons-a-month Steerpoort operation because of the "severely depressed" market.

Although its main business would be closed, it would not affect the company's Winterweld chrome mining operations or its 24% stake in Barplats Investments, a spokesman said.

An announcement published by the company today said all matters associated with the cessation of its vanadium operations near Steerpoort in the eastern Transvaal were being addressed. These included talks with union delegates.

"In addition, management is evaluating various alternatives to turn these assets to account," it said.

The depressed market for vanadium pentoxide, because of substantial lower international demand for vanadium-titanium steel, would result in the vanadium operation "trading at a loss with consequential negative cash flows".

Group operating profit fell 77% to R10.6m compared to R40.5m in the 1989 financial year. Profit after tax was R19.2m (R35.7m) which, taking an appropriation for capex of R7.8m (R14.5m), left attributable profit of R11.4m. This prompted the board to pass the dividend for the year.
Volatile market not to Samancor’s liking

In the year to June 1990 Samancor, the world’s largest exporter of manganese ore, surprised everyone when it shrugged off a collapse in ferrochrome prices - which fell from $11.50 a pound in 1989 to $4.70 in 1990 - and reported a 15 percent increase in attributable income on an annualised basis.

Turnover advanced 17.8 percent to R2.1 million but operating profit rose 36 percent to R101.3 million. Earnings a share rose only 8 percent to 222c (200c annualised), owing to an increase in issued share capital.

But Samancor’s chairman Brian Gilbertson says unless there is a significant recovery in ferrochrome prices, group profits in the 1991 financial year will not reach the level achieved in the 1990 year.

Analysts say the dividend could be maintained in 1991 but forecast a 10 percent decline in earnings.

Ferrochrome prices fell because of a three percent decline in world production of stainless steel in 1989 and a resulting decrease in demand for ferrochrome at a time when there was a sharp increase in production (mainly from SA producers).

Capacity

The total new capacity added by SA producers was 300,000 tons. Samancor, however, reduced output in line with the lower demand, and this together with the lower prices combined to slash operating profits from ferrochrome by almost 69 percent.

Unnecessary competition among smaller producers who cut prices and went all out for market share was another factor that contributed to lower ferrochrome prices.

Samancor managing director Hans Smith says most SA producers break even at a price of about 47c a pound.

“If producers do not get their act together and do not rationalize I cannot see ferrochrome prices above 50c in the next five years,” he says, adding that Samancor has issued open invitations to all the other producers.

But he says they are pursuing rationalisation not so much to push prices up - which smells of a cartel, he says - as to eliminate unnecessary competition and achieve a more stable pricing scenario.

If low cost producers could keep their price just below 50c “we could put half the world’s producers out of business.”

Without rationalisation the ferrochrome division - whose contribution to group profits reached 50 percent at one stage - will do little more than break even and contribute, perhaps, 15 percent to group profits.

Although the chrome alloy market is weak, chrome ores are still profitable and the chrome division should continue to contribute about 12 percent to group profits.

Samancor’s main profit centre is the manganese products division (particularly ore) and future profits will come more from this division and less from chrome.

John Clemmow, mining analyst at brokers George Huyser & Partners says 66-70 percent of group profits will come from this division next year.

Manganese ore dollar prices increased 50 percent last year. The higher prices and the weaker rand resulted in a substantial increase in the profits from manganese products.

The supply and demand situation should remain in balance this year as the few players in the market continue to keep the market artificially tight.

Samancor shares are now trading at R2.1 down from the high of R3.50c reached in August this year. This places the share on a prospective price-earnings of 7.3 and a prospective dividend yield of about 8.6 percent.

Big dip... Samancor shares have taken a fall this year.
Growth opportunities for aluminium industry

THE "new SA" and emerging new European markets would provide numerous growth opportunities for the domestic aluminium industry, SA Aluminium Federation director Tony Paterson said this week.

Examples were the increased use of aluminium by the SA motor industry and improvement in the quality of life of the black consumer. The installation of electricity to black consumers would, apart from increasing aluminium usage, increase the demand for kitchen utensils and appliances, refrigerators and microwaves. Preserved foods in aluminium containers would also then become more accessible to the black consumer.

To cope with this increased demand, a number of alternatives were available. SA could build a new smelter, expand the capacity of the Alusaf smelter or import aluminium.

Paterson said however, any decision in this regard would have to be based on economic viability and financial considerations.

"It is reasonable to expect that the SA aluminium industry will continue to expand, as it has had an average year-on-year compound growth of 5.5%. However, to achieve this SA will have to develop markets not significantly developed before and will have to look closely at the value-added system," Paterson concluded.

In its report on SA's minerals industry for 1989, the Minerals Bureau reported that in 1989 aluminium demand in SA increased for the fourth successive year and exceeded 150 000 tons. It concluded global aluminium consumption was not expected to fall in 1990, but supply and stocks were likely to increase marginally, resulting in relatively small price fluctuations throughout the year.

The general feeling of those in the overseas aluminium market was that the industry had the best years ahead of it. Although the industry was fearful during the 1980s, when it seemed that it would be plagued by over-capacity, these fears have been dispelled, Kenneth Gooding said recently in a Financial Times survey.

The industry would have a great surge of activity in the next 25 years as a result of some metal's recycling ability, he said.

The opening up of new European markets would provide another boost to the industry as it expected to benefit from construction customers as the East started refurbishing its crumbling infrastructure, he said.

In addition, on the automotive front, the industry had much to gain as car makers attempted to further reduce the weight of cars.
Titanium project should come on stream next year

THE $25m project to expand titanium production of Richards Bay Minerals (RBM) by a third is expected to start coming on stream during 1993.

The Financial Mail reported yesterday that construction on the project began earlier this year.

Genecor is the largest local shareholder of RBM, with a 25% stake. Rio Tinto Zinc owns about 50% RBM produces titanium slag as its primary product, with secondary products such as iron, rutile, zircon and monazite.

About 85% titanium dioxide is yielded from the titanium slag produced by RBM. Most of this is exported, as it is a raw material used in the manufacture of titanium pigments.

Rio Tinto Zinc had said previously that its titanium slag capacity at RBM was being increased from 750 000 tons a year to 1 100 000 tons. This increased production was expected to come on stream in 1993.

RBM was also expanding zircon output from 140 000 tons a year to 300 000 tons and rutile from 60 000 tons to 115 000 tons. RBM produces 500 000 tons of monazite, but what this will be increased to is uncertain.

The project will require an expansion at each of the three main operations at RBM - dredging, separation and smelting. The capital programme includes a fourth dredging operation, a new dry mill and a new furnace.

The Metals and Minerals Annual Review shows that the three big producers of titanniferous slag in 1989 were Canada (1-million tons), SA (650 000 tons) and Norway (200 000 tons).

Titanium dioxide pigment, which is mainly used in paint, paper and plastics, accounts for 90% of consumption of titanniferous feedstocks.

Titanium metal is the next biggest market, where it is used by the aerospace industry, chemical plants and other applications where lightweight and corrosion resistance is required.

While demand was buoyant in 1989, supplies were tight. Pigment production was up 6% in the US and Japan, while sponge output (for metal) was 13% higher in the US and 30% up in Japan.

However, the general economic slowdown, especially in the US, with the construction and car industries in recession, points to a softer market this year and next year.

According to the Financial Mail, the zircon market has weakened substantially, because of the impending over-supply of materials from new suppliers and expansions.

However, long-term demand for titanium slag has grown by about 3% annually, with the trend expected to continue. RBM is a major supplier of a high grade product.
Vansa's share price reels on poor demand

Peter Galli 189

The recession in the international steel industry and the resultant plunge in vanadium demand had sent the Vansa Vanadium share price reeling, Davis Borkum analyst Alex Wagner said recently. The share price of Vansa, owned by Rand Mines, dived from a yearly high of 500c in March to a yearly low of 165c in November.

Savings from an investment in a salt-recovery circuit at the vanadium plant were insufficient to offset the effects of the collapse of the vanadium price, he said. As a result of industry profit margins being eroded and the increasing probability of substitution of other metals, Wagner recommended that holdings in Vansa be liquidated until more positive fundamentals emerged.

Market prospects would be reviewed by management in March. The plant could be reopened should market conditions permit, but at present this was a remote possibility, Wagner concluded.

Vansa would keep the vanadium operation on a care and maintenance basis while evaluating options, chairman Allen Sealey said in the annual report. Production of vanadium pentoxide ceased in November as a result of increased vanadium pentoxide productive capacity recently commissioned around the world and a continuing softer demand for vanadium steels.

Sealey said that demand for chrome ore was likely to remain at 1999 levels in the coming year.
Alloyed outlook

Usko's share price has soared and dropped like a rocket with investors' changing perceptions of vanadium's prospects. The advance came in March as Usko struck its deal with Rhomous Vanadium to use under-utilised plant to process Rhovan's magnetite ore to make vanadium pentoxide flake.

The vanadium market was booming but prices for the steel alloying metal fell apart once users realised large production increases were in the pipeline in SA and as destocking got under way. Highveld and Vansa offer deep price discounts to hold on to market shares. The share seems fully priced. There is certainly no need to rush to buy until the vanadium market stabilises.

---

Chairman Flores Kotzee is far from encouraging on the present year's prospects. Eskom's capital spending cuts remain in place and the utility is expected to buy less aluminium cable. The costs of steel raw materials are unlikely to abate and Usko is budgeting for lower earnings this year, in part because of the cost of servicing debt raised to finance the magnetite plant.

Kotzee takes a positive view of vanadium's revenue contribution two years hence. That is fine as far as it goes, but Usko's production costs are likely to be the industry's highest according to some estimates. That will be a major drawback, as, seems likely, Highveld and Vansa offer deep price discounts to hold on to market shares.

---

USKO Share price performance 1989-1990

---

Joni Jones
Muck-merchant Enrol makes a minuscule offer

NEVER HAVE I SEEN a prospectus which says the purpose of a private placing is to pay the expenses of its joining the JSE.

Environmental Resources (Enrol) will place 230,000 shares at 99c each, making it the smallest company at listing ever to appear on the JSE's Development Capital boards. Of the R156,000 to be raised, an estimated R150,000 will be used to pay for the listing.

The balance, if any, will augment working capital. The other reason for the private placing is to obtain a spread of shareholders to obtain a listing.

RATIONAL

This smallest of small quotations is based on the businesses formerly known as Metalini and Metalini was involved in coal reclamation — magnetic extraction and stripping of scrap out of steelworks slag.

Listing for the sake of it? There is more to it.

Joint managing director, Geoffrey Wolf — whose portrait carrying full-colour business card carries the message, Purveyor of Superlative and Congenial Energetics — explains the rationale behind listing a company capitalised at R1,35 million.

The fact is, the noble Enrol does not want to take money from shareholders. Logically, if it raises only R2 million for the listing, none of the interested parties can seriously do a moonlight flit with the proceeds.

Yet to satisfy JSE requirements 10% of its shares need to be with outside shareholders, hence the minuscule offer.

Mr Wolf says Enrol has been undersold already — everyone wants in.

Enrol has two operations:

At Benoni, it reclaims metal from slag produced by Iscor's Dunsawt steelworks years ago. A similar operation takes place at Ulsco in Vereeniging.

At Benoni, a front-end loader scoops the muck over a screen and through a magnetic separator. Spoon-bunch of scrap metal is delivered to Dunsawt each month.

Mr Wolf likes degrading steel to skimming froth off soup — a little bit of good Enrol recovers more than scrap-metal merchants can deliver scrap to the steelworks.

Escalation clauses are built into Enrol's contracts.

The technology looks simple — deceptively so, according to Mr Wolf.

His family has been involved with scrap-metal recovery throughout the world for more than 60 years. The Wolf family business is Thomas Monnet & Co.

Geoffrey's father, Swiss resident Egon, is chairman not only of Enrol but of many international companies such as Bencatel in Belgium and Remel in Spain.

CALF

Wolves call says Enrol's business is a cash cow.

Cash call more likely — turnover for the year to October 1990 was only R21,000 and national taxed profit R211,000.

Wolff Industries is a much larger kettle of fish, including property — hence the enigmatic business card.

Mr Wolf says that only a small part has been selected for the listed company, but others will be incorporated later.

There are 957,000 shares authorized but unused shares under the directors' control.

Mr Wolf does not want big shareholders to be hung with unproven businesses.

Enrol would not have been considered if changes to environmental legislation were not on the way. "Anywhere that we can do business clearing up the environment, we'll be there. But we will not get into things where we have no expertise."

He has set a compound earnings growth rate of 500% a year for the next four years, which would easily be achieved. The prospectus forecasts an increase in net profit of R1,2 million for the year to October 1991, but expects more from acquisitions.

EUROPE

I have never seen a balance sheet like Enrol's — capital employed holds only two items, share capital and premium, totaling R1,458 million. Below that, fixed assets — R1,475 million. The fixed assets comprise plant, machinery and vehicles, at cost.

No stocks (Enrol does not own the slag heaps), no debtors, no creditors, no borrowings, no provisions — no problems.

The international flavour prevailing in the company allows Enrol to look beyond SA for business.

Mr Wolf believes Eastern Europe offers many opportunities which might not be attractive to sophisticated Western companies but could be packaged attractively enough for Enrol.

He foresees joint ventures requiring only a small capital outlay. On Enrol's side are technical and administrative advantages, barriers to entry by newcomers, and 65 years of experience in scrap-metal recovery.

Minority shareholders can expect a fall in their percentage holding in a larger Enrol before long. But I think they will not be left down.

Tightly held shares and no padding built into the listing surely limit the downside potential of the share price.

GOING for gold is the Old Mutual's policy.

It has launched a unit trust which will comprise only gold shares, mining houses and gold-related assets.

Fund manager Marco Celotti says the gold fund has been launched to fill a market gap.

The timing of the fund is right for several reasons:

The political situation in SA is improving.

Foreign investment is returning.

The gold price has turned the corner.

SA gold shares offer better investment opportunities than do American or Australian mums, especially for foreigners through the rand mechanism.

CAREFUL

Mr Celotti says much must happen before the fund can be abolished, and that it is simplistic to call for its demise now. He believes that the fiscal authorities which previously abolished then reinstated the rand will be more careful next time.

The intention is to remain fairly fully invested. Mr Celotti says people who opt for the fund have already made a decision, prudence's prospectus, and do not need a fund manager to decide to remain 25% liquid.

But they do need to invest through a mutual fund because top-quality golds are too expensive to be bought...
Lower tax rate lifts CMI profit

Finance Staff
Consolidated Metallurgical Industries (CMI), helped by a lower tax rate, increased its attributable income in the six months to December by 5.1 percent to R45.3 million.

Turnover fell 9.4 percent to R128.6 million.

An unchanged dividend of 35c has been declared out of earnings of 107c (101c) a share.

The lower tax rate follows the spending of R29.9 million on upgrading ferrochrome production from 150,000 tons to 200,000 tons a year.

The company will spend R30.2 million (R60.7 million) this year.

It reports a worldwide reduction in demand for ferrochrome as a result of a drop in stainless steel usage.

Attributable income this year is expected to be less than that of last year.

Selling prices have declined and are unlikely to improve in the short term. Sales volume are also expected to be below last year's second-half figures.
Rising debt and share conversion will lower Searدل’s earnings.

Searدل’s automatically convertible pref shares became ordin-
aries in July 1988, increasing ordinary share capital by 39 per-
cent. This made Searدل’s net asset value R3.70 compared with the current JSE price of R2.70 a share. Why such a difference?

Chairman Aaron Searدل was happy to report record sales and earnings and a strong demand for the group’s products, in the latest annual report.

Inflationary factors affected trading with input costs increasing 25 percent during the year. So, too, wages and employee benefits have created a heavy demand on working capital, he says. But working capital actually improved to R143,02 million (1988: R113,42 million) at end-June 1989.

Dividend cover is pegged at six times in an attempt to improve the debt to equity ratios. Debt has increased almost 27 percent to R120,44 million (1988: R95,07 million) and interest expense has more than doubled. At year-end the borrowings to equity ratio was 110 percent (target set 80 percent) and debt to equity 221 percent (target set 180 percent).

High reporting standards have been maintained, according to Mr Searدل but nothing is said about significant changes in various subsidiary shareholdings and loans.

Searدل is owned 61 percent by pyramid/Seconon where Mr.
Aaron Searدل holds control.

Main divisions

Searدل has four main divisions — apparel, consumer and business electronics, quilting and textiles, and toys, located predominantly in the Cape.

The first two divisions contributed 51 percent of sales and 67 percent of operating profits. Sales increased to R740,45 million (1988: R566,44 million) with operating income R61,55 million (1988: R39,22 million). Net interest more than doubled to R157,77 million (1988: R3,77 million) and directors’ salaries increased 24 percent.

After deducting tax of R17,67 million (1988: R9,87 million), m/sig gains/losses in associated companies, minorities shareholders profit R90,000 (1988: R1,01 million) and pref dividends R1,87 million (1988: R1,95 million), the bottom line totalled R21,23 million (1988: R17,67 million),

Saw prices increase by around 25 percent, which is unacceptable to manufacturers and consumers, says Mr Searدل.

Surely local industry needs protection if jobs are to be created and unemployment reduced. But with his record profits and increased operating profits percentage to sales (1988: 8.33 percent), what is Mr Searدل meaning about.

Despite the government surcharge, consumer electronics increased sales to R119 million (1988: R100 million) with operating profits R10,6 million (1988: R7,61 million). Toys, spun-woven textiles, properties and travel contributed only 10 percent of sales and virtually unchanged operating profits of R4,08 million (1988: R7,35 million).

On page 57 the annual report features subsidiary shares and loans. The R9,99 million investment in wholly owned Desiree International in 1988 has disappeared. Two new subsidiaries were acquired in 1988—Fun Frill for R1,32 million and Bit-bette for R2,75 million. Jocorost Properties, costing R650,000, was sold and dormant companies shares, with a R3,59 million cost in 1988, was suddenly reduced to R236,000.

Sharp Electronics shares, book value of R3,76 million and loans R824,000 in 1988 are now only R241,000 with no loans. A joint venture stake in Airspeed Charters appeared in 1988.

Material changes

Nothing is said about these material changes.

Ordinary shareholders interest increased to R77,53 million (1989: R72,5 million) and group equity increased to R107,9 million (1988: R92,71 million) at end June 1989.

Goodwill of R10,57 million (1988: R15,66 million) has been deducted from non-distributable reserves. Plant, with a R4,1 million book value, has an insured replacement value of R163 million.

Searدل has a joint interest in associated property companies along with financier Nefic Ltd which has advanced loans to them of R9,5 million (1988: R1,75 million).

Mr Searدل predicts sales of be-
CMI hit by rising costs and weakening demand

LOWERED demand for stainless and speciality steels has taken the shine off the half-year results of Consolidated Metallurgical Industries (CMI), JCI's stake in the ferrochrome industry.

After announcing an unchanged 35c dividend to December, the group's financials disclose a slight increase in earnings to 107c (101c) a share on a 3% rise in attributable income to R48,5m (R45,1m). Retained income rose marginally to R30,6m (R29,2m).

The income rise was achieved on the strength of a R7,6m (R6,1m) hike in "other income" — enabled by larger cash balances and higher interest rates — and a reduced tax rate of 32,6% (42%), due to the capital allowances on the expansion programme.

However, operating income dipped by 17,1% to R50,9m (R71,8m) on a 9,3% drop in turnover to R129,7m (R142m).

BRENT MELVILLE

Capital expenditure — aimed at boosting CMI's ferrochrome production capacity by 33% to 200,000 tons — amounted to R26,9m for the period, with commitments still totalling R30,2m.

MD Barry Davison attributed the decline in operating profit to increased production costs.

In addition, he said the group experienced a 26% decline in sales volumes as a result of the depressed demand for ferrochrome, though the "significant" weakening of the rand helped cushion the effect on turnover.

Volumes

Davison said that though there was a sharp decline in the US dollar price of ferrochrome over the third and fourth quarter of calendar 1990, the average price exceeded that of the comparable six-month period last year.

He added that sales prices negotiated for the first quarter of calendar 1991 were lower and were unlikely to improve in the short term. As a result, sales volumes for the second half of the financial year were not expected to reach the level of those for the comparable period last year.

"In these circumstances, attributable income for the year will not match that achieved in the previous year," said Davison.

However, analysts have predicted an earnings rise of about 8,9% for the year, which would put attributable income at R100,1m (R90,6m) and translate into earnings of 256c (250c) a share.

On its current price of R12,50, this would put CMI on a P/E rating of 4,9.

On the balance sheet the current ratio increased to 2,51 (2,11) mainly as a result of a rise in current assets to R119m (R102m) Fixed assets jumped by 11,7% to R65,4m (R58,3m).
Prices tumble

Latest of SA's major commodity exporters to show the effects of sliding product prices and a firmer rand is ferrochrome producer Consolidated Metallurgical Industries (CMI).

In the six months to end-December, turnover and operating income were sharply down. Apart from prices, a 26% decrease in the volume of sales saw turnover fall 9.4%. It was only the drop in the effective tax rate, resulting from the capital allowances on the expansion programme, that attributable income was up by 5%.

The half-way dividend was pegged at 35c, but there can be little prospect of an increased pay-out for the full year. The ability to maintain the total pay-out will depend largely on profitability during the second half and that outlook does not look greatly encouraging now.

A worldwide decline in demand for stainless steel has translated into a dwindling demand for ferrochrome. Destocking abroad has contributed to oversupply and CMI has already seen prices slide from a peak of more than US$0.80/lb to less than 60c/lb. The spot price has dropped to between 41c/lb and 45c/lb.

"We are anticipating further declines until the fourth quarter," says Allan MacConalogue, GM finance and admin of CMI's platinum division. "Thereafter it should plateau and hopefully start to firm again. Much may depend on the resilience of overseas producers. CMI is among the lowest-cost producers in the world and there have been reports of closures abroad recently.

The expansion programme, which lifted capacity from about 160 000 t a year to 200 000 t a year is complete. However, output will have to be matched to market demand and the directors note that sales volumes for the second half of the financial year "are not expected to reach the level of those achieved in the second half of the previous financial year."

The implication is that production can be expected to drop below the levels attained before the expansion was embarked upon. Lower turnover and inflation boosted unit costs in the first half and the same will happen over the next 12 months. The capex programme was completed in time to qualify for the 50% 20% capital allowances, but expenditure has reduced to minimal levels and the tax rate will rise from here onwards. The share price has slumped to a 12-month low of 1 250c, down from the peak of 2 250c set last March. There is little reason to expect a recovery yet. Andrew McNally
HIGHVELD Steel and Vanadium's attributable income and dividend soared as the group recorded its highest-ever turnover and profits for the year to end-December.

Attributable income after extraordinary items increased by 165% to R321.6m (1888 R119.5m). The dividend was lifted 138% to 19c a share (57c).

Group chairman Leslie Boyd yesterday attributed the results to the "exceptional export prices" for certain products.

Earnings rose 163.7% from 178.6c a share to 450c on a marginally higher weighted average number of shares in issue during the year.

Turnover, which breached the R1bn mark for the first time in the 1988 financial year, increased 35.7% to R1.6bn (R1.2bn).

Profit before tax also more than doubled to R564m from R234.5m for 1988, while the group's deferred tax provision has increased to R306.6m.

Cash on hand of R319m at the year-end compared with borrowings of R54.3m at the end of 1988.

Boyd declined to identify the products which fetched exceptional prices on world markets, but said exports accounted for more than 60% of turnover.

Highveld's earnings for the current financial year would be "significantly" lower than 1988, but he expected it to be better than 1988, Boyd said.

MD John Hall said the collapse in the price of vanadium in the second half of 1988, due to panic buying and a consequent build-up of stocks in the first half, had bottomed-out and demand has increased "enormously" in the past few weeks.

Boyd said a 1% decrease in world steel consumption was forecast for 1990 and that this would have an adverse effect on US dollar prices of steel and ferro-alloys in international markets, "but volumes should stay at reasonable levels."

He said the "far-reaching" announcements by President PW de Klerk and the release of Nelson Mandela "should lead ultimately to the lifting of sanctions and the reopening of Highveld's steel markets in North America and the European Economic Community" which would increase Highveld's output significantly.
Work continues

Development of the Usko/RhoVan vanadium pentoxide project is on schedule and both partners say the project remains profitable at current vanadium pentoxide prices — though these are below figures used in the original financial evaluations.

The RhoVan prospectus forecasts were made last April, on a base case of US$3.80/lb vanadium pentoxide (V2O5) and an optimistic case of $4.10/lb V2O5. At that time Highveld Steel and Vanadium (Highveld) had boosted its vanadium price to $7.50/lb for second quarter delivery, responding to free market prices which had soared as high as $10/lb.

The price subsequently collapsed to current levels around $2.40/lb. Highveld (Fox February 16) reckons the market has bottomed for this year, but it will not forecast into 1991 because of new supplies coming on stream. Usko/RhoVan will be a big contributor to the new supplies.

RhoVan director Rob Still says that the company should still meet its prospectus forecasts on revenue for the financial year to September 1991. That is because the contract to supply magnetite to Usko — which will process it to produce vanadium pentoxide — is not affected by the vanadium price.

However, RhoVan's royalty income from Usko will be badly hit at current price levels from a pilot mining venture to test the roasting plant ahead of schedule. Kotze says this work proved the efficiency of the roasting plant is much higher than the rotary kilns used by other vanadium producers. This gives a better yield from the ore. Usko eventually plans to produce 9 000 t of vanadium pentoxide, but when this will be reached is going to depend on market conditions.

Brandon Ryan

RhoVan negotiated a 14% royalty of Usko's vanadium profits before interest, depreciation and tax for the first 24 months after the initial supply date. That dropped to 10% for as long as magnetite supplies ran at 250 000 t/year and to 6% from six months after Usko exercised its option to increase required production to 500 000 t/year.

Still tells the FM: "At $3.80/lb, about 60% of RhoVan's profits would have come from the supply contract, but at $2.40/lb virtually all the company's profits will come from it, though we will still get something from the royalty. However, we were extremely conservative in our estimates on the profit margin on the supply contract. We used a R22/t margin but the way things are going we are now looking to get a R30/t margin."

Commissioning of RhoVan's magnetite beneficiation plant is under way and the plant should be fully commissioned by about the middle of April. Still says the pre-production phase will run to the end of June and the first indiction shareholders will get on operating performances will be for the quarter to end-September.

Usko chairman Floors Kotze says "The current vanadium market situation is negative because the price is less than what we based our justifications on. It's not going to stop us going ahead because we will still get positive returns from the project."

Some 30 000 t of magnetite meeting required specifications were supplied to Usko.
Stainless steel output expected to decline

MIDDELBURG Steel and Alloys (MS & A) expects the Western world's 1998 stainless steel production to drop below 10-million tons — a 7% decrease over 1997.

But looking ahead to 1999, production was forecast at 12.5 million tons, with expansions of more than 2.5 million tons projected to come on stream in the next five years, the first-quarter edition of MS & A magazine, Chromsa, said.

It added that stability in raw material costs was critical to sustaining market growth. Long-range forecasts predicted world demand would resume its average annual growth of between 3% and 4%.

It said dramatic increases in raw material costs, particularly nickel, as well as high inventories saw demand levels, both in SA and internationally, drop sharply during March 1998.

Effects

Although the drop had been anticipated for some time, Chromsa said, it was more sudden and sharper than most producers had predicted. This had resulted in a significant decline in the price of stainless steel over the past eight months.

"Producers feel that the price has bottomed, but the market is currently overstocked and producers have cut back production. The real effects of this have yet to be felt."

It said a direct correlation existed between world economic growth and stainless steel consumption, and although the US economy was entering a recessionary phase, developments in Eastern bloc countries and the unification of the European market in 1992 held potential for growth in stainless steel demand.

Another encouraging trend was the environmental awareness which was gathering momentum. Several pollution reduction projects utilised large quantities of stainless steel.
SAMANCOR F/1 2/3/90

Prices sliding (189)

Samancor’s phase of super profit growth appears to be nearing an end. It continued to show momentum in the six months to end-December, when attributable income rose by 45%.

But sliding prices of some major products and the firmer rand mean that profits will slump in the second half and there will be no bottom-line growth for the year as a whole. Already the group has been facing tough price competition, and has seen volumes for certain commodities declining.

Demand has weakened particularly for chrome ore and ferrochrome, with prices of the latter dropping to levels where some overseas producers have announced closures. When the recovery will come may depend on further closures, and on the severity of competition. MD Hans Smith reckons that all local producers, with the possible exception of Middelburg Steel & Alloys, are now producing at about 65% of capacity.

While SA producers are low-cost and could comfortably live with ferrochrome prices at 40c-45c/lb, he does not believe that foreign suppliers will accept prices close to these levels. "I feel strongly that the price will not drop significantly below 53c, which was the price for the last quarter of 1989," he says. "If it does weaken further I would expect it to bottom and pick up again later this year."

Samancor, meanwhile, has been using the slack market to carry out essential maintenance that would have been done when the market was booming.

Demand for chrome ore has remained "reasonably firm" and, though the group has seen volumes decline, the amount was not considered particularly material. High-grade manganese ore, on the other hand, is in short supply and Smith believes there will be a "significant long-term price hike" this year — against the trend of most other commodities.

Demand for manganese alloys has also been solid; the one weak market in the manganese sector has been for silico-manganese. Whereas at the beginning of the current financial year chrome and manganese each represented about 45% of the group’s business, the current outlook indicates this will swing to 55% from manganese and 35% from chrome.

What will help during the year to end-June is that the group remains highly liquid. It holds funds on call of about R540m and the net interest income for the six months was R60.3m compared with the year-ago R7.9m. An announcement on the joint venture stainless steel project with Highveld Steel is expected by financial year-end. Meanwhile, capital spending has been cut to essential items and is forecast at slightly more than R200m for the year.

The directors are forecasting full-year profits exceeding the annualised R453.7m attributable figure for the last 15-month period, but say the group will be pressed to maintain the annualised EPS. With the share capital increased to 167 345 (149 845) shares, that suggests earnings of 280c-300c.

Since release of the results last week, the share price has remained at R19, down 24% on the 12-month high of R25 set last September. 

Andrew McNulty
Channel Mining posts a poor set of results

BRENT MELVILLE

DCM-LISTED Channel Mining has posted disastrous results for the six months to December. This follows its acquisition of a majority holding in Steelchrome and the subsequent cancellation of an agreement to sell it to Pinnacle Holdings.

A net loss of R1,0m (+R443,600) was recorded, translating to a loss of 1,7c (+0,8c) a share, not taking into account 7,5-million new Channel ordinary shares in issue after the purchase of the additional 25,4% in Steelchrome.
round the world are cutting output and ferrochrome inventories and local chrome makers can close furnaces for maintenance.

Early last year, SA's ferrochrome producers were selling the alloy for US$850/t or more, as panic-struck steel makers scrambled for deliveries. Tumbling nickel prices have led to pared stainless steel prices and forced steel makers into cutting inventories of raw materials. SA's producers are selling ferrochrome at US$550/t in Europe and about US$545/t in the US.

As the second quarter price negotiating round looms, prices seem still under pressure. According to Metals Week, bulk ferrochrome is available at 46c-47.5c in the US. Though that might be for poor grade Turkish or Albanian material, it is a benchmark US steel makers could use when negotiating deliveries from SA.

Tumbling prices are not all bad. In recent months, one Swedish ferrochrome plant has been closed, ironically because sanctions prevented purchases of cheap SA chrome ore, and a Norwegian facility is slated for closure. These have raised the bleat among hard-pressed US producers that SA operators are depressing prices to force competitors to close.

"Not true," says CMi's Barry Davison. "SA has only 40% of the world market and prices find their own levels." Presumably, if SA was trying to force competitors into bankruptcy, low-cost producers here would be pushing alloy on to the market to drive prices below competitors' break-even levels. That is not so.

Paddy Probert of Middelburg Steel reckons ferrochrome supply will reach 3 Mt this year against 2.75 Mt in 1989, but that a 10% drop in Western stainless steel demand will cut demand for ferrochrome to about 2.4 Mt from last year's 2.65 Mt. A poll of local ferrochrome makers indicates that, if anything, production will be restrained.

CMi is bringing a new furnace on stream to lift annual capacity to between 200,000 t and 210,000 t (150,000 t-160,000 t). Its start-up will permit phased closure of the other two ferrochrome plants CMi's annual output rate will not exceed 150,000 t for the next four months.

Siamcrom has added furnaces at Tubatse, which lift annual capacity to 360,000 t from 350,000 t, but phased maintenance closures at Tubatse and Ferrometals facilities will leave production at a 450,000 t rate for several months, says marketing manager Pieter du Plooy. Middelburg is due to test a new R260m direct reduction furnace in June but expects to take other, less-efficient furnaces out when the new one is commissioned.

ChromeCorp Technology is another CE. John Vorster says a third furnace is being commissioned, which will lift total capacity to 200,000 t (120,000 t), but commissioning will be accompanied by closure of a furnace for maintenance. Vorster believes lower output arising from closures will help support export prices. He hopes first-quarter prices can be maintained into the second quarter, though European markets are difficult given ready availability of comparatively cheap stainless steel scrap.

Newcomer Purity Minerals will bring two new 30,000 t/year chrome smelters on stream in May and June. It has a marketing deal with an Austrian distributor and expects no difficulty selling all it can produce.

US metals traders are not convinced. They believe SA producers will not prolong maintenance closures and that once existing capacity is restored SA material will flood on to the market at any price.
Record results hard to repeat, Heighway Steel warns

COMPANIES
**After the party**

**HIGHLAND STEEL & VANADIUM**

**Activities:** Produces steel, vanadium products, ferro-alloys, carbonaceous products and metal containers and products

**Control:** Amic 51.8%

**Chairman:** L. Boyd, MD T Jones

**Capital structure:** 71m ords, 911 711 'S' ords Market capitalisation R1.19bn

**Share market:** Price 1 660c; Yields 7.7% on dividend, 28.8% on earnings, PE ratio 3.7, cover 3.5 12-month high, 2 230c, low, 1 330c Trading volume last quarter, 1.4m shares

**Year to Dec 31** '88  '87  '86  '85  '84  '83  '82  '81
**ST debt (Rm)** 316  320  320  310  310  310  310  310
**LT debt (Rm)** 150  —  —  —  —  —  —  —
**Debt equity ratio** 0.50  0.50  0.50  0.50  0.50  0.50  0.50  0.50
**Shareholders' interest** 0.24  0.25  0.25  0.25  0.25  0.25  0.25  0.25
**Int & leasing cover** 3.8  3.8  3.8  3.8  3.8  3.8  3.8  3.8
**Debt cover** 7.4  7.4  7.4  7.4  7.4  7.4  7.4  7.4
**Turnover (Rm)** 816  816  816  816  816  816  816  816
**Pre-int profit (Rm)** 133.3  133.3  133.3  133.3  133.3  133.3  133.3  133.3
**Pre-int margin (%)** 16.3  16.3  16.3  16.3  16.3  16.3  16.3  16.3
**Tened profit (Rm)** 60.1  60.1  60.1  60.1  60.1  60.1  60.1  60.1
**Earnings (c)** 85.2  85.2  85.2  85.2  85.2  85.2  85.2  85.2
**Dividends (c)** 30.0  30.0  30.0  30.0  30.0  30.0  30.0  30.0
**Net worth (c)** 450.2  450.2  450.2  450.2  450.2  450.2  450.2  450.2

The 1988-1989 commodities boom has left Hiveld with earnings and dividends at record levels. The group also holds a cash balance of R319m in readiness for the expected joint venture stainless steel project with Samancor.

Profits were driven last year by an upswing in demand for both steel and vanadium, and the ferro-alloys and Rheem divisions. Chairman Leslie Boyd says the upward trend in total world apparent steel consumption in 1987 and 1988 continued in 1989 and the estimate for the year of 791 Mt is about 9 Mt higher than the 1988 record.

Though there was a fall-off in some countries, notably the US, Canada and a number in Latin America, growth elsewhere more than compensated. It was only in the last quarter that downward pressure on steel export prices became evident.

Domestic consumption of long products fell but the supply of flat products remained tight. The net result was that support from established export customers, and the firm foundation in the local market, enabled Hiveld to continue operating at optimal capacity in the rolling mills and in the iron and steel plants, with both iron and steel production exceeding 1 Mt.

Vanadium demand lifted off when consumers embarked on heavy buying programmes in excess of consumption, and prices were pushed to unprecedented levels. In the second quarter Hiveld introduced a surcharge on the basic quoted vanadium pentoxide price. Once it became apparent that costly, excess inventories had been built up by both converters and consumers, a process of destocking started, prices tumbled and the surcharge was eliminated by the fourth quarter.

By year-end it was clear that the party was over. Even though overall consumption remained high, both primary producers and intermediate processors of vanadium saw sales drop sharply in the second half. A number of producers, including Hiveld, have cut output. The group's new rotary kiln, commissioned in the Vantra division at the end of the year, will provide lower-cost pentoxide and the roasters taken off-line in the second half of 1989 will be held in reserve to meet exceptional demand.

The pattern was similar in the ferro-alloys division. Ferro-silicon prices in overseas markets peaked in the first quarter of 1989, then dropped sharply through the remaining three quarters.

Boyd says that the International Iron and Steel Institute is forecasting a 1% decrease in world apparent steel consumption in 1990, to the same level as 1988. This will have an adverse impact on the prices of steel and ferro-alloys in international markets but volumes should remain at "reasonable" levels.

For the SA economy, slower growth but a soft landing can be expected for 1990.

He believes that recent political developments will not only have a positive effect on the economy but should also lead ultimately to the lifting of sanctions and re-opening of Hiveld's steel markets in North America and the EEC. In the short-term, however, the results could be a stabilising effect on the rand, which would curb the group's export earnings.

Overall, the forecast is for 1990 earnings "significantly lower" than the extraordinary results of last year, but an improvement on the 1988 performance is expected — though that leaves a wide range after last year's 165% EPS advance.

Taking a middle line between the two years' earnings places the share on a prospective p/e of 5.4 times.

Investors should assume there is little prospect that the extraordinary dividend of 60c will be repeated this year. Given the market uncertainties, the share looks fully priced on the 4.2% yield, based on the 1990 normal payout of 70c.

Andrew McNally

**Sluggish demand**

**Activities:** Steel rod conversion, non-ferrous metals and light engineering

**Control:** Malikab and Amic each have 36.5%

**Chairman:** G S Thomas, MD J Feek

**Capital structure:** 19.5m ords Market capitalisation R583m

**Share market:** Price 2 990c Yields 6.2% on dividend, 13.6% on earnings, PE ratio 7.4, cover 2.6 12-month high, 3 100c, low, 2 200c Trading volume last quarter, 117 000 shares

**Year to Dec 31** '88  '87  '86  '85  '84  '83  '82  '81
**ST debt (Rm)** 198  281  78  108  108  108  108  108
**LT debt (Rm)** 15.8  10.4  3.6  5.6  5.6  5.6  5.6  5.6
**Debt equity ratio** 0.12  0.18  0.22  0.28  0.28  0.28  0.28  0.28
**Shareholders' interest** 0.84  0.80  0.70  0.71  0.71  0.71  0.71  0.71
**Int & leasing cover** 19.3  19.7  44  12.1  12.1  12.1  12.1  12.1
**Return on cap (%)** 18.5  22.3  22.8  26.3  26.3  26.3  26.3  26.3
**Turnover (Rm)** 707  794  875  1 180  1 180  1 180  1 180  1 180
**Pre-int profit (Rm)** 93.8  116  116  150.2  150.2  150.2  150.2  150.2
**Pre-int margin (%)** 13.1  14.5  13.2  12.7  12.7  12.7  12.7  12.7
**Earnings (c)** 237.4  285.4  320  406  406  406  406  406
**Dividends (c)** 95  114  128  157  157  157  157  157
**Net worth (c)** 1 302  1 488  1 684  1 938  1 938  1 938  1 938  1 938

Haggie has successfully sidestepped the effect of US sanctions and diversified its export market to more than 60 countries. According to group MD John Feek, exports...
Steel industry expects 2% growth

Johannesburg — The steel industry is expecting a turnover of around R4.9bn for 1990 which in real terms would be a 2% increase in the value of production volumes compared with 1989, industry sources said on Friday.

Steel Engineering Industries Federation of SA (Seisa) economist Michael Macdonald said that though the increase would probably be higher than the general economy, a marginal downturn would be evident in the industry due to government efforts to keep the balance of payments (BoP) in check.

He said in an interview, particular sectors in the metals industry which would feel the downward trend was the automotive engineering and components industries, light engineering and the electrical industries.

The heavy engineering sector was expected to do well and would continue to be supported by the Mossgas project.

But, he added, the secondary market would also benefit from the project.

The changed management style of Sats, which previously bought its equipment in splurges, would also ensure a steady market for the industry.

Exports were expected to remain strong in 1990, but it was early days yet for the export of value-added products.

Finished products could not be profitably manufactured because labour productivity was too low, he said.

Political uncertainty together with threats of more sanctions made forward planning, particularly for export-orientated industrialists, difficult, said Seisa director Brian Angus.

However, the most important difficulty faced by the industry over and above sanctions and the economic downturn would be labour productivity and the manpower shortage, he said.

The difficulty lay in finding workers for senior and managerial jobs.

Large groups had their own training courses, but over 50% of Seisa's members were companies which employed less than 20 employees.

It cost an employer between R15,000 and R16,000 to train an apprentice.

The root of the problem lay in poor secondary education and people who had never been given an opportunity to better themselves, said Angus.

However, Seisa experienced a slow but steady increase of apprentices in the past year, and the Seisa levy grant system, which spread the cost of training among all its members, would add further impetus to this increase, he added.
Steel industry set for R49bn turnover

THE steel industry was expecting a turnover of about R49bn for 1999, which in real terms would be a 2% increase in the value of production volumes compared with 1998, industry sources said on Friday.

Steel Engineering Industries Federation of SA (Seifsa) economist Michael MacDon-ald said though the increase would probably be higher than the general economy, a marginal downturn would be evident in the industry owing to government efforts to keep the balance of payments in check.

He said sectors in the metals industry that would feel the downward trend included the automotive engineering and components industries, light engineering and the electrical industries.

The heavy engineering sector was expected to do well and would continue to be supported by the Mossgas project.

The changed management style of Sats, which previously bought its equipment in splurges, would ensure a steady market for the industry.

Exports were expected to remain strong during 1999, but it was early days yet for the export of value-added products.

Finished products could not be profitably manufactured because labour productivity was too low, he said.

Seifsa director Brian Angus said political uncertainty, together with threats of more sanctions, made forward planning difficult.

Steel industry

Steel industry was particularly for export-oriented industries difficult.

However, the single most important difficulty faced by the industry over and above sanctions and the economic downturn would be labour productivity and the manpower shortage, he said.

The difficulty in finding workers for senior and managerial jobs large groups like Dorbyl and Keor had their own training courses but more than 50% of Seifsa members were companies that employed fewer than 20 employees.

It cost an employer between R15 000 and R16 000 to train an apprentice.

Part of the problem lay in poor secondary education said Angus.

However Seifsa had experienced a slow but steady increase of apprentices in the past year, and Seifsa's levy grant system, which spread the cost of training among all its members would add further impetus to this increase he added.
Staalchem sale knocks confidence

BRENT MELVILLE

The sale of Staalchem’s steel division, the terms of which were announced last week, has apparently knocked any market confidence the share might have enjoyed since it peaked at 50c last June.

Analysts feel the historical p/e rating of 2,5, at which the current 12-month low of 26c has placed the share, is closer to its true market value “The share has been artificially elevated by speculation,” says one.

Staalchem is shedding its steel division to ex-MD Kobus du Tert for R3,9m. Shares in it were disposed of for R55 660. The balance covered claims against subsidiaries.

Du Tert will move division subsidiaries Hyperdek, Staalchem Import & Export and Stricker Holdings to Vanderbijlpark. He is also taking Staalchem financial director Piet Venter and company secretary Martin Louber with him.

Du Tert refused further comment on terms of the deal.

Contributed

Staalchem acting MD Frank du Serra said the group had decided to sell the division because it was not providing adequate return on investment, and that the group would concentrate on its core agricultural/chemical activities.

During the last financial year the steel arm had contributed 44% to turnover (R74,9m) — but only 20% to net profits (R2m), he said.

Speculation that the group would be delisted was “nonsense”.

Earlier last year diversified industrial holding group Farm-ag sold its agricultural/chemical division and subsidiary Agroserve to Staalchem.

The end result was a 35% holding in Staalchem. Underwriting Staalchem’s subsequent R4m rights offer — at 45c a share — left Farm-ag with 53%. A Farm-ag spokesman said recent developments would leave Farm-ag with more than 77% of Staalchem.
Joint VRN MD Nicholls to sell stake

BRENT MELVILLE (181)

JOINT MD of Van Reenen & Nicholls (VRN) Patrick Nicholls is to sell his interest in the East Rand-based specialist steel merchant.

And it seems likely that unlisted steel giant Macsteel is to become joint controlling shareholder with VRN co-founder John van Reenen, who will become sole CE.

While details were sketchy yesterday industry sources say it is likely Macsteel will end up with a 50% holding, with Van Reenen upping his stake to 50%. At present Van Reenen and Nicholls control 70% of VRN, management 10% and Reichman's 20%.

Sources believe Macsteel would insist on purchasing management's 10% holding, partnering Reichman in a 50% shareholding. Van Reenen yesterday refused to divulge details of the acquisition but said Macsteel would make the "ideal partner".

"VRN provides a ready-made cut-to-size division for Macsteel, while our group would derive the obvious benefits of more competitive pricing and a greater buying power," he said.

Van Reenen said he and Macsteel chairman Eric Samson, a long-time friend, had discussed getting together if the opportunity ever presented itself.

Biggest

Samson was unavailable for comment last night.

"Although Nicholls has sold his shares, he will still be involved on a part-time basis and retains an option to buy back in, should his health improve to the extent that he is able to become 100% involved once more," said Van Reenen.

VRN was founded by Van Reenen, a chartered accountant, and steel marketer Nicholls in 1977. It operates what is believed to be the biggest cut-to-size steel plant in the world and turnover is expected to exceed R400m this year.

Macsteel is the largest family-owned corporation in SA and has turnover rumoured to be in the vicinity of R4.5bn.

It is also understood the Wadeville-based group has considerable foreign interests.

Last year it purchased two of its competitors, Cape-based UME and struggling DCM steel group Wedge.

UME was subsequently delisted and Wedge left as a cash shell with Samson adamant that JSE-listed subsidiaries did not make useful bedfellows.

An announcement would be made this week, a VRN spokesman said yesterday.
Cost of stainless steel plant put at R2-bn

By Sven Lunsche

The joint stainless steel plant project of Highveld Steel & Vanadium and Samancor could cost as much as R2 billion, says Highveld chairman Lesley Boyd.

Presenting Highveld's results for financial 1989 yesterday, Mr Boyd said a final decision on the project would be made towards the middle of the year.

The decision was not so much on whether to go ahead with the project, but rather to resolve what processes the plant would incorporate and to finalise financial details, he said.

The initial cost estimate was in the region of R1 billion, but the project could cost as much as R2 billion.

He confirmed that a foreign investor, thought to be the Taiwanese group, Chun Yuan Steel, was still considering participation.

No final decision had yet been made on the location of the plant, but Mr Boyd said the companies were looking at sites near Witbank and in the coastal regions.

Bargaining prices for most of Highveld's products lifted the contribution of exports to earnings to over 60 percent last year.

Earnings per share soared from 170.6c in 1988 to 450c last year and attributable profit by 185 percent to R122.44 million.

An extraordinary final dividend of 40c has been declared.

Combined with a final dividend of 40c, it lifts the total payout for the year to 130c (57c).

Mr Boyd said turnover, up 35.9 percent to R1.61 billion (R1.19 billion), and profits were at their highest-ever levels.

Every division had performed well, with record profits in all areas. Cash inflow had resulted in a cash on hand of R319 million at the end of 1989 (borrowing of R54 million at the end of 1988).

The outlook for the current year was less favourable and Mr Boyd expected a decline in profits. "A one percent decrease in world steel consumption is forecast for 1990. This will have an adverse affect on prices of steel and ferro-alloys, but volumes should stay at reasonable levels."

He said that in the longer term a possible lifting of sanctions in the wake of President FW de Klerk's reform moves could ultimately lead to the reopening of Highveld's steel markets in North America and the EC.

The vanadium division had experienced record prices in the early part of 1989, but stock reduction by customers had led to a significant reduction in sales in the second half, necessitating production cut-backs.

MD John Hall added there was no reason why vanadium prices should not rise again over the remainder of the year as consumption increased, but he added that a number of new sources of vanadium supply were currently being developed worldwide.
Highveld Steel a major contributor to Amic earnings

By ARI JACOBSON

ANGLO AMERICAN INDUSTRIAL CORPORATION (Amco) noted up a 26% increase in attributable earnings to R653m (R517m) for the year end-December with a major contribution from its subsidiary Highveld Steel.

This translated into earnings per share of 121c (963c) with total dividends for the year jumping 21% to 29c (22c) a share, covered 3.5 (3.3) times by earnings.

Amco's chairman Graham Bousted said in his annual statement, an extremely buoyant first half led up to a slowing in earnings growth towards the year end.

"This reflected subdued demand in the local market and lower commodity prices in world markets, although the latter were offset by the weakening of the rand/dollar exchange rate."

- Highveld Steel was a major contributor to the group's improved performance. Attributable earnings increased by 166% to R322m, equivalent to 45c a share.

These results were brought about by high levels of output for all Highveld's products and by exceptionally favourable prices realised for steel and ferro-alloy products, particularly vanadium.

- Scaw Metals' earnings for the year increased by 24% from R62m to R77m. These earnings were supplemented by a commendable performance by Haggie, in which Scaw has a 25.3% stake.

- Weaker demand for paper and timber products locally and softening world prices for pulp and paper towards year-end saw Mondi Paper's operating earnings increase at a lower rate than last year. Mondi's attributable earnings increased from R162m to R185m.

- Boart International experienced a severe downturn in demand for its exploratory drilling equipment and services brought about by substantial reductions in prospecting activities.

As a result, attributable earnings fell from R97m to R87m.

- AECl increased earnings by 23% from R255m to R314m with the group experiencing a firm demand in most divisions and a substantial increase in exports.

Construction of the R920m Sua Pan soda ash plant in Botswana has commenced and is scheduled for completion in early 1991.

- In its year to March 1989, the Tongaat group increased earnings by 32% to R157m. The group has forecast earnings of R176m to March.

Substantial development programmes are under way at core businesses in the Amco group particularly at Mondi, Highveld and Scaw.

In spite of high levels of capital expenditure the debt/equity ratio of the group was reduced to 20% (25%).

The initiatives undertaken by the State President and the political process which is now underway will hopefully result in the normalisation of SA's relationships with its overseas trading partners, says Bousted.

"While it is not possible to forecast when sanctions will be lifted, once Amco's exporting companies are able to trade freely throughout the world, particularly in North America and Europe, the group should benefit significantly."
Strike action stops smelting

Staff Reporter

TENS of thousands of rands' worth of damage was caused at the Cape Foundries metalworking plant in Paarden Eiland on Friday when the workers walked out on a legal strike in the middle of the production process.

Mr Brian Williams, spokesman for the Nactu-affiliated Metal and Electrical Workers' Union of SA (Mewusa), said workers had not finished the production run they had been busy with.

"It is a smelting process which would not normally be stopped in mid-stream," he said. He believed it would take some time to get the plant going again even after the strike was settled.
New spurt of interest boosts CMI shares

THE reduced demand for ferrochrome has been responsible for the recent poor performance of Consolidated Metallurgical Industries (CMI) on the JSE.

In the past two trading sessions, the share has snapped back to gain 10.1% or 115c to close yesterday at 1.250c. This turnaround came after the share had fallen to its 12-month low of 1.100c on March 12.

Investor interest in CMI appears to have been sparked by this week’s announcement that Samancor and Highveld Steel have signed a letter of intent to establish a R1bn cold rolled stainless steel plant in Taiwan and a R2bn hot-rolled plant in SA.

CMI’s share price has been under pressure following the release of its interim figures for the six months ended December 1990. The group is affected by the reduction in demand for ferrochrome due to the slowdown in the international stainless steel market. Consequently, the directors have informed shareholders that attributable income for the financial year ending June 30 1990 will not match that achieved in the previous financial year.

But the Samancor/Highveld Steel joint announcement seems to have put new life in the share since the majority of CMI’s output, which consists exclusively of ferrochrome, is used in the production of stainless steel. However, that does not change the fact that the near-term outlook for the group remains unencouraging.

JCI holds a significant stake in CMI, and Allan Kuhnert, who is JCI’s senior marketing manager for base metals and ferrochrome, questions if the joint venture will have a positive impact on CMI in the future.

Samancor has not indicated whether it intends building a dedicated ferrochrome facility to satisfy the needs of the new stainless steel plant or if Samancor will supply ferrochrome.

In the case of a new dedicated ferrochrome facility, Kuhnert sees no benefit accruing to CMI. But if Samancor decided to supply ferrochrome out of its own production, he speculates CMI could benefit since Samancor would have to abandon some of its export customers, leaving the door open for CMI.
Metalworkers back at work

NEARLY 130 metalworkers at a Paarden Eiland plant who had been on strike for more than three weeks, returned to work yesterday.

The company, Cape Foundries, will negotiate wages and working conditions at plant level, following the agreement reached this week between Cape Foundries management and the Metal and Electrical Workers' Union of SA.

Cape Foundries has also agreed to pay a R3 000 death benefit and has negotiated a health and safety agreement with the union.

Picket: Popcru members held

EAST LONDON. — About 80 people, many of them members of the Police and Prisons Civil Rights Union (Popcru), were arrested in the city centre here yesterday.

According to an official of Popcru, those arrested were students from various coloured schools in East London and Popcru members who had been picketing.

A senior Border police spokesman confirmed the arrests, but said he could not say when those held would appear in court. — Sapa
Metal workers reject offer

By DICK USHER
Business Staff

ANNUAL wage talks in the metal and engineering industries reached the second round with unions rejecting employer offers of wage increases ranging from 10 percent to 12.9 percent.

The talks involve about 15 unions representing about 350,000 employees and employer associations representing about 9,000 firms.

At the talks on Wednesday employers responded to trade union demands made at the first meeting on March 22. They proposed across-the-board increases of 46c an hour for labourers and 62c an hour for artisans, which would raise minimum wage rates in the industry to R4.02 an hour and R9.14 an hour respectively.

Employers also offered to grant apprentices guaranteed minimum increases, an agreement in principle to increased living out allowances, and agreement to continue regarding June 16 as a paid holiday.

According to a statement from the Steel and Engineering Industries Federation of South Africa (Seisa), the unions indicated that the employer offer was not acceptable.

The next round of negotiations was set for April 26.
R120 million mill nears completion

A joint venture between steel giant Iscor and engineering group Dorbyl — a R120 million seamless tube mill — will be completed later this month and could save South Africa up to R50 million in foreign exchange per annum.

The mill is owned and operated by Tosa Seamless Tubes, in which Dorbyl has a 60 percent stake and Iscor 40 percent, and is located at Tosa's existing works in Vereeniging.

Iscor is the mill's main supplier of feedstock, in the form of 100mm to 160mm diameter steel billets, allowing the mill to produce seamless tube and pipe at an initial capacity of 60,000 tons a year.

The decision to build the plant was taken two years ago, but building started at the end of last year. State President FW de Klerk will officially open the mill.
New R120m seamless tube mill to open

A JOINT decision by Dorbyl and Iscor boards two years ago is to have a sequel later this month when President F W de Klerk unveils a R120m seamless tube mill.

The mill is expected to save SA at least R50m a year in foreign exchange. Dorbyl and Iscor, with 60% and 40% holdings respectively, are running the venture under Tosa Seamless Tubes.

Iscor will be the mill's main supplier of feedstock in the form of 100mm to 160mm-diameter steel billets.

Category: Industry

BRENT MELVILLE

Capable of producing seamless tube and pipe to a wide range of international specifications, the Vereeniging-located mill will have an initial capacity of 20,000 tons a year. "Seamless tube has special applications in areas where thick wall tubes for high pressure applications and high strength steels for structural applications are required," a Tosa spokesman said.
Usko looking sluggish

In 1986 Union Steel officially changed its name to Usko. With the conversion of its A and B preference shares to ordinary shares, Iscor is no longer the holding company.

Usko is now jointly controlled by Iscor and Metkor and will continue to be managed on an equal-partnership basis by both.

Despite increasing turnover 23 percent, net income declined 15 percent.

The income statement only looks respectable thanks to huge past tax losses resulting in no tax payable at end-September 1989. R37,4 million in assessed losses could be carried forward.

More disturbing is that debt of R55 million a year earlier has trebled to R180 million.

This has caused net interest expense to double, making it now less than three times covered by income.

The unfavourable decrease in profitability is mainly attributable to the exceptional price increases of raw materials used for the manufacture of Usko's main products, says chairman FP Kotzee.

Large increase in the prices of steel scrap, copper, aluminium and alloys could not be fully recovered in product prices, he says.

Does this mean that management was fast asleep or that something was wrong with costing?

With sales of more than R0.5 billion, but attributable earnings only R0.86 percent of net loss, there is nothing to contend with. The effective tax rate would be 50 percent, something is not quite right.

Looking back on the five-year review period, Usko was showing an improving bottom line trend.

The losses of 1985 and 1986 were replaced by increasing profits in 1987 and 1988, but 1989 has spoiled it.

Perhaps the sluggish performance is due to the directors' lack of commitment — they hold only 100 shares (1986: 5,000 shares) out of the nearly 30 million ordinary shares in issue.

If management had a decent piece of the action, would it be better motivated?

Turnover increased to R543.8 million (1988: R434.9 million), but operating income hardly changed at R48.2 million (1988: R47.2 million).

Income from investments increased to R4.2 million (1988: R3.1 million). Depreciation of fixed assets was the same in both years at R1.0 million, but net interest expense doubled to R24.9 million (1988: 7.3 million).

The extraordinary loss of R1.04 million was due to start-up costs of the special metals division.

After preference dividends of R5.7 million (1988: R5.6 million), income attributable to ordinary shareholders was R19.9 million (1988: R26.9 million).

Earnings per share declined to 76.6 cent (1988: 90.55c), but the annual dividend was an unchanged 13c.

Steel sales increased to R285.4 million (1988: R243.3 million), the steel division operating profitably, says Mr Kotzee.

Increased raw materials prices for commodities such as scrap and alloys, as well as an unfavourable sales mix had a negative effect on the division's profitability.

The shipments of export billets increased substantially and helped increase plant utilisation.

Non-ferrous sales increased to R249.3 million (1988: R153.6 million) and realised satisfactory income.

The special metals division began in 1989, mainly for the production of vanadium pentoxide flakes, had a R1.84 million deficit.

The income contribution and comparatives for both years would have been more useful for investors. Usko employs only 3,671 people today, compared with 4,225 in 1986, so where are the new jobs?

Magnetite ore will be supplied to Usko under a supply agreement with Rhovan in which the group has acquired a 20 percent indirect holding for R5.28 million.

Capex was R10.6 million at end-September 1989 and is expected to decline in 1990.

Total shareholders' funds declined to R155.8 million (1988: R169.8 million) at end-September 1989 due to R30 million preference shares being repaid.

Debt of R160 million should decline marginally when Usko is repaid its R36 million losses on the financing of the direct reduction plant.

Current assets rose significantly to R253.5 million (1986: R165.4 million), with stock at R135.7 million (1988: R82 million).

Funds on deposit were R34.2 million (1986: R10.1 million). Overall working capital increased to R185 million (1988: R88 million), with the illiquid position compounded by rising year-end stocks.

With a net worth per ordinary share of R4.53 at end-September 1989 and a current JSE price of around R2.80, investor confidence is lacking.

Sales of non-ferrous products are expected to be lower. Sales of vanadium pentoxide will start in 1990 and are expected to boost the bottom line.

Overall profit for 1990 will not differ materially from 1989, says Mr Kotzee.

It is puzzling that Usko should perform so sluggishly in a resource-rich country such as SA.

It needs to wake up and aggressively make things happen.
Metal employers increase wage offer

Business Staff

Employers slightly increased their wage offer at the third round of talks with unions for a new agreement in the engineering and metal industries this week. The new offers range from 11.5 to 15.7 percent, amounting to 5c an hour for labourers and 96c an hour for artisans, according to a statement from the Steel and Engineering Industries Federation (Seifsa).

Employers also offered in increase living-out allowances by between 44 and 72.4 percent. They also agreed in principle to union demands that the scope of the main agreement be extended, if legally possible, to cover all areas in South Africa, including independent and self-governing areas.

Extensive discussions focussed on employer proposals for the exclusion or exemption of small businesses from the agreement.
Metal bosses push up pay offer to workers

By Drew Forrest

The giant Steel and Engineering Industries Federation (Seifsa) raised its wage offer by 1.5 percent in the third round of annual pay negotiations, which will affect 380,000 metalworkers.

The offer now stands at between 11.5 and 15.7 percent – which means an hourly rate of R4.07 for labourers and R9.27 for artisans.

The largest union which is party to the metal industrial council, the National Union of Metalworkers, has demanded a R5.50 minimum for unskilled workers and an across-the-board rise of R2.

Seifsa said in a statement that further employer concessions included an agreement in principle to extend the wage deal to all parts of South Africa, including the homelands, “if legally possible.”

This is subject to provisos that the extension be phased in over a period, and that small businesses were excluded.

Employers also offered to increase living-out allowance by between 44 and 72.4 percent.

Seifsa said much of last week’s negotiations focused on the proposal that small businesses – possibly defined as having eight or fewer employees – be excluded from the wage agreement. Employers indicated that the success of the talks might depend on a positive response to the proposal.

The next round of talks is on May 10.

Employment Act changes hailed

Labour Reporter

The employer body SACOLA has welcomed Government moves to regulate the basic employment conditions of farmworkers and has urged the participation of employers and unions in the framing of new law.

Last Friday, Manpower Minister Mr Eli Louw announced in Parliament that following extensive discussion with the SA Agricultural Union and parliamentary representatives of farmworkers, the Basic Conditions of Employment Act and the Unemployment Insurance Act would be amended next year to apply to farming.

The particular circumstances of agriculture would be taken into account in adjusting the laws and all interested parties would be consulted.

Mr Louw also said that he had asked the National Manpower Commission to probe and make recommendations on the extension of the Labour Relations Act and the Wage Act to farming.

The NMC would also be asked to investigate "whether the rights of domestic workers should be protected in legislation and if so, in what form." The "unique circumstances" of these employees called for special consideration, he said.

Welcoming the moves, SACOLA chairman Mr Bobby Godsell stressed that the involvement of the SAU and unions was vital if new legislation was to meet the needs of all parties.

On the Labour Relations Act, "NMC president Mr Nico Kotze stressed that the NMC was investigating a separate legal dispensation for dispute-settlement in agriculture."

He warned that the Wage Act – which provides for the setting of minimum wages – could have serious financial implications for farming.
Tighter markets trim RIH’s growth

By Magnus Heytek, Finance Editor

The steel industry is normally an accurate barometer of economic prospects that the widely forecast soft landing is now a reality is apparent from the half-year results for Robor Industrial Holdings (RIH), a steel trading company in the Barlow-fold.

Turnover for the period to end-March was up by 17 percent to R469.7 million compared with the same period a year ago. Operating profit before interest rose by a slightly better margin of 20 percent from R24.6 million to R29.6 million.

The sharp rise in the interest bill, up 132 percent from R1.9 million to R4.4 million, together with a slightly higher tax bill, kept the increase in attributable earnings down to a more pedestrian 15 percent, up from R19.4 million to R22.3 million.

Clearly, as an indication of even tougher conditions, the interim dividend has been held at 10c per share.

Mr Mike Gahagan, managing director of RIH, said yesterday that it must be borne in mind that these results come off a high performance base.

"Considering that the group achieved an average annual compound growth rate of 38 percent per annum since its listing six years ago, the 15 percent growth achieved over the six months to end-June is satisfactory in the prevailing economic and socio-political climate in and outside South Africa."

"In view of the worldwide decline in steel and stainless steel prices, both the domestic and export markets help up well during the first half of the year. Labour strikes at the harbours, however, caused significant backlogs in export shipments," he said.

Mr Gahagan added that the decline in international metal prices and the resulting increase in competition has been sharper and more prolonged than expected. Both steel export and domestic stainless steel margins were affected adversely. Prices seem to have stabilised, he indicated.

The steel industry is always among the laggards when entering a recessionary period. Much of the sector’s business is attributable to capital projects which started declining during the period under review.

RIH claims that its concerted corporate productivity drive is largely the reason for the widening of operating margins, which rose from 7.1 percent to 7.4 percent over the reporting period. Further improvements are widely forecast.

Interest costs increased as a result of higher interest rates, capital expenditure programmes and increased stockholding during the period. Working capital, however, remains well-controlled enabling a reduction in borrowings and the debt ratio since year-end.

Focusing on prospects, Mr Gahagan expects a further deterioration in demand in the second half, but earnings are expected to marginally exceed those of last year.

On yesterday’s closing price of 850c a share, RIH is offering investors an 18.8 percent earnings yield and a 7.3 percent dividend yield. This compares with the engineering sector’s average of 15.8 percent and 5.7 percent.
Vansa plunge on oversupply of vanadium

VANSA Vanadium's interim earnings plunged to 3.3c a share from 25.6c for the corresponding period last year, reflecting over-supplied world markets and lower dollar prices.

The group did not declare an interim dividend for the six months ended March 31 nor did it do so in the corresponding period last year.

Sales volumes of its chrome operations, on the local and export markets, were significantly down due to high stock-holding of stainless steel and ferrochrome throughout the world, directors said yesterday.

Similarly, vanadium pentoxide prices were well below last year's levels as a result of final consumers' excessive stocks.

The increase in the price of vanadium pentoxide to $4.50 a pound for the second quarter of the calendar year showed an improvement in demand, but market conditions remain uncertain, directors said.

They also did not see rising demand for chrome ore in the near future.

Vansa's Winterveld chrome operation was to construct a R4m metallurgical plant to recover platinum group metal concentrates from discard material and this revenue would only accrue in 1991.

Operating profit for the six months fell from R14.7m to R3m on a 7% decline in turnover.

Pre-tax profit was boosted by R1.2m from interest received and taxed profit was R1.5m compared with R13.9m for the corresponding interim period.
Robor boosts profits by 15% off high base

NEIL YORKE SMITH

BARLOWS subsidiary Robor Industrial Holdings (RIH) has boosted attributable profits by 15% to R22.3m for the six months to March 31, it was announced yesterday.

At 10c a share the interim dividend was unchanged from last year's figure.

Earnings growth for the group - which manufactures and markets steel products - was generated from turnover of R402.7m, 17% up on the previous year.

"It must be borne in mind that RIH's results follow a high performance base," MD Mike Gahagan said yesterday.

The performance was satisfactory in the prevailing economic and socio-political climate within and without SA, he added.

Domestic and export demand for steel held up well in the first half of the year, but labour strikes caused backlogs in export shipments, Gahagan said.

"The decline in international metal prices and the concomitant rise in competition have been sharper and more prolonged than expected," he said.

Operating margins increased impressively from 7.1% to 7.4%, reflecting RIH's recent productivity drive, Gahagan said.

He was optimistic that further productivity gains would be made.
By THAMI MASWAI

JOHN van Reenen has an offer that can't be refused. He is calling on black entrepreneurs whose activities can be utilised by his steel company to come forward. If they have what he wants, he will offer them contracts.

"I do not believe in giving a man a contract for the sake of it, he must work hard and justify my giving it to him," he said.

The tall and medium-built Van Reenen is chairman and chief executive of Van Reenen and Nicholls, a medium-sized steel company whose profits were R400 million last year.

It is situated at the Alrode Multipark, Alberton. It has branches in Welkom, Rustenburg, Port Elizabeth, Durban, Witbank, Klerksdorp, Cape Town, East London and Pretoria.

Company

The company will spend up to R500 000 a month in business to independent black operators. These include welders, panelbeaters, mechanics, plumbers, window cleaning, and any other activity needed by a steel company.

Recently two, black contractors cleaned the company's Alrode offices and carpets.

Why the interest in black business?

"I have now reached where I wanted to be and want to put something into the community. Black entrepreneurs were suppressed for too long and I must now help in their development.

"They need the breaks, and these must be provided by companies like ourselves. All of us must make the country prosper," he said.

Mr John van Reenen

Van Reenen, a 41-year-old trained accountant started his concern 12 years ago. This was after he failed in three other initiatives.

The first was a concrete company, the second a showbiz promotion and the third as a consultant.

As a showbiz promoter he brought Jimmy Smith, Lou Donaldson and Willis Jackson into the country.

Before going it alone he has also worked for three companies. He lasted three months in an electrical company, a year in a concrete company and three in one manufacturing TV sets.

"They considered my management philosophies too radical."

His steel company cuts steel for the mines and the industrialised countries.

When he started out with his partner they stocked steel, selling it to buyers needing urgent supplies.

"As it took time for orders to be delivered, we could satisfy many customers waiting emergency supplies. We later bought Amsteel and Jackson, and this increased our activities.

"With us the customer is king. We differ with many companies in that they say we produce this and that. We ask the customer what he wants and deliver it. Because of our reliability and service we got plenty of orders. It is the customer who decides how fast you can grow.

"We compete with 52 other companies. We must thus make sure we do it right," he said.

His staff understands this philosophy. To achieve this, a programme to make workers understand the workings of the business world has been introduced.

"They must understand that good customer service decides their paypackets. If more people like our service they will obviously keep buying from us and this means we grow as a company," he said.

Van Reenen, who has three children, also has interests in West Germany and the United States.

Van Reenen says a shortcoming of black businessmen is that they do not sell themselves.

"They are too shy to come forward. Even those manufacturers who long wanted to give black entrepreneurs contracts could not find them readily. I now want them to come forward and talk to my company."

"With other companies in this area also interested in giving some of their contracts to black operators, the operator may find himself kept busy seven days a week.

As many black entrepreneurs do not have the expertise in dealing with major companies, we will help as much as we can," he concluded.

All those interested must telephone Martina Henshall at 908-1540.
Frustration at slow pace of metal talks

THE fourth round of talks in annual wage negotiations for the metal industry has ended in stalemate.

Spokesmen for the Steel and Engineering Industries Federation of SA (Seifsa), and the National Union of Metalworkers of SA (Numsa) said yesterday they were frustrated by the slow pace of talks.

At the talks on May 10, Seifsa made no move on its April 26 offer of an increase ranging from 11.5% to 15.7% in the various wage categories.

Numsa's demands stand at a R2 an hour across-the-board increase — a

56% increase on the lowest rates.

Seifsa executive director Brian Angus said little progress had been made in narrowing the divide between the offer and trade union demands.

Seifsa made a range of concessions, from increases in overtime rates to meeting union demands over education and training.

Angus said the unions involved had made no concessions to moderate their wage demands.

But Numsa national organiser Alastair Smith said Seifsa's minimum wage offer fell several points short of the annual inflation rate.

Employers were not serious about addressing racial discrimination in the industry, and had back-tracked on joint plans to restructure the National Industrial Council, he said.

He warned if progress continued so slowly, there was a chance of industrial action which would be discussed at Numsa's mid-June national bargaining conference.

All parties agreed to hold a special meeting on May 20 to discuss peripheral matters before the next round of talks on June 7.

Build-up in excess steel stocks

THE SA steel industry is still struggling to handle excess stocks of primary steel, latest Central Statistical Service (CSS) figures indicate.

The CSS report shows stocks of basic primary steel products, profile products and flat products to be up by 6.5%, 7.1% and 43.5% respectively.

The increase in flat products was due to a 60% increase in stocks of slabs and coils, a 23.7% increase in plates, 43.6% more sheet and 31.4% more tin-plate.

The January total shows stocks of flat products rose to 1.35-million tons compared with 1.1-million tons in January 1998. However, stocks were slightly

down from the December total of 1.5-million tons.

The rise in primary flat products, used mainly by the motor industry and in "white" goods, was attributed by an Iscor spokesman to the downturn in demand from the motor vehicle and durable goods markets.

In addition, he said, Iscor was producing record amounts of steel and was having "logistical" problems with exports.

Steel industry spokesmen were expecting an upsurge in demand by the beginning of the third quarter.
GIC earnings a share shows healthy rise

BRITISH-controlled steel-strip supplier Goldfields Industrial Corporation (GIC) has posted earnings per share of 92c (79c) — a healthy increase of 31% for the year to end-March.

A final dividend of 30c (29c) was declared bringing the total to 50c (40c).

Attributable income has also risen by an impressive 40% from R2.6m to R3.7m, following hard on the heels of September figures, which reflected low turnover but sound growth. Turnover increased 12% to R78.2m (R67.9m).

Chairman Michael Frye says achieving in an increase in profits and sales reflects an excellent performance given adverse trading conditions.

The business is soundly based, the steel position has improved and order books are also up and continue to rise. In March last year GIC’s results were seriously affected by disrupted steel deliveries as result of production problems at Iscor.

Frye says the company will benefit from newly-introduced major training programmes, new capital equipment and plant rationalisation.
Losing fizz 

Activities: Manufactures metal and plastic closures and moulded plastic products

Control: Wassall Plc 78.9%

Chairman: A K Stain, MD D Crop

Capital structure 2.6m ordin Market capitalisation £54.6m

Share market: Price 2.1000c Yield: 6.7% on dividend, 13.8% on earnings, PE ratio 7.2, cover, 2.1 12-month high, 2.1000c, low, 1.750c Trading volume last quarter, 5,667 shares

Year to Dec 31: '86 '87 '88 '89

ST debt (£m) 6.0 6.0 6.0 6.0
LT debt (£m) 0.49 0.49 0.49 0.49
Debt equity ratio n/a n/a 0.10 0.19
Shareholders' interest 0.68 0.60 0.60 0.60
Let & leasehold cover n/a n/a 4.5 4.5
Return on cap (%) 21.6 23.4 27.6 20.2
Turnover (£m) 73.0 97.0 123.4 133.3
Pre-em profit (£m) 10.1 14.1 19.4 19.1
Pre-em margin (%) 13.8 14.4 15.7 12.1
Earnings (£) 210.0 272.7 367.0 289.9
Dividends (£) 66.0 69.0 122.0 140.0
Net worth (£) 1,218 1,391 1,636 1,852

Metal Closures' growth phase of the past five years appears to be ending. There was no real growth in turnover in 1989, earnings fell and the dividend was maintained only by a cut in the cover.

Growth in the past two years was boosted by introduction of the Duet plastic closure with the conversion from aluminium to the Duet virtually completed. Metal Closures needs new product development to re-establish its previous growth performance. The ending of a large injection moulding contract, labour disruptions and falling demand from the beverage sector in the first part of the year further limited turnover growth.

A slide in margins and higher finance charges saw attributable earnings fall 21%. Margins were hurt by higher unit costs as production activity fell and by price resistance as competition increased.

Higher short-term debt boosted finance charges and resulted in a deterioration of the debt equity ratio, interest and debt cover, but the group remains very conservatively financed. With earnings down to 289.9c (367c) cover was reduced to 2.1 (3.0) to maintain the dividend.

The change in control in early 1989 may indicate a change in course. The holding company, Metal Closures Group Plc, was taken over by Wassall Plc. Wassall said at the time there was no intention of selling the SA interests but some operational changes could be made.

Though the group expects higher profits in 1990, it is difficult to understand from the fundamentals why the share is at a 12-month high. This could be on speculation of a buyout or other structural changes. Last week's cautionary notice helped encourage market talk along these lines.

From Backmail
MANAGEMENT BUY-OUT

Value added

Standard Merchant Bank recently structured and financed its second biggest management buy-out. The largest, in July 1986, was Transport Technical Industries, bought from Darling & Hodgson by management for R65m. The price of the latest MBO is undisclosed but thought to be R20m-R40m.

In the deal, local management bought stainless steel distributor Fagersta Steels from Interoc, part of the Swedish Uniroc group, which is involved mainly in making and marketing rock-drilling equipment.

Interoc is using the funds to strengthen the rest of its SA business. "We decided to sell to focus on rockdrilling, the major part of our business, in line with worldwide company policy," says MD Rolf Soderman.

Fagersta's new controlling shareholders are Alex Skea, an ex-employee and founder of distributor Alloyssteels, and present employee Chris Visage. Seven other employees and SMB will have minority holdings.

The company will operate under the Fagersta name and continue as major distributor for Middelburg Steel & Alloys, with which it renewed a contract on Friday. Fagersta has merged with Skea's Alloyssteels to make it one of SA's three major stainless steel distributors.

One benefit of this MBO is that Sweden's 1976 ban on capital investment in SA will now no longer apply. The company may, if it needs, invest in new assets. Funding, as in most MBOs, is primarily through debt but SMB is confident the company can trade out of it soon.

FINANCIAL MAIL. MAY 18 1990
MIDDELBURG STEEL & ALLOYS

Paving the way for what undoubtedly will be a substantial drop in earnings in the six months to end-March, Middelburg Steel & Alloys group managing director John Gonersall said yesterday that the overheated steel market had collapsed.

Commenting on the stainless steel and ferrochrome market and their prospects for the second half of the financial year, he said the boom came to an end abruptly in the second half of 1989 as the decline in commodity prices triggered inventory reduction programmes.

"The pessimistic forecast expressed when announcing last year's results has unfortunately materialised, and the first half resulted in losses in the steel division, "

He added, however, that the global inventory adjustment phase was nearly over. But while some stability appears to be returning to stainless steel markets, there was still excess capacity among producers. Prices and profitability therefore remained severely depressed.

"The outlook for the second half of the year is better and we see a small profit recovery towards year-end." However, on balance, probably a small loss over the half," Mr. Gonersall said.

Higher interest payments impacted on the performance of steel and ferro-alloys producer Usko in the six months to end-March.

Net interest paid soared by 141 percent to R13.47 million (R5.59 million) as the group invested R18 million in a joint vanadium venture with Rhombus Vanadium. Commissioning costs of the plant, which made no contribution towards income, totalled R4.9 million.

The rise in interest payments affected an otherwise good performance with turnover up by 18 percent to R294.2 million (R249.4 million) and operating income 23 percent higher at R177.6 million (R144.7 million).

However, attributable income fell by 45 percent to R4.69 million (R7.46 million) while no interim dividend was paid on the ordinary shares.

METROPOLITAN LIFE

Metropolitan Life reported satisfactory earnings in the six months to end-March with earnings per share rising by 24 percent to 20.5c (15.5c) while the interim dividend was raised by 23 percent to 13.5c (11c).

Total income was up by 85 percent to R814.8 million (R434.2 million), boosted by a 33 percent rise in investment income to R139.8 million (R99.4 million) and an increase in premium income of 25 percent at R505.6 million (R409.9 million).
Usko's interest up by 141%  

STEEL and ferro-alloy producer Usko's interim income attributable to ordinary shareholders dropped 45% to R4.1m due to a 141% increase to R13.5m in interest paid. The R7.3m rise in interest resulted from a board decision to finance with loans a R18m investment in a vanadium plant — a venture with Rhombus Vanadium. The commissioning of the plant, which amounted to R4.5m for the six months to end March 31, was in progress and no income was generated from it during the period under review, directors announced today.
The party's over

Middelburg Steel has been a major driving force for Barlow Rand over the past few years but its volatile profits have also proved to be an Achilles heel for the group.

A 46% slide in the contribution from Middelburg was a major reason for the 9,3% drop in Barlow's EPS in the six months to end-March. At last year-end the ferro-alloys and stainless steel producer accounted for R216m, or 22%, of the group's attributable earnings, so a slump of that severity was bound to brusque the overall performance — particularly as it coincided with the weaker figure for the remainder of downstream operations, more directly to domestic markets.

Whether Middelburg has yet bottomed is unclear. Barlow deputy chairman Derek Cooper says the company will produce "substantially lower" profits this year but does not expect it to report a loss. He attributes its profit decline to much lower ferro-alloy and nickel prices, softer world demand for stainless steel and a firmer rand. Middelburg's tax rate actually rose, owing to the lower profit, but the company has continued to accumulate export and other tax allowances which can be drawn upon later.

Other unlisted divisions — including caravans, equipment, motors, consumer appliances, building materials, steel and paint — were either slightly better or roughly stable.

In rand terms, J Bibby, the major offshore arm, contributed the largest percentage increase to the after-tax profit. Its contribution rose by 16% to R56,8m, but says Cooper, "Bibby has obviously been a disappointment. But what is gratifying is that we've arrested the deterioration and are hoping for more growth." Bibby has made two acquisitions — Eurofilters, which makes filter bags for vacuum cleaners, and Lamson, a materials handling company — which are expected to contribute in the current six months.

The only other major segment whose contribution did not decline was pharmaceuticals, which rose by only 2% to R210,7m. Mining and mineral beneficiation was down 13% at R220,5m. Industry was down 9% at R154,4m, packaging and textiles fell 8% to R115,6m and property, finance and admin dropped 10% to R22,4m.

EARNINGS DIP

<table>
<thead>
<tr>
<th>Six months to</th>
<th>Mar 31</th>
<th>Sep 30</th>
<th>Mar 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>'89</td>
<td>'89</td>
<td>'90</td>
</tr>
<tr>
<td>Turnover (Rm)</td>
<td>12,41</td>
<td>14,03</td>
<td>13,83</td>
</tr>
<tr>
<td>Operating profit (Rbm)</td>
<td>1.23</td>
<td>1.48</td>
<td>1.23</td>
</tr>
<tr>
<td>Attributable (Rm)</td>
<td>442.0</td>
<td>657.8</td>
<td>404.1</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>240.9</td>
<td>303.0</td>
<td>218.4</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>51</td>
<td>119</td>
<td>61</td>
</tr>
</tbody>
</table>

Barlow Rand's Cooper ... capex to continue

Notably, in the computer and electronics interests, continuing strong growth from Reunert was offset by a disappointing result from the computer group TSI, whose earnings slumped 33%, TSI also laid off about 150 people recently.

Cooper, who is also chairman of TSI, says the computer industry in SA is maturing but does not agree that his company tends to produce volatile profits. He says customers deferred investment decisions in the face of the downturn. "We have not lost any market share, the margins are high and it's a cash producer currently holding about R80m cash."

On the whole Barlow's tax charge was not much affected by the various changes in tax legislation since late last year. The charge was increased as a result by R18m — worth throughput, commodity prices and exchange rates — all of which have turned unfavourable. The market has already pushed the share down to 3.815c, from the 12-month high of 5.475c, and the forecast is for a drop in earnings for this year.

Andrew McNulty

RAND MINES

Sword of Damocles

Just what is going on at Rand Mines? Attributable profits have fallen despite chairman Danny Watt's forecast of an increase in his last statement to shareholders, the group is highly illiquid, with net current liabilities soaring to R193m from R144m in the past six months despite the Rand's 276m rights issue, and management is scrambling to raise cash by selling residue dumps and to collect State aid needed to save a critically ill ERP from being out completely.

Watt has tried to sugar the pill by telling the opening of an unchanged final dividend to follow the unchanged interim dividend. Investors are unimpressed as the hint of a maintained dividend is hedged with caveats and it is well nigh impossible to find a portfolio manager persuaded that Watt's forecast of unchanged profits will be achieved. It was only in November that the chairman was cheerily expecting a profit increase for this year.

The market's view is unequivocal. Rand Mines' highly held shares are trading at R105, down about a quarter from practically R140 only a month ago.

Management lays the blame for the slow 8,9% working profit increase at the door of "poorer trading conditions in the base metals market and narrow coal mining margins." That is strange, as 71%-owned subsidiary Witbank Colliery reported profits of R102,1m in the first half of this year against R64,4m in the corresponding period of 1989. Given that, portfolio managers ask, what the heck has been going on at 50%-owned Roetspruit to reduce coal mining margins?

The unchanged profit prediction is doubly strange as Vanns is already benefiting from higher vanadium prices and the fact that its plant is in last operating at full design capacity.

ERPM's problems have been extensively chronicled. The latest disallow the responsibility from the consulting geologists, Venmyn, which claims that underground gold grades disclosed by development in the new areas are in line with those expected initially. "It's a pity," one exasperated portfolio manager says, "the geologists couldn't have
Metal union talks hit by snags as deadlines loom

By DICK USHER
Business Staff

Proposals to exclude smaller employers from two major industrial council agreements are causing problems at negotiation and could have wider implications across other sectors.

The National Union of Metalworkers (Numsa), which is renegotiating agreements with employers in four related sectors, rejects as deregulation proposals to exclude smaller employers in the metal and motor industries from the agreements.

Union spokesmen said the issue was causing serious problems in both sets of negotiations -- with the Steel and Engineering Industries Federation (Seifsa) in the metal industry which employs about 350,000 workers, and at the National Industrial Council for the Motor Industry covering about 160,000 workers in component factories, workshops, garages and filling stations.

Seifsa is seeking to exclude smaller employers from the agreement, arguing that unless this were done Manpower Minister Mr Eli Louw might refuse to extend the agreement to non-parties because Seifsa was not sufficiently representative.

Motor industry employers want to exclude operators in smaller towns and rural areas from the agreement, arguing that wages should be related to the supply and demand for labour.

With several other issues including wage demands still separating the parties, Seifsa and Numsa, the largest union in the sector, agree that conclusion of a new agreement is unlikely by the expiry of the current agreement on June 30.

Mr Alistair Smith, Numsa's chief negotiator in the Seifsa talks, which also involve 15 other unions, said a special meeting of all parties would be held May 30 before the next round of talks scheduled for June 7.

Union spokesman Mr Les Kettlekis said the situation in the motor industry talks was serious.

"We are very far off an agreement here," he said. The motor industry agreement expires August 31.

In two other sectors in which Numsa is renegotiating agreements, the automobile industry and the tyre and rubber industry, Mr Kettlekis said negotiations were still at an early stage.

The wider implications of the metal and motor talks derive from Numsa's national bargaining conference in February.

This compiled a set of central demands as the basis for all Numsa negotiations with the aim of achieving uniformity in wages and conditions of service across all sectors.

Numsa also decided at the conference that individual sectors could not take independent decisions -- on either settlement or industrial action -- but progress at negotiations would be discussed at another national bargaining conference.

This is due in late June.

Union spokesmen said the key issue would be whether negotiations had shown satisfactory progress towards uniformity.
Slowdown in pouring profits

by David Cramer

all gloomy but it's not hit hard

Middleburg
Cafca benefits from strong copper price

CENTRAL African Cables (Cafca) benefited from the strong copper price and achieved record results in the year to end-
December fourth consecutive year 189.

In the group's latest annual report the directors indicated this performance caused a significant cashflow improve-
ment and by the end of the year all borrow-
ings were repaid.

Turnover jumped to Z$68.9m during 1989, compared with Z$54.6m for the 18 months ended December 1988. The im-
proved turnover resulted from the higher copper price and productivity gains. But al-
uminium volumes were low for the

Earnings advanced to a record Z$78.1m from Z$44.1m and this translated into EPS of 149 Zimbabwe cents (67c). The group's dividend policy is to show an increasing trend in payments while providing for the company's needs to finance future expan-
sion. Dividend cover was maintained and the payout rose to a new peak of 67c (21c).

Cafca has welcomed the Zimbabwe gov-
ernment's projected measures for trade liberalisation.
Metal industry talks hit snags
Exceptional year for Highveld

Highveld Steel’s annual report has all the elements of “the good, the bad and the ugly”. The good describes an exceptional year, with turnover and profit at an all-time high, resulting in cash on hand of R319 million (debt of R51 million at end-1988).

The bad is the steel price hike in March and October, using inflation as an excuse and saying SA’s domestic steel prices remain among the lowest in the world.

The ugly is that sanctions cut off Highveld’s markets in the US and EC countries, but actually were the reason for the amazing results since high export prices prevailed in the first part of 1989.

More good news is that management and employees are working positively together — over the last two years there have been no strikes or stayaways. Shareholders benefited from an extraordinary bonus dividend of 60c in addition to higher normal ones. Directors also scored, their salaries rising from R1,78 million to R3,96 million.

Held 51,8 percent by Anglo-American, Highveld’s integrated steel works and various divisional works performed well, with record profitability in all areas. But can management sustain 1989’s bumper year?

Chairman L. Boyd says no as 1990’s earnings will be significantly lower, but should still exceed 1989’s then-record results. This will be no mean achievement, considering the tidal wave of change.

Sales rose to R1,61 billion (1988: R1,19 billion), with operating profit at R534 million (1988: R243 million).

Expenses included the provision for renewal and replacement of fixed assets of R181 million (1988: R141 million) and depreciation of fixed assets of R45,2 million (1988: R41 million). After adding a net finance gain of R31 million (1988: net finance charge deduction R18,87 million) and deducting tax of R243,6 million (1988: R103 million), attributable earnings were R322,44 million (1988: R121,47 million) — 285 percent higher.

With such impressive results, why did Highveld have the audacity to raise prices twice in 1989?

Earnings per share were 450c (1988: 170,6c), with the total dividend payment, including the bonus, 150c (1988: 57c).

There were no sales and income contributions disclosed for steel, vanadium, ferro-alloys or rheen. Steel benefited from the world steel consumption increasing by nine million tons in 1989 to 781 million.

With strong support from export customers and firm foundations in the local market, Highveld operated at optimal capacity, both iron and steel production exceeding one million tons. Vanadium had a strange year, with customers’ initial heavy buying programmes exceeding consumption.

Domestic ferro-alloy sales reached slightly higher levels than in 1988 and sales of carbonaceous products from Rand Carbide were higher than previously. After a slow beginning, Rheen had another promising year, improving on 1988’s results.

Capex was R45,71 million (1988: R179,37 million). The three major projects approved in 1988 progressed according to plan. The new kiln at Vantræ was commissioned in December 1989 and the fifth silico-manganese furnace at Transaloy started up in February 1990. The pelleting plant should operate in 1990’s third quarter.

The balance sheet has benefited substantially from 1989’s record results. Ordinary shareholders’ equity was R538,6 million (1988: R426 million) at end-December 1989. Pref shares of R50 million a year earlier were redeemed in 1989. The deferred-tax provision has increased to R306,6 million, ensuring that future tax does not absorb a disproportionate amount of income, earned.

Working capital rose to R121 million (1988: R37 million) and included cash resources of R325 million, with debt (short term), only R5 million. Net asset value per share is just over R9 (less than R6 a year ago).

The current JSE price of around R16 reflects investor confidence.

In 1989 Highveld produced more than one million tons of iron for the first time. In 1988 it exceeded one million tons of steel output. With 1989 being Highveld’s 21st anniversary, shareholders and management must be walking tall.
Steelmen to talk wages on Thursday

Pretoria Correspondent

Wage negotiations between employers and trade unions in the steel industry are to be resumed on Thursday.

Brian Angus, the Steel and Engineering Industries Federation of South Africa’s (Seisa) executive director, said yesterday there was still no agreement in the metal industry’s annual negotiations.

Mr Angus said employers tabled another wage offer — the third in this year’s negotiations — ranging from 12.5 to 16.7 percent in the various wage categories.

The latest offer would increase wages by 50 cents an hour for labourers and R1.04 an hour for artisans, raising wages to R4.11 and R9.35 an hour for labourers and artisans respectively.

Employers also made further concessions on some of the trade union demands.

Two union groups moderated their wage demands marginally.

No concessions

"However, the National Union of Metal Workers of SA (Numsa), the largest trade union in the industry, has, after five rounds of bargaining, made no concessions whatsoever."

The parties agreed to establish subcommittees to investigate job creation strategies.
Nickel trend seen as bright after 1990

For nickel, the growth rate is expected to be 5-5.5% from 1985 to 1990. London base at 65% to 65.5%.

The growth rate for copper is expected to be 5-5.5% from 1985 to 1990. London base at 65% to 65.5%.

The growth rate for zinc is expected to be 5-5.5% from 1985 to 1990. London base at 65% to 65.5%.

The growth rate for aluminum is expected to be 5-5.5% from 1985 to 1990. London base at 65% to 65.5%.

The growth rate for lead is expected to be 5-5.5% from 1985 to 1990. London base at 65% to 65.5%.

The growth rate for tin is expected to be 5-5.5% from 1985 to 1990. London base at 65% to 65.5%.

The growth rate for magnesium is expected to be 5-5.5% from 1985 to 1990. London base at 65% to 65.5%.

The growth rate for cadmium is expected to be 5-5.5% from 1985 to 1990. London base at 65% to 65.5%.

The growth rate for bismuth is expected to be 5-5.5% from 1985 to 1990. London base at 65% to 65.5%.

The growth rate for gallium is expected to be 5-5.5% from 1985 to 1990. London base at 65% to 65.5%.

The growth rate for indium is expected to be 5-5.5% from 1985 to 1990. London base at 65% to 65.5%.

The growth rate for thallium is expected to be 5-5.5% from 1985 to 1990. London base at 65% to 65.5%.
GIC

Cash in hand (189)

Activities: Supplies flat-rolled steel strip
Control: E Elliott Pte 62%
Chairman: M J E Frye, MD A P Crawley
Capital structure: 4,081 m ordinary Market capitalisation: R20m
Share market: Price 490c yield 10.2% on dividend, 18.8% on earnings, p/e ratio 5.3, cover 1.8 12-month high 550c, low, 490c
Trading volume last quarter, 35,000 shares

<table>
<thead>
<tr>
<th>Year to Mar 31</th>
<th>'87</th>
<th>'88</th>
<th>'89</th>
<th>'90</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST debt (Rm)</td>
<td>10</td>
<td>1</td>
<td>1.0</td>
<td>2.7</td>
</tr>
<tr>
<td>LT debt (Rm)</td>
<td>1.2</td>
<td>0.03</td>
<td>0.44</td>
<td>0.44</td>
</tr>
<tr>
<td>Debt equity ratio</td>
<td>0.66</td>
<td>0.48</td>
<td>0.54</td>
<td>0.44</td>
</tr>
<tr>
<td>Shareholders' equity</td>
<td>16.1</td>
<td>10.7</td>
<td>4.9</td>
<td>6.2</td>
</tr>
<tr>
<td>Return on cap (%)</td>
<td>12.8</td>
<td>9.4</td>
<td>14.7</td>
<td>14.7</td>
</tr>
<tr>
<td>Turnover (Rm)</td>
<td>37.4</td>
<td>60.2</td>
<td>68.0</td>
<td>78.2</td>
</tr>
<tr>
<td>Pre-tax profit (Rm)</td>
<td>3.9</td>
<td>4.5</td>
<td>6.4</td>
<td>7.7</td>
</tr>
<tr>
<td>Pre-tax margin (%)</td>
<td>10.3</td>
<td>8.8</td>
<td>6.4</td>
<td>10.1</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>92</td>
<td>105</td>
<td>70</td>
<td>92</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>Net worth (c)</td>
<td>364</td>
<td>398</td>
<td>467</td>
<td>503</td>
</tr>
</tbody>
</table>

Cansa

GIC

(560)

540

460

420

400

Jun 89 | Aug | Oct | Dec | Mar | Jun 89

1989

(29/6/90)

Goldfields Industrial succeeded in turning a netted 12% increase in turnover into a 34% improvement in after-tax profit in its 1990 financial year, thanks to higher operating margins and a lower effective tax rate.

Turnover growth was restricted because the company is largely exposed to cyclical industries such as building, automotive and packaging. Steel supply problems, which hampered GIC in 1989, were mostly overcome and the completion of plant rationalisation and installation of a new slitter for producing finished products improved productivity and efficiency. Thus, together with better management controls, boosted margins for the second consecutive year, says chairman Michael Frye.

Completion of the capital spending programme and a healthy cash flow allowed cash resources to be replenished. The company is now sitting on R7.3m cash but this will be used to reduce creditors and bills payable which had risen by 74% to R19.2m at the financial year-end. Only limited capital spending is planned for this year.

Attributable profit benefited from a fall in the effective tax rate to 42.7%, from 46% on a rise in capital allowances.

Frye indicates that the installation of the new slitter provides opportunities for introducing high-quality finished products and entering new markets. Thus, in turn, should provide something of a buffer against restricted growth for GIC's conventional primary products in a year of economic decline.

With limited scope for a further margin improvement, the outlook for 1991 appears unexciting.
Activities: Manufactures and distributes secondary steel products to the mining and industrial markets

Control Directors 70%
Chairman and group MD. G D Wilson
Capital structure: 17.6m 8crs Market capitalisation R3.52m
Share market: Price 20c Yields 20.0% on dividend, 38.5% on earnings, p.e. ratio 2.6, cover, 3.8 12-month high, 23c, low, 15c
Trading volume last quarter, 158,600 shares

Year to Feb 90

<table>
<thead>
<tr>
<th></th>
<th>'88</th>
<th>'89</th>
<th>'90</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST debt (Rm)</td>
<td>1.2</td>
<td>4.9</td>
<td>0.9</td>
</tr>
<tr>
<td>LT debt (Rm)</td>
<td>0.7</td>
<td>1.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Debt equity ratio</td>
<td>0.14</td>
<td>0.63</td>
<td>0.18</td>
</tr>
<tr>
<td>Shareholders interest</td>
<td>0.45</td>
<td>0.40</td>
<td>0.43</td>
</tr>
<tr>
<td>Int &amp; leasing cover</td>
<td>8.8</td>
<td>3.81</td>
<td>3.11</td>
</tr>
<tr>
<td>Return on cap (%)</td>
<td>*15.0</td>
<td>12.9</td>
<td>14.1</td>
</tr>
<tr>
<td>Turnover (Rm)</td>
<td>51.8</td>
<td>62.0</td>
<td>67.2</td>
</tr>
<tr>
<td>Pretax profit (Rm)</td>
<td>5.6</td>
<td>3.3</td>
<td>3.7</td>
</tr>
<tr>
<td>Pretax margin (%)</td>
<td>10.8</td>
<td>6.4</td>
<td>6.5</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>*18.4</td>
<td>8.5</td>
<td>7.7</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>*6.0</td>
<td>2.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Net worth (c)</td>
<td>66.2</td>
<td>60.7</td>
<td>66.1</td>
</tr>
</tbody>
</table>

†17 month period
* Annualised

Chairman and MD Gordon Wilson says this resulted in an 11% increase in operating income at Benbrow and a reduction in gearing to 17%. The division has now entered new markets where margins are said to be better.

The other division — stainless steel processor Clyde Steel — experienced problems with the quality of raw materials received from suppliers, as well as with getting new machinery going. Wilson believes this has now been rectified and turnover is exceeding breakeven. He says profits will be significantly higher this year as "the problems that resulted in a sharp decline in operating margins in 1989 have been largely resolved."

Wilson believes it is prudent to increase the dividend cover to 3.6 times to establish a sound financial base. So investors have received a dividend which has slipped to 2c from last year's 2.6c. This should eventually help earnings, which the group gives as 7.6c a share (8.3c), based on net income after taxation of R1.3m before amortisation of R64,000 goodwill.

Heather Formby

Tighter controls (189)

The profit squeeze on the mines is spreading to their suppliers, as mining houses adopt more aggressive buying policies. Low margin
BARLOW Rand subsidiary Middelburg Steel and Alloys (MS & A) has split the management of its chromium and stainless steel operations into two wholly owned subsidiary companies — MS & A Chromium and MS & A Stainless — it was announced yesterday.

MS & A produced much lower interim earnings for the period to end-March.

Group financial director Mike Coward said yesterday market problems during the current year had slashed half year attributable earnings to R110m (R147m).

For Barlow's financial year to end-September, MS & A upped its contribution by more than R100m to R215,7m of Barlow's bottom line of R147m on the back of a strong market for ferroalloys.

Coward said both divisions contributed about equally to group profits last year, although profits were likely to be slightly down in the alloys division this year because ferrochrome prices have "come off substantially".

He said that while the two divisions did not exactly complement one another, their markets were similar and moved in the same basic commodity cycle — meaning that steel would traditionally be hit first by market forces with chromium lagging behind by roughly nine months.

MS & A group MD John Gomersall said the creation of the two separate entities, effective July 1, was aimed at putting in place "the appropriate structure to manage the existing business opportunities the MS & A group faces in the future."

"The boards of MS & A Chromium and MS & A Stainless would manage their respective operations while the board of the MS & A group would continue to be responsible for the strategic direction of the group and for exploiting synergistic opportunities," said Gomersall.

Former MS & A alloy's division GM Paddy Frobert has been appointed MD of MS & A Chromium, which takes over the management of MS & A's ferrochrome business. Frobert said yesterday he was looking forward to the challenge of building on MS & A's position as a world-leading ferrochrome producer.

"We are committed to being the world's best producer and most competitive supplier of quality chromium products. We have a team in place which I am confident will attain this global vision," he said.

Former MS & A Steel division GM Keith D Layt has been appointed MD of MS & A Stainless, which takes over the group's stainless steel operations management.

Layt said that although MS & A Stainless produced only 1.5% of the world's stainless steel, it was intended that the division should become one of the world's lowest cost producers.
Reject Metalclo offer, brokers say

By Sven Lunsche

Stockbroking firm Martin & Co has urged shareholders to reject an offer by UK-based Wassall Plc to acquire the minorities in Metal Closures SA.

In advertisements placed today Martin & Co says it could use Section 228 of the Companies Act — which provides for shareholders protection “in case of oppressive or unfairly prejudicial conduct” — to prevent the deal going ahead.

Wassall Plc recently acquired UK Metal Closures and with it the 77 percent that Metal Closures Plc owns in Metal Closures SA.

Wassall subsequently offered the minority shareholders in the South African company R23 an ordinary share. It plans to convert the ordinaries into redeemable preference shares and redeem them out of the company’s fund.

To achieve this a special resolution, which requires a 75 percent vote, is required.

Martin & Co says “As Metal Closures UK owns 77 percent it is able to steamroll the resolutions through — even if every minority shareholder votes against the proposal.”

It adds that a request by the JSE that Metal Closures UK should not vote at the meeting has been ignored.

“As in addition, the holding company states that it has been advised by Finausbank that the proposal is fair to shareholders,”

“Can any scheme be fair where the shareholders concerned have their shares expropriated without any effective say?”

Martin & Co also doubts that the offer of R23 a share is reasonable, arguing that if the price was based on the same pre-tax price earnings ratio as other companies in the packaging sector it would be raised to between R35 and R48 a share.
Metalco deal fair, says UK chief

LONDON — Chris Miller, chief executive of the Wassali group which owns Metal Closures UK, yesterday defended his group's buyout offer for the 23% minority in the SA subsidiary.

"We think that what we have done is legal, fair and reasonable," he said after returning from Johannesburg where Metalclo SA was taken to court by minority shareholders to try to block the deal which would give the UK parent 100% ownership.

"The matter is now before the Supreme Court and we will have to wait to see what happens. But as people who want to invest in South Africa I can only note that disinvestment doesn't seem to attract the same amount of fuss," he said.

"I can only repeat that we took a course of action on the basis of valuations by three advisers all of whom concluded that Metal Closures SA shares were worth less than R23 each."
Stocks of primary steel products on hand

CSS figures show a total average increase of 13.6% in steel stocks over the year to end-April 1990. The stocks of basic primary steel products are up by 0.3%, profile products are up by 5.1% and flat products by 30.6%.

The main contributor to the increases in profile products were a 39.4% rise in stocks of wire rod and wire and an 18.5% increase in stocks of spring steel. A 28.6% increase in stocks of slabs and coils, a 21.1% increase in plate stock, a 43% rise in sheet and a 31.2% increase in the amount of tin-plate on hand contributed to the rise in stocks of flat products.

Total stocks of flat products on hand rose to 1.6-million tons compared with 1.11-million tons for April 1989. The rise was attributed to lower to the downturn in the motor vehicle and durable goods markets.
Interim earnings from Hiveld drop by 52%
CMI hit by falling demand

By Magnus Heystek

Consolidated Metallurgical Industries (CMI) is feeling the chill winds blowing through world stainless steel markets.

Turnover dropped 34 percent to R219.4 million (R324.3 million) in the financial year to end-June.

The company ascribes the sharp drop to the marked reduction in the demand for ferrochrome as a result of a worldwide decline in the production of stainless steel that began in the first half of the year.

As a result, stocks of ferrochrome were reduced, impacting negatively on the company.

The decline in ferrochrome prices in the company’s major markets accelerated in the second half of the company’s year to June, with average prices received being substantially below those of the first half.

However, the company says “Towards the end of the period signs of a recovery were evident in both the US and European stainless steel markets and prices of ferrochrome appear to have stabilised.”

Production volumes

Lower production volumes caused the unit cost of sales to rise by 30 percent.

This factor, coupled with lower sales revenue, caused operating income to fall by 60 percent to R69 million.

Substantially increased interest income limited the decline in pre-tax income to 52 percent.

Taxa was reduced to R15.1 million (R79.5 million in the previous financial year) because of reduced profits and capital expenditure allowances, mainly for a new furnace.

Attributable income declined by 29 percent, compared with that of the previous financial year.

Capital expenditure for the year was R49.4 million, mainly on the new furnace, which is now in full production.

Refurbishment of the two existing furnaces began in June this year and is expected to be completed by the end of the year.

A final dividend of 80c (80c) has been declared, to bring the total to 135c per share, the same as in the previous financial year.
Earnings at Highveld slump by 50 percent

Finance Staff

Although shareholders in Highveld Steel were warned in the annual report that earnings were set to drop, most analysts were surprised by the decline of over 50 percent in attributable earnings announced yesterday.

In mitigation, however, it must be said that the earnings growth came off a high level and it would have been unrealistic to expect last year’s buoyant conditions to continue.

Earnings per share in the first six months of the current financial year were 114,4c (237,2c in the first six months of 1989).

This has been attributed to weaker world markets for ferro-alloys and to low world prices for steel and vanadium products.

An interim dividend of 30c per share has been declared. This compares with the normal interim dividend of 30c paid for the first six months of last year, and the extraordinary interim of 20c paid after 1989’s exceptional results.

Turnover for the period to end-June was R682,04 million (R776,7 million).

Highveld’s unaudited attributable profit was R82,500 million (R170,154 million).

Provision has been made for normal tax of R13,409 million and deferred tax of R20,631 million.

In the six months under review the domestic steel market was characterised by uncertainty centred on the Government’s attempts to curb inflation.

The impact of a low gold price on the mining sector, customer inventory reductions due to high interest rates and the completion of certain capital projects seriously affected the order book.

However, volumes of steel exports remained relatively strong and although prices fell to less attractive levels, the steelworks continued to operate at full capacity.

After the free market price of vanadium pentoxide had bottomed out at $2 per pound at the end of 1989, Highveld posted a price of $2,50 per pound in the first quarter. The elimination of inventories caused spot prices to move up to more economic levels.

Based on this and strong sales in the first quarter, the corporation moved its price to $4,30 per pound in the second quarter.

Because of a more balanced inventory position and consumer resistance to the higher price, this levelled off at $3,35 per pound.

The new silico-manganese furnace at Transalloys was brought on stream last February.

However, due to weak export markets for the alloy, other furnaces were taken off line and Transalloys operated below capacity in the period under review.

Despite the continuing low level of ferro-silicon prices, Rand Carbide continued to operate all furnaces.

Sales of carbonaceous products in the domestic market continued at reduced levels.

As the world steel industry continues to perform well, it is expected that the markets for the group’s steel and vanadium products will be satisfactory in terms of quantity, but prices will remain low.

Weak markets for ferro-alloys are expected to prevail into the fourth quarter of the year.

Overall, it is expected that earnings in the second half will remain under pressure.

Capital expenditure for the six months was R28,381 million (1989 R36,707 million). The total commitment in respect of further capital expenditure was R12,041 million at June 30 (R46,11 million at December 31 1989).

Highveld is still intent on going ahead with a major stainless steel project together with Samancor.

The feasibility study has already defined the capital requirements and a letter of intent has been signed with an overseas partner.

A final decision should be possible before the end of the year, Highveld says.
Earnings drop sharply at Metal Closures

By Ann Coetzee

Metal Closures has reported a sharp drop in earnings — down from 145.5c to 74.3c a share — in the six months to end-June. An interim dividend of 25c (48c) has been declared.

The results are worse than the market was expecting and may cause some concern among some of the minority shareholders who were unable to avail themselves of the R23 take-out price that they were offered last month.

However, one analyst argues that the difficult trading conditions relating to the weakness of the economy were aggravated during the review period by market problems caused by a change of technology

It is possible that these technology-related problems are only a short-to-medium-term nature and so are unlikely to affect the company's performance in the next financial year.

No mention is made of the aborted offer or any likely developments on this front.

For the six months to end-June turnover was up 10 percent to R64.5 million (R58.6 million). Operating profit was down a sharp 44 percent to R4.4 million (R7.8 million).

After allowing for interest and tax, attributable earnings were down 49 percent to R1.9 million (R3.3 million).

According to the directors, the disappointing results are attributable to "the depressed state of the economy and to the increasingly competitive nature of the industries we serve". Capacity under-utilisation and increased manufacturing costs, particularly labour-eroded margins, are factors.

Some improvement is expected in the second half but full-year profits will be down on last year
CMI mum on ferrochrome acquisition

JCI's Consolidated Metallurgical Industries (CMI) — which issued a cautionary announcement on Friday — could be upping its stake in the ferrochrome business, some market analysts believe.

Although CMI MD Barry Davison confirmed that the cautionary announcement related to an acquisition, he refused to furnish details.

Market speculation is that CMI may have resurrected negotiations with Swiss-owned ChromeCorp, or shifted its attention to Purity Metals. Analysts thought it probable that CMI was looking at ChromeCorp.

Brent Melville

While the asset value of ChromeCorp is unknown, a figure in the region of $150m has been bandied about.

However, another analyst said Purity Metals could not be discounted as the target.

"As SA's other major independent producer, it provides a very attractive proposition to CMI," he said.

CMI's year-end results for June disclosed a sharp drop in operating income to R88,3m (R171,2m) on the back of poor demand for stainless and speciality steels.
Go-ahead for steel project 'is likely'

INDICATIONS are that the R2,8bn Columbus Stainless Steel venture will go ahead despite a gloomy outlook for the stainless steel market, say industry sources who are anticipating an announcement to that effect within the next month.

The Columbus joint venture, to establish a stainless steel manufacturing facility in SA for the production of hot rolled coil, is made up of a partnership including Highveld Steel & Vanadium and Samancor, in conjunction with Taiwanese group Yieh Loong, which will be responsible for establishing a cold rolling facility in Taiwan.

Simpson, McKie analysts Henne Vermeulen said on Friday it seemed almost certain the project would go ahead despite the depressed state of the ferrochrome and stainless steel markets, but the decision would be based more on a strategic level than immediate return on investment.

He said no significant upturn was expected over the next two years in the markets for ferrochrome (75% of the world's supply of which is used in stainless steel production) and stainless steel.

Stainless steel demand fell to 10.3-million tons last year from 10.7-million tons in 1988 and Vermeulen said it could come off by as much as 6% this year.

A well-placed analyst said there was very little doubt left that the project would go ahead, especially in view of the fact that Samancor would be putting out some "very good results" this month. He said the plant was due to be commissioned in mid-1990.

He suggested the Taiwanese operation might be completed in 1993.

The SA joint venture (SAJV) is expected to cost about R2bn, and to supply about 215,000 tons a year to the Taiwanese cold-rolling plant. Yieh Loong will have about a 7.5% holding in the SAJV which in turn would have a 40% stake in the Taiwanese side of things.

A Highveld Steel source said at the weekend that assuming the project was given the go-ahead, it was expected the SAJV would become profitable from 1995 onwards.

---

**Ferrochrome consumption vs Stainless steel production**

<table>
<thead>
<tr>
<th>Year</th>
<th>Fe-Cr</th>
<th>Cr</th>
<th>Stel.</th>
</tr>
</thead>
<tbody>
<tr>
<td>76</td>
<td>1.5</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>78</td>
<td>1.5</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>80</td>
<td>1.5</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>82</td>
<td>1.5</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>84</td>
<td>1.5</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>86</td>
<td>1.5</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>88</td>
<td>1.5</td>
<td>8</td>
<td>9</td>
</tr>
</tbody>
</table>

Graphic: Lee Barmeton; Source: Simpson Maxis
Samancor shares dip 150c

SAMANCOR shares continued to ease off Diagonal Street yesterday with the 150c decline to R22.50 bringing losses to 28.5% since touching a high of R31.50 10 days ago.

Analysts attributed the downturn of the shares to the fact that the ferrochrome market was looking worse than expected because of the glut of supplies.

This glut has been caused by the slowdown in world economic growth, which has hit the steel industry, and by new capacity.

Ferrochrome is an essential ingredient in the production of stainless steel.

Simpson McKie's Henne Vermeulen said the current contract price of ferrochrome was $2.47/lb compared with about $5.75/lb last year.

"If the price remains at current levels for 12 months, it will mean that the average price received by both Samancor and CMI (Consolidated Metallurgical Industries) will be 20% lower than last year."

"Samancor's ferrochrome pre-tax pro-

To Page 2

Samancor shares decline

fits could, therefore, decline from an estimated R30m for the year to end-June 1990, to R13m by June next year. CMI's ferrochrome earnings are expected to drop from R60m before tax to R15m."

Vermeulen estimated that, despite the good performance of manganese which would help to cushion the effect of the downturn of ferrochrome prices, Samancor's total earnings for the year to June 1991 would be down by about 16%.

He expected earnings of CMI to fall by about 70%.

CMI shares have been languishing at about R12.50, after falling to a year low of R11 in March.
SA-Taiwan project on the road soon claim

RIAAN SMIT

SAMANCOR, Highveld Steel & Vanadium (HS & V) and a Taiwanese partner are expected to announce soon the go-ahead for their R2bn stainless steel plant joint venture which, it is projected, will generate an annual R350m positive cash flow in inflated terms by 1995.

The deal involves two partnerships — the Columbus Joint Venture (CJV) with Samancor and HS & V as partners, and an SA Joint Venture (SAJV) with the two ferrochrome producers and the Yeh Loong Group of Taiwan as partners, a well-placed source said.

According to the source, the SA plant, to produce an initial 220 000 tons a year of annealed and pickled hot-rolled coil by 1995, would be commissioned in mid-1993.

This plant would supply about 220 000 tons a year to a Taiwanese-based cold-rolled plant to beneficiate the SA product. Construction of the Taiwanese plant was scheduled to start in 1991 and be completed in 1993. It would reach its design capacity of about 220 000 tons a year in 1996.

Samancor and HS & V, which each owned 50% of the CJV, would have a 92.5% stake in the SAJV, with the remaining 7.5% owned by the Yeh Loong Group, Business Day’s source said. The SAJV was formed to establish the SA plant.

The source said the new company would be established in Taiwan to build the second plant. The CJV would hold 49% of the equity and the Yeh Loong group the other 50%. The capex in 1990 terms was expected to be R840m.

The plant in Taiwan would be financed 55% with loans and 45% through equity from the shareholders. The CJV 40% share would amount to about $60m in 1990 money.

Capex on the SA plant in 1990 terms was expected to be R2bn, of which about R800m would be spent on imported equipment. The partners would each fund its share of the cash requirements of the project.

It was understood Samancor and HS & V were currently putting the finishing touches to funding of the two ventures.

The R350m positive cash flow from the SA venture was projected to grow to over R1bn in inflated terms by 1998, while the Taiwanese venture would in the same year show a positive cash flow of over $100m.
Reichmans' profits plummet

By REG RUMNEY

THE poor performance of steel trader Van Reenen & Nicholls and two bad debts hit international trade finance company Reichmans in the six months to end June. Reichmans has 20 percent interest in VRN.

An interim dividend of 2c (9c) has been declared.

Bottom-line profits plunged to R808 000 in the six months to end June, compared to R7,44 million in the six months to end August 1989.

Pre-tax income was R8,42 million (R9,35 million). A lower tax rate of 15,4 percent meant after-tax income increased slightly to R7,04 million (R6,88 million).

Earnings dropped to 2,2c a share from 16,8c.

Reichmans has strengthened its credit procedures in the light of the tightening economy, but earnings in the second half should approximate those of the first half, according to MD Frank Boor.
Steel deals give industry new look

The acquisition would be effective from July 7 this year and was in line with CMI's strategy of increasing its share of the world ferrochrome market, it said.

A source at the London-based Metal Bulletin recently told Business Day a shake-out in the industry was inevitable because of over-capacity and the 3% downturn over the past year in world steel consumption.

He said with sanctions against SA falling away the type of joint venture proposed by Samancor, Highveld Steel & Vanadium, and a Taiwanese partner — to establish a stainless steel plant — was becoming more likely because of the availability of ore reserves in this country SA has about half of the world's known chrome ore reserves.

These companies are likely to announce a R2bn stainless steel plant in SA and a downstream plant in Taiwan towards the end of this year or early next year. Chrome is a key ingredient of stainless steel.

The MS&A/Iscor agreement, which makes future co-operation between Iscor and MS&A Stainless in other areas of mutual interest possible, will create new areas and markets for the utilisation of stainless and corrosion-resistant steel products, a statement by the companies said.

The agreement provides for the toll roll-

Steel deals

ing by Iscor of a variety of sizes and shapes in stainless steel and 3CR12 not currently produced by MS&A Stainless, such as heavy gauge plate, structural sections, round bar and wire rod.

Iscor had told Business Day earlier this year Purity planned to produce charge chrome at full capacity in 1991.

Purity's chrome mine had an output of 30 000 tons a month. At chrome oxide grades of about 70% this should yield about 22 000-25 000 tons of chrome concentrate a month.

Estimated ore reserves were in excess of seven-million tons, equivalent to about 20 years' supply at planned production rates, Iscor said.
CMI's purchase of Purity prompts mixed reaction

ANALYSTS differ in their reaction to the recently announced purchase of Purity Chrome by JCI's Consolidated Metallurgical Industries (CMI) for R182m.

However, most of those interviewed believed the acquisition would be beneficial to the industry in the long term. One analyst said no one expected such action from ferrochrome, so the effects would only be felt in the long term.

Another felt the industry desperately needed rationalisation, and that the market would change as the number of players was reduced, resulting in less undercutting and a more stable market.

CMI's acquisition of Purity Chrome was a large step in this direction and in time could have a positive effect on the market, he said.
**BUYING MARKET SHARE**

CMI has bought Purity Chrome in a strategic move to increase its share of the world market and rationalise the SA ferrochrome industry.  

Purity Chrome, founded by Roger Ballon, Andrew Nesbitt and Brian Morgan, comprises a chrome mine, with a run-of-mine output of about 30 000 t/month and a ferrochrome plant in the Rustenburg area. The plant, two 33 MVA furnaces, has an annual capacity of 120,000 t of ferrochrome and increases CMI's present capacity of 210,000 t/year by more than a third. CMI paid about R182m cash, inclusive of a $43.5m (R112m) existing loan. Market analysts consider this a good deal since the plant is practically new — it commenced production in June.

Marketing director Allan Kuhnert says CMI now supplies 7% of the world market and the immediate objective is to increase this to 10%. This could have been achieved through new additions to its existing capacity, but would have increased excess capacity in the industry. By buying Purity, CMI can meet its market share objective by absorbing existing capacity in the industry.

The acquisition is expected to have a negative impact on CMI's earnings in the short term but will "be of material benefit to shareholders in the longer term". Initial costs of setting up outlets for Purity's production in the depressed ferrochrome market and interest costs relating to the purchase package, will depress earnings this year. But, with world demand for ferrochrome thought to be bottoming out and with further rationalisation among producers — Samancor is said to be interested in buying Chrome-corp — the longer-term benefits of controlling a higher market share and more stable prices should flow through to CMI later.

FINANCIAL MAIL • SEPTEMBER • 7 • 1990 185
Competition for SA in Taiwan

SAMANCOR and Highveld Steel & Vanadium's stainless steel joint venture with a Taiwanese partner has received notice of stiff competition with the announcement last week by Krupp AG of a similar project with the Tang Mung industrial group of Taiwan.

London-based Metal Bulletin (MB) said today the deal, involving construction of a new cold rolling mill in Taiwan producing 150,000 tons a year, was similar to the proposed SA link-up with Taiwan's Yieng Loong group.

The parties to the SA-Taiwan venture, known as the Columbus Joint Venture, are in the final stages of deciding whether or not to construct a hot rolling plant in SA with a capacity of 270,000 tons a year by 1995, which will supply 218,000 tons annually to the planned Yieng Loong mill in Taiwan.

Samancor MD Hans Smith told MB the prospect of another potential competitor in Taiwan "won't influence our decision at all".

But Smith did indicate that the sudden downturn in the Taiwanese economy had caused problems in arranging finance for the Yieng Loong mill.

"We believe we have a cost competitive advantage, but any venture into Taiwan has to be influenced by the total collapse of the Taiwanese stock exchange," he said.

"The advantage for Columbus was the local availability of chrome and nickel.

Smith estimated future stainless steel market growth in Taiwan at 7% a year and said it was "wise" of Krupp to get a foothold on the island.

The bulletin said with the Tang Mung mill and Taiwanese steel producer Tang Eng's plans to double cold rolled output, Taiwan's production was set to hit 600-700,000 tons in the mid-1990s."
SA-Taiwan steel plans suspended

NEGOTIATIONS on the proposed R2.8bn Columbus stainless steel project between SA partners Samancor and Highveld Steel & Vanadium, and Taiwanese partner Yeh Loong, have been suspended.

A statement issued last night by the SA partners said the suspension had arisen because of "problems experienced with finalising the agreement", and that alternatives were being explored.

Samancor MD Hans Smith said the two partners had not agreed on a number of issues ranging from capital expenditure and quality to tonnages and transfer pricing.

"We are not mad with each other, but going ahead now would not be in the best interests of Samancor shareholders," Smith said the decision was not connected with the agreement, reported in Business Day yesterday, between West German industrial group Krupp and Taiwanese partner Tung Mung on the setting up of a similar venture.

"We were aware of the possibility of a Krupp deal. Negotiations had been going on for the past two years."

There would have been a degree of competition between the two ventures, Smith said, but not on bulk tonnage. Moreover, SA had a cost advantage over Krupp.

Apart from "a few million rand" spent on the feasibility study, the SA partners would not be out of pocket if they walked away from the deal, Smith said.

However, that there was still a place in the market for such a project.
**VALARD**

**TAX BENEFITS**

**Activities:** Manufactures and sells industrial products

**Control:** Directors 60.6%

**Chairman:** D R Makins, MD S J Connelly

**Capital structure:** 53.6m ord Market capitalisation R41.3m

**Share market:** Price 77c Yields 7.2% on dividend, 18.2% on earnings, p/e ratio, 5.5, cover, 2.5 12-month high, 95c, low, 65c

Trading volume last quarter: 56,000 shares

**Year to March 31**

<table>
<thead>
<tr>
<th>ST debt (Rm)</th>
<th>LT debt (Rm)</th>
<th>Debt equity ratio</th>
<th>Shareholders' equity</th>
<th>Div &amp; leasing cost</th>
<th>Return on cap (%)</th>
<th>Turnover (Rm)</th>
<th>Preint profit (Rm)</th>
<th>Earnings (c)</th>
<th>Dividends (c)</th>
<th>Net worth (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.76</td>
<td>1.30</td>
<td>0.52</td>
<td>0.50</td>
<td>1.68</td>
<td>17.1</td>
<td>41.36</td>
<td>3.3</td>
<td>3.0</td>
<td>2.0</td>
<td>15.0</td>
</tr>
<tr>
<td>3.90</td>
<td>3.77</td>
<td>0.56</td>
<td>0.41</td>
<td>7.4</td>
<td>21.9</td>
<td>51.2</td>
<td>6.0</td>
<td>8.8</td>
<td>3.5</td>
<td>20.0</td>
</tr>
<tr>
<td>9.32</td>
<td>3.50</td>
<td>0.52</td>
<td>0.45</td>
<td>7.0</td>
<td>23.4</td>
<td>74.6</td>
<td>10.3</td>
<td>11.3</td>
<td>4.48</td>
<td>40.6</td>
</tr>
<tr>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>51</td>
<td>24.3</td>
<td>108.5</td>
<td>12.5</td>
<td>14.0</td>
<td>5.60</td>
<td>42.6</td>
</tr>
</tbody>
</table>

Valard's record of consistent improvement in operating profit and earnings remained intact in financial 1990, as did management's reputation for restoring non-performing companies to enduring profitability. The acquisition of loss-maker Landlock's assets this year is expected to boost profit at the operating and attributable levels.

During the 1990 year, Valard made only one small acquisition — Global Mining Equipment — but increased its operating profit 21% on turnover growth of 35%. The acquisition was made for cash and did not affect the debt equity ratio.

The group's engineering division accounted for more than half of turnover and operating profit, with the trading and pump divisions accounting for the rest.

Since year-end, the group has undergone a major restructuring and VALARD sold all its operating subsidiaries to automotive engineering group Landlock, for which it received cash and shares. Valard became a holding company, whose only asset is an 82% stake in the new Landlock, and changed its name to Valhold. The new Landlock, which holds all the former Valard companies and three out of four Landlock companies, changed its name to Valard.

The fourth Landlock division, Girlock, was sold at a premium to net asset value for R28.4m which was used to reduce group borrowings. But Valhold's gearing has risen to about 0.95.

Executive director Simon Nash says three months under new management has stemmed the losses in the former Landlock divisions and the R1m/year head office has been closed. Operations are centred in the automotive industry, but 85% of turnover relates to essential spares where demand is not considered cyclical.

The reversal of Valard into the former Landlock provides big tax advantages — Landlock was sitting on a R20m assessed loss. Valard's effective tax rate in financial 1990 was 23% on the R12.5m operating profit and the tax advantage acquired will provide substantial earnings benefits.

Nash indicates trading this year has been tougher but he is confident the group's 25% return on total assets, including those acquired, will continue to be met. The acquisition documents promise earnings of no less than R1c to Valhold shareholders, a fifth more than the R1c earned last year and substantially up on the 10.4c that would have been earned had the transaction been in place throughout financial 1990.

At 77c, the share offers a prospective 4.5p e and 8.8% dividend yield, below the sector averages.

**FINANCIAL MAIL • SEPTEMBER • 14 • 1990 • 131**
A world first on stream

MIDDELBURG Steel & Alloys' world-first chromium direct reduction (CDR) ferroalloy furnace began producing pre-reduced chromite this week.

After R260-million of capital spending, six years of research, design and construction, plus a four-week start-up period, the first product emerged from the huge plant on Tuesday.

Chairman John Hall says the furnace will reinforce Middelburg's position as the world's lowest-cost ferroalloy and stainless-steel producer.

Getting the plant to capacity of 120 000 tons a year will take several months. Construction by more than 20 sub-contractors took two years.

The revolutionary technology was developed by Middelburg in association with Krupp of West Germany.

Tunnel

-When it attains capacity, the furnace will lift Middelburg's ferrochrome production from 200 000 to 400 000 tons a year. The computer-controlled plant will be run by 120 men, implying productivity of nearly 1 000 tons a man annually.

-Parts of the plant are 50 metres above ground and others are 9m below. A 6m-wide underground tunnel connects the plant to the neighbouring steel works.

-With a refractory-lined cylinder 4.8m in diameter and 56m long, the front end of the furnace resembles a cement kiln. Fine chromite ore and fine coal are introduced up front.

-Gases heated to 1 200-1 400 deg Celsius cause a reaction between coal and chromite. Fine droplets of metallic ferrochromium emerge. The chromite, fully-pre-reduced, is cooled to 650 deg before being further purified in an electrical furnace.

-Managing director John Gomersall says: "The plant cost twice as much to build as an equivalent submerged arc furnace. But its operating costs will be far lower."

-Electricity and ore are our two biggest expenses. The plant uses only 25% of the electricity of the submerged arc that it replaces. It also uses ordinary coal and char instead of expensive coke.

-Its variable costs are only 30% of those of a submerged arc. In the old furnace, chrome recovery ran to 75% in the new furnace, we are looking at 95% recovery.

-The new technology enables us to use fine chromite ore, which would otherwise have to be pelletised at great expense. CDR will enable us to use ore from the UG2 Reef being mined at Rand Mines' Crocodile River platinum plant.

Teething

-Molten charge chrome will be transferred directly to the stainless-steel meltpots, resulting in reduced electrode, refractory and oxygen consumption, increased meltpots output and improved product quality and consistency.

-Mr. Gomersall is confident that apart from normal teething problems, the ground-breaking plant will work. Krupp has given technical guarantees for the plant, so even if teething problems are acute, Middelburg is covered.

-Miss A. Pieterse, MIDDSTEEL's environmental officer, said that with a near-absence of smoke, the furnace is in stark contrast to similar ferroalloy and steel plants in the Middelburg and Witbank areas.

-Mr. Gomersall says that in the long run Middelburg wishes to move more towards quadrupling its stainless-steel production from 120 000 tons to 500 000 tons a year. As steel production rises, more and more ferrochrome capacity will be committed to in-house use.

Sweetener offer

-ROBOR COASTAL, a major distributor of steel, has announced incentive schemes for companies exporting fabricated stainless-steel products.

-"I invite your company to consider the MIDDSTEEL project," says Duncan Loydne, director of Robor Coastal.

-"In addition, the SA Stainless Steel Development Association and MIDDSTEEL Steel & Alloys have shown their commitment to encouraging the stainless steel industry to take advantage of this growth opportunity."

-"A great deal of support is available for potential exporters who want to research markets and who need advice on documentation, finance and trade links."

-Companies wishing to make contact with the company should contact the company by telephone or by post. The incentive is offered only on proof of export.
Middelburg puts the worst behind

By DON ROBERTSON

PRODUCTION of stainless steel at Middelburg Steel & Alloys (MS&A) is returning to normal after operating at about 65% of capacity between November and March. Full production is expected in the second half of this year because it takes time for output to build up, says group managing director John Gomersall.

There was a downward correction in the stainless steel market last November after a sharp rise in prices on the back of spiralling nickel. Nickel peaked in early 1993 at $950 a pound and stainless steel at $3,500 a ton.

New production came on stream and world production rose to 10.4 million tons.

Earlier, consumers had built up stocks, but the decline in nickel to $3 a pound forced destocking and a sharp fall in prices. Stainless steel fell to $1,400 a ton, but has recovered to more than $2,000.

Game

Mr Gomersall says "stocks are returning to more normal levels, although they might be a bit on the high side. Volume is the name of the game in stainless steel, so we need more stability in the market."

MS&A has a steel capacity of 120,000 tons of finished product.

"World production next year is expected to rise to 11.5 million tons, but there are varying views as to what it will be by the year 2000. It could be 14 million tons."

Plant capacity at MS&A could be increased to 490,000 tons.

Assessing the group's other major product -- ferrochrome -- Mr Gomersall says demand is looking good for the rest of the year and perhaps into 1994. But overproduction is possible.

MS&A had a capacity of between 850,000 and 900,000 tons a few years ago, but it could rise to almost 1.6 million tons soon.

"A lot of capacity is coming on stream and the next nine to 12 months could be difficult."

"There could be some international casualties."
Stocks kept on the go

AS THE economy drives, so steel stocks are rising.

The answer, of course, is to liquidate stocks and turn them to cash. A company that can do it is Stansteel Agencies.

Managing director Stan Noak says that based on recent figures for the year to June 1989, about 3.4 million tons of steel were sold in SA. Figures for the past financial year have not been released.

Mr Noak believes that, based on these sales, about 5% could be considered excess.

"This is equivalent to about 170,000 tons in a single year. On a low price of R1 200 a ton, you have at least R240 million worth of steel lying around. Stansteel's job is to move this stock."

Lull

Stansteel prints a free computerised list of stock, showing what excess and dormant steel is lying around. The list is printed every six weeks and is sent to about 3,000 companies, including merchants.

Mr Noak says: "Many companies sit on excess stocks for a year or more and some of them even write it off as scrap, not knowing what to do with it."

"There is a lull in the market and we believe even more redundant and excess stock is lying around. Stansteel is able to sell at reasonable prices because most steel mills lift prices every six months. But we buy at the old price."

The company deals in all structural steels, reinforcing, rounds, squares, rails, plates, sheets and hot- and cold-rolled steels.
CONTRARY to some views, sanctions have brought a few benefits to the SA economy. As it became more difficult to export raw materials, many companies were forced to embark on added value.

The decision by specialist steel group Van Reenen & Nicholls (VRN) to follow this route about two years ago means that it is not experiencing the difficulties of a depressed international market. VRN International has secured guaranteed monthly orders of R1.5 million for the next 12 months. The two large contracts were secured a few months ago. The first is to supply steel for a bridge in Houston and the second for a large equipment manufacturer in Belgium.

Apart from this, there appears to be considerable demand for processed steel both here and abroad. The incentive is the cost saving in buying processed steel. Considerable savings can be achieved in stockholding costs, labour and funding of sophisticated machinery.

But there are problems in the world market because of the historical unreliability of some SA companies.

JOHN VAN REENEN: foresight brings returns

Mr Van Reenen says: "We find it can take a lot of time and effort to convince new clients that we have the infrastructure to compete in service and quality. There is much room for enhancing the overall image of SA industry abroad. In the past few months, because denials abroad have become much more open. It appears there is a genuine wish to welcome SA companies as trading partners once more."

Inroads

Mr Van Reenen warns that this could be short lived if service is not maintained. "South Africans still have to work extra hard for orders, but if the price is right and the infrastructure exists to provide good service, we can make great inroads in the international market."

Exporters have many hurdles to overcome and companies should not rely too much on Government export incentives, says Mr Van Reenen.
By DON ROBERTSON

SOUTH AFRICA should become a major producer of stainless steel and for this reason it is a pity that the joint venture between Highveld Steel & Vanadium, Samancor and Taiwanese companies has stalled.

Highveld chairman Leslie Boyd says SA has the world's largest reserves of chrome and an ample supply of nickel, which is almost a by-product of platinum mining. Chrome, nickel and iron are the main ingredients of stainless steel. It had been intended to build a R2-billion plant to produce semi-finished stainless-steel coils in SA and to ship them to Taiwan for further processing.

Mr Boyd says sanctions in Europe and America against SA steel have been effective and it would be foolhardy to build a plant relying on these markets.

Partners

For this reason, negotiations were entered into with Taiwanese companies, which have potential for growth.

Although the negotiations with Taiwanese partners Yeong Loong have been suspended, Mr Boyd says the South Africans are looking for other partners.

The SA Government was also keen for the project to go ahead, but was reluctant to assist financially.

LESLIE BOYD

"We are speaking to the Government and have indicated that we need some special treatment in the early years to make it more attractive. The investment climate is not too good because many incentives, such as allowances, no longer exist," Mr Boyd says.

Although Mr Boyd is "reasonably confident" about prospects for vanadium sales, the Iraqi conflict could result in a rise in international interest rates with a resultant decline in world economies.

Overthrow

Before Kuwait was invaded, it had been expected that major industrialised countries would control inflation and that real interest rates would be low, resulting in stable economic growth in the 1990s.

Mr Boyd says "There is likely to be continued downward pressure on prices in the short term, although a recovery can be expected. Prices are not yet uneconomic.

On the positive side, steel production in Eastern Europe has declined sharply since the overthrow of communism and it now has to compete in world markets.

By July, East German steel production had fallen by 31% and Poland's by 13.2%. In the first seven months of the year, production in Poland fell by 11.8% and in East Germany by 12.8%. Steel output in the Western world fell by only 2.7%.

Europe 1992 will be positive for the steel industry, but not for SA until sanctions are lifted.

Mr Boyd says "SA is one of the world's most competitive steel producers and we should be expanding. But we cannot sell to the US or the EEC because of sanctions. It is strange that we can sell to Eastern Europe, but not to the West. I hope that sanctions will be lifted by 1995 and we will again be able to sell to Europe and America."

Challenges facing Highveld include the continuing need to reduce costs, and improve efficiency and productivity.

The R58-million pelletising plant due to be commissioned by the year-end will make a major contribution.

Mr Boyd says "It will have a favourable effect on furnace operation and will improve efficiency."

The plant will have a capacity of 700,000 tons of ore, about half the iron divison's requirements.

Highveld will also investigate further processing of steel, such as cold rolling, to give added value.

Negative

Mr Boyd is critical of the new general export incentive scheme (GEIS) because the authorities keep changing the rules and the formula rates. Exporters do not know how much of an incentive they have to play with when making a sale.

"It is going to have a negative impact on steel and ferroalloy exports," he says.
Gloom in steel as sales fall

By DON ROBERTSON

STEEL merchants are becoming gloomier as sales tumble in the economic downswing.

High interest rates also increase the cost of holding stocks. Profit margins have been slashed.

Abkn's Steel managing director, John Kontoudis says "We are faced with a tremendous juggling act involving the high cost of finance, stocks and the cost of premises."

"There is little light at the end of the tunnel and we expect sales to fall by between 25% and 30% by the end of the year. As a rule, little business is done between the beginning of December and the end of March."

Mr Kontoudis says it costs the equivalent of R1.40 for every R1 of stock held in the yard for a year at present interest rates.

He believes things will get worse and foresees several small engineering firms going to the wall.

Many merchants are trying to add value by cutting, drilling, bending and notching steels in accordance with customer requests. All are reducing stocks and holding only what is needed. Engineering firms order "just in time."

Abkn's Steel has opened a small cash-and-carry store. They generated a R1.2-million in sales last year.
Samancor fears effect of ferrochrome slump

SAMANCOR, the world's largest manganese producer, has forecast that its group profits will be lower than those achieved in the 1989 year unless there is a significant recovery in ferrochrome prices.

However, while the prospects for ferrochrome remained bleak, the group was budgeting for higher profits from manganese, Samancor chairman Brian Gilbertson said in his chairman's review released today.

He added that the decline in profits would be aggravated if the rand maintained its strength relative to the dollar.

"Due to the oversupply position and the relentless competition among producers, it is difficult to see any meaningful recovery in ferrochrome prices in the short term," he said. "Indeed, the group will experience a major reduction in the level of its export incentives in the near future."

A decrease in demand coupled with increased supply from new production facilities led to a collapse in ferrochrome prices. Production of ferrochrome and intermediate carbide ferrochrome had been reduced in line with the lower demand, facilitating overdue maintenance work on production facilities, Gilbertson said.

On the positive side, manganese and chrome activities were the major contributors to the group's profits in the 1990 financial year, with income from manganese products and ore increasing relative to the income from chrome products. Generally, higher prices together with a weaker rand caused the operating profits from manganese ore to increase significantly.

Concern

However, the sharp price increases over the past two years had evoked concern from long-term customers, and the group was investigating means of increasing output to meet the strong demand and moderate future prices, Gilbertson said.

The demand for manganese alloys also remained firm, with the average dollar prices received rising nearly 24%, though the price of silico-manganese came under pressure.

The average dollar prices achieved for chrome ore exports in the 1990 financial year also rose by over 20%. Nevertheless, Gilbertson predicted that due to the high SA inflation rate, profits from chrome ore are unlikely to increase in the new financial year.

In view of the downturn in the ferrochrome market, certain planned capital and other expenditures were deferred. However, total group expenditure amounted to R195m, with a small increase in expenditure budgeted for the new financial year.

The Samancor Foundation was also established in January 1990 to spearhead the group's community involvement. R15m was set aside for investment in a trust fund, the proceeds of which would be used for deserving projects. To date, 11 projects have been approved, amounting to R1m.

The 12 months to end-June was a record year for Samancor, with group revenue exceeding R2bn attributable income increasing by 16% to R585m, and cash holdings rising to R255m.
SAMANCOR is offering ferrochrome on
nine-month instead of quarterly contracts
at a premium of 3 US cents a pound, divi-
sional manager of chrome alloys Deon
Toersen said yesterday.

The scheme had attracted favourable
comment from the three big ferrochrome
markets, the US, Europe, and the Far East,
but Samancor had had no takers yet.

No ferrochrome producers were making
a profit at the current price of 47c/lb and
there was definitely a tendency to reduce
production, he said.

Samancor expected prices to be about
55c/lb by the middle of next year and had
decided to offer ferrochrome at an effec-
tive 50c/lb over the next nine months.

In terms of the normal quarterly con-
tracts this meant the company was offering
ferrochrome at 47c/lb for the fourth
quarter, 50c/lb for the first quarter next
year, and 53c/lb for the second quarter.

Although market comment on the
scheme had been favourable, Toersen be-
lieved buyers were holding back on fears
of an oil price-driven recession in the
world's major economies which would re-
duce demand for stainless steel.

The ferrochrome price is theoretically
determined on the open market, but Toer-
lsen and SA producers, which supply about
40% of world demand, dominate pricing in
terms of contract supplies.

Following almost a decade of stable
prices around 40c-45c/lb as a result of
over-capacity in the industry, contract
prices rose sharply from late 1997 to mid-
1998, peaking at more than 80c/lb. High
carbon ferrochrome reached a peak of
110c/lb during this period.
Gloomy metal industry expects R50m rise in turnover this year

The metal industry hopes for a rise in turnover of about 13.6% to R50m (R44m) this year, with virtually all sectors having been hit by the economic slowdown which started in early 1989.

In his address at the Steel & Engineering Industries' Federation of SA's (Seifsa) AGM yesterday, president Dawid Mostert said the industry feared a major recession which could last until the end of next year.

He attributed the slowdown to a number of factors including the austerity measures taken by government to combat inflation, continuing high interest rates, a fall-off in consumer demand, a general deterioration in business confidence and the drop in labour productivity because of increased social unrest.

It was to be expected that the reform process would negatively affect the economy in the short-term and that little or no growth was to be expected in the next year, he said.

"However, while local demand languishes, exports in most sectors are still holding up quite well, but could be adversely affected by developments in the Middle East and an expected slowdown in a number of the economies of the northern hemisphere, particularly the US," he said.

Mostert said the industry had had to contend with an unnecessary inhibiting factor, namely the import surcharge on much-needed capital machinery and equipment.

"On a number of occasions Seifsa has lobbied for the removal of the surcharge, which, ostensibly, was introduced to help the country's balance of payments (BoP).

"Seifsa has argued that such capital equipment could not be sourced locally and would have to be imported, regardless of the surcharge. Therefore, there would be no saving to the BoP and the surcharge would merely prove to be inflationary.

"As was predicted, the latest trade figures indicate almost no drop-off in the importation of capital machinery and equipment during the first seven months of this year when compared with the same period in 1989," Mostert said.

PETER GALLI
cash. Management has moved quickly to invest aggressively in enlarging capacity, even though the expansion is bound to dent near-term earnings.

Little more than a year ago, the group spent some R36m to install a third furnace, lifting ferrochrome capacity from 160 000 t/year to 210 000 t/year. The new furnace came on stream in January 1990, just when demand for ferrochrome had crumbled. Chairman Barry Davison says capacity at the Lydenburg plant is being restricted to about 170 000 t for 1991, so that major maintenance can be carried out on the existing two furnaces.

Last month came the announcement that CMI has agreed to acquire the assets of Purity Ferrochrome (Pty), which will give the group control of a further 120 000 t of annual production, lifting total capacity to 330 000 t/year, representing about 10% of Western world supply.

Assets acquired include a chrome mine, giving CMI direct access to strategic chrome ore reserves and the plant is close to considerable reserves of UG2 chrome ore. This is said to be ideally suited to the process used by CMI. Davison says Purity will enhance the group's position in the world ferrochrome market and is expected to contribute materially to earnings in the longer term.

Total cost is some R182m, payable in cash and by the assumption of an existing loan US$43,5m (R112m) at year-end, CMI held R95m in cash, of which almost all could be absorbed by the deal. In 1990, the group earned interest income of R11,2m - accounting for 13% of pre-tax income — which then would be largely eliminated this year.

More important, there is no expectation that ferrochrome prices will recover soon. Davison says prices have fallen by some 40% in the past 12 months and are unlikely to rise materially over the next 18 months. When demand sagged last year production was cut, causing the unit cost of sales to increase by some 30%, which contributed to the 60% plunge in operating income. Unless prices recover against expectations, it would not be surprising to see a further drop in the pre-interest margin this year.

Davison believes the underlying trend in the consumption of stainless steel is one of steadily rising demand at an annual rate of 3%-4%. Production is forecast to remain at relatively low levels for the rest of this year.
Demand for stainless steel is picking up

By Derek Tommey

Demand in South Africa and in the rest of the world for stainless steel, after being poor for most of last year, and pretty flat for the first quarter of this year, has suddenly recovered, reports Mr Keith Luyt, managing director of MS and A Stainless, the country's stainless steel producer.

Everybody wants to buy stainless steel and although MS and A was rapidly expanding production, it did not expect to meet fully the needs of its export and local customers until the middle of January, he said.

Mr Luyt said that from about May last year most stainless steel producers, including MS and A Stainless, had to curtail production owing to weak market conditions and heavy destocking by consumers.

But from the start of the second quarter of this year exports began to improve. Then recently the local market came back stronger than had been expected. Production lead times here and overseas have increased, availability is tight and international prices are strengthening.

Here in South Africa the greater demand from the domestic and export markets has also resulted in a delivery backlog as MS and A has not been able to increase production levels as rapidly as it would have liked.

However, MS and A was making every effort to rectify the local situation by early 1991.

The installation of a new R3 million production computerised planning and scheduling system will reduce production lead times, and ensure consistent, on-time deliveries. The system will enable MS and A Stainless to react more quickly to similar market changes in the future.

The company and its distributors, Robor, Fagersta and Jacksons -- will do everything possible to assist users in sourcing their stainless steel requirements, he says.
Metal industry future looks dull — Seifsa

This slowdown in the economy, which started during the first half of 1989, has continued to affect virtually all sectors of the metal industry throughout 1990, according to the president of Steel and Engineering Industries Federation of South Africa, Mr David Monnet.

In his presidential address to the 47th annual general meeting of the association, he says there are now fears of a major recession in the industry which could last throughout much of 1991.

He says: "This has been brought about by a number of factors such as the Government's austerity measures to combat inflation, continuing high interest rates, a fall-off in consumer demand, a general deterioration in business confidence and loss in labour productivity due to increased social unrest."

Negative impact

"It is perhaps to be expected that the reform process will, in the short term, impact negatively on the economy and certainly we can expect little or no growth in the next year."

He adds: "However, these structural adjustments are expected to create a sound basis for a prosperous economy in the new South Africa, and we should therefore be prepared to make some sacrifices now."

An unnecessary inhibiting factor that industry has had to contend with has been the import surcharge on much needed capital machinery and equipment.

Global trend

As far as the question of economic policy in the new South Africa is concerned, he made the point that the global trend is towards free market orientated economies.

"He said current political developments in South Africa have aroused both hopes and fears, but that most today appreciate that "we could have expected the going to be easy""

Trading partners

""Even though our overseas trading partners are still holding back on the lifting of sanctions, it is hoped, before too long, South Africa will once again take its rightful place in international trade."

The opportunity to increase our export performance substantially will be challenging, but also essential if the country is to reach the level of economic growth for a peaceful transition into a new South Africa."

He said what the economic future holds for the metal industries in the coming year was as uncertain as most other aspects of the country's future developments.
MSA offers glimmer of hope for Barlows

Despite a marked deterioration in industrial trading conditions since the interim figures were released in May, most analysts are holding to forecasts of a full-year earnings decline of 15 to 20 percent at Barlows.

But there have been some major revisions in the divisional contributions that will go to make up the group’s bottom line.

The full-year contribution from wholly owned Middleburg Steel & Alloys (MSA) is now forecast to be stronger than appeared at the interim.

This is expected to make up for weaker contributions from industrial interests.

As far back as February, with the release of the 1989 annual report, it seemed financial 1990’s performance would be severely dented by the substantially lower earnings contribution of MSA, which had been the group’s star profit generator for a number of years.

At the interim, MSA contributed R50 million to group taxed profit — down from R92 million at the financial 1989 interim.

Feeling at that stage was that in the second six months, MSA would continue to suffer from the de-stocking that hit it in the first half and that taxed profit for the full year could be as low as R25 to R30 million.

But indications are that MSA has done better than expected, with the division moving close to full capacity in the second half. A full-year taxed profit contribution of as much as R100 million could be on the cards.

This will help to make up for the knock in profit contribution of industrial interests.

Although Adcock-Ingram has just reported a 29 percent hike in full-year taxed profit, the overall contribution from industrial subsidiaries is expected to be down on that of financial 1989.

CG Smith, which comprises Romatex, Nampak and the food interests, will have a tough time maintaining financial 1989’s earnings figure.

Trading conditions for all three deteriorated significantly in the last half of the year. In addition, Romatex had to contend with tougher competition from imports and Nampak was faced with major problems on the industrial relations front.

If Reunert is able to sustain its strong first-half export performance, it might achieve a 10 percent increase in taxed profit.

It is difficult to see what could turn around the dismal 33 percent drop in taxed profit reported by TSI at the interim.

Unlisted industrials (including earthmoving equipment, motor, appliances, building materials, steel and paint) was down 13 percent at the interim.

Given the significant deterioration in the economy in the six months to end-September, it is possible the full-year figures could see a drop of as much as 20 percent.

Looking at non-industrial interests, the cash resources at Pretoria Portland Cement could produce some earnings growth in the face of tough conditions.

Rand Mines’ coal operations could cushion the knock from its gold mines.

At the interim, Barlows was trading at R88.15 — down from a high of R95. Yesterday it was down to R82.75.

Assuming earnings per share of about 450c for financial 1990, the share is on a prospective P/E rating of 7.3 times — this will be a tough rating to sustain.
Robor falls badly short of forecast

By Ann Crotty

A sharp deterioration in trading conditions in the second half resulted in earnings for the full year at Robor Industrial Holdings (RHR) being way off management’s interim forecast.

At the interim stage turnover was up 17 percent, operating profit up 20 percent and earnings up 15 percent.

Management was looking for a marginal increase in full-year figures.

But figures for the 12 months to end-September show turnover increased by only 2.9 percent to R785.9 million (R763.6 million).

Operating profit was down 13 percent to R51.7 million (R36.4 million), pre-tax profit was down 17.4 percent to R43.2 million (R52.5 million) and attributable earnings were down 13.9 percent to R41.5 million (R48.2 million) — equivalent to 128.1c (149.4c) a share.

The full-year dividend payment is unchanged at 52c a share.

The attributable earnings of R41.5 million was calculated after allowing for R12.2 million worth of trading losses suffered at the Isandol-based steel profiling and steel merchanting operations. These operations were sold with effect from end-July.

In addition to the trading loss, a loss of R2.4 million was incurred on discontinuation of the operations.

This loss was treated as an extraordinary item and taken below the line.

Looking to the remainder of the operations, the directors say the sharp fall in domestic demand in the second half was offset by good export performance, which meant that those operations showed a marginal improvement on the previous year.
Metal industry gets boost as training incentives rise

By Shareen Singh

Employers in the metal industry will be in a position to offer more apprenticeship training next year, following an increase in grant payments to employers by the industry's levy-grant scheme for artisan training.

The scheme, which is funded entirely by employers, would make it possible for companies to take on more artisans next year, said Steel and Engineering Industries Federation of SA spokesman Brian Angus.

Increasing the annual grant from R15 million to about R21 million would mean that employers would save on training costs.

Training costs would be refunded, giving employers the incentive to increase their artisan intake, Mr Angus said.

The industry currently had 11,400 apprenticeship contracts — the highest for any industry in South Africa, he said.

The industry was diverse and complex, and undergoing rapid technological change which demanded skilled employees, particularly artisans.
Iron carbide answer

STEEL-MAKERS, concerned by scrap prices which have risen by 40% in the past few months, could soon switch to iron carbide.

This man-made compound, consisting of 90% iron and 7% carbon, could challenge scrap on cost and quality.

It can also be used to replace or supplement other sources of iron, such as direct reduced iron or hot metal from blast furnaces. The 7% carbon content releases energy in the furnace and reduces heat requirements. It could reduce the cost of making a ton of steel by between 10% and 50%.

Iron carbide is produced in SA by US-based Iron Carbide Holdings.

Iron carbide is the size of grains of sand, non-friable, non-combustible and can be transported in bulk form. Its use must, however, be close to a final use point.

To produce it, iron-ore fines are heated in a fluid bed reactor, using natural or coal-derived gases. The plant is novel, the key lying in the patented automated process and monitoring system.
West’s steel production up

RIAAN SMIT

THE western world's raw steel production rose for the first time in a year in September, but annual output was still 2.8% down on last year, the London-based Metal Bulletin reported this week.

Indications for October were also promising, it said.

Production in September was 59,23-million tons, up by 0.4% from the same month in 1989.

The Bulletin said Japan and the US led the increase from the same month last year with rises of 8% and 4.2% respectively. EC production was little changed at 11,62-million tons.

The September figures took production for the first nine months to 354,8-million tons, 2.3% below the 363,2-million tons produced in the 1988 period.
MS & A sets up another subsidiary

PETER GALL

MIDDELBURG Steel & Alloys (MS & A) yesterday announced the establishment of a third wholly owned subsidiary, Middelburg Steel & Alloys Industrial, to manage its industrial businesses.

The founding of MS & A Industrial followed the establishment earlier this year of subsidiaries MS & A Chromium and MS & A Stainless.

MS & A Industrial will manage three businesses — Thomas Begbie & Co, Renstex and a thin-strip business focused on pipe cladding — and any future industrial expansion within the group.

However, chairman Mike Coward said the group had no plans to expand at present.

While MS & A Industrial was not expected to contribute much to group turnover or profits in the short term, it would in the long term, said Coward.

Thomas Begbie, a foundry and engineering shop, was already owned by Middelburg Steel, but a "fair amount" of money had been put into Renstex, with a return expected in about 18 months, he said.
MS & A sets up management subsidiary

Middelburg Steel & Alloys (MS&A) has established a third wholly owned subsidiary, MS&A Industrial (Pty), to manage MS&A's industrial businesses.

The move follows the creation of MS&A Chromium (Pty) and MS&A Stainless (Pty) earlier this year.

MS&A Industrial will manage the following businesses Thos Begbie (Pty), a foundry and general engineering shop in Middelburg, Restex (Pty), specialising in advanced composites, and a thin-strip business focused on pipe cladding.

Mike Coward has been appointed MD of MS&A Industrial.

"Begbie is an exciting company with lots of potential, particularly in respect of furnace spares and repairs," says Mr Coward.

"Restex is MS&A's first entry into the field of advanced materials," he says.
USKO 30/11/90

Poor Timing

Usko's ill-timed entry into the oversupplied vanadium market, combined with weakness in its traditional steel markets, caused profit to dive in financial 1990. This year's outlook remains far from rosy. Attributable earnings collapsed to only R1.2m from R21.8m in financial 1989 — the result of weak product prices and escalating finance costs. Operating income of R26.4m was virtually wiped out by the R26.2m interest bill (up 76% from the previous year), payable on about R155m of net debt. Debt equity has risen to a harrowing 1,03.

Interest Blues

<table>
<thead>
<tr>
<th>Year to September 30</th>
<th>1989</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (Rm)</td>
<td>154.3</td>
<td>512.6</td>
</tr>
<tr>
<td>Operating profit (Rm)</td>
<td>28.4</td>
<td>24.4</td>
</tr>
<tr>
<td>Attributable (Rm)</td>
<td>21.6</td>
<td>1.2</td>
</tr>
<tr>
<td>EPS (c)</td>
<td>73.06</td>
<td>4.01</td>
</tr>
<tr>
<td>DPS (c)</td>
<td>15.0</td>
<td>—</td>
</tr>
</tbody>
</table>

Debt has been rising steadily since the decision to convert part of the direct reduction plant to produce vanadium pentoxide. This decision was taken when the vanadium pentoxide market was buoyant, but before prices soared to US$12/lb.

MD Johan Kaltwasser says the group's estimates were based on a price of $3.80. In late 1989, the market collapsed and a serious oversupply developed. The spot price is now $2.25/lb and despite Usko having the advantage of being a low-cost producer, analysts say that at best it is just breaking even. Rumours of problems with the delivery and quality of raw material from Rhovan may also be reducing efficiency and pushing costs up.

Kaltwasser says these rumours are unfounded and the mine is producing well. Other producers have cut output in an effort to stabilise the market. Usko, intent on establishing itself in the market and gaining market share in its first year of production, is soon to reach initial capacity of 50,000/year — adding about 7% to world production. The plant's R10.8m development and commissioning cost is shown as an extraordinary item in the financial statements.

In addition to low prices for vanadium pentoxide, Usko has to deal with slack demand, both locally and internationally, for its steel products and weakening export prices. The proportion of product Usko exports is not known, but analysts estimate it is less than the 50% levels of competitors Icor and Highfield Steel.

Only the non-ferrous division, which manufactures aluminium conductors, copper cable and wire and has investments in other non-ferrous companies, "contributed generously to profits." Though this is not Usko's core business, a decision seems to have been taken to expand the interest in this area. For R3.2m it has bought a 50% share in Lambda Cables, Almar Wires and Almar Extrusions from Citihold.

Debt remains a major problem for Usko and with the vanadium pentoxide and steel prices unlikely to recover this year, cash flow will remain under pressure. Asset disposals would help reduce debt and the interest burden, but what seems the most obvious candidate for disposal, the non-ferrous division, is not being expanded.

Just how Usko plans to get out of its debt trap and restore profitability has yet to be determined. Kaltwasser says the board is looking at alternatives but has yet to take a decision. Shareholders, including Icor (which holds 29.7%), can only hope that they get it right this time.
World first for MS&A

MIDDELBURG Steel & Alloys is the first ferrochromium producer in the world to meet international quality standards.

The ferrochromium operation at Middelburg, Transvaal, became the last of MS&A’s three plants to satisfy the requirements of the International Standards Organization (ISO) 9002 code of practice for quality management systems.

The charge-chrome operations at Krugersdorp and the stainless-steel division at Middelburg attained the SABS 0187/ISO 9002 rating last year.

MS&A managing director John Comersall says: “We are competing globally in a depressed market and this achievement could not have come at a more critical time.”
BASIC METALS

EXPORTS

1990
Vanadium price rise seen

THE vanadium price collapse has bottomed out and analysts predict that Highveld Steel — which has traditionally set the benchmark price for the mineral — will increase its price to $3.25 a pound in the second quarter of this year.

Highveld Steel and Vanadium account for between 50% and 55% of the world's vanadium pentoxide supply, and its first-quarter price was $2.50 a pound — a substantial drop from $5 during the previous quarter, reports said.

The vanadium price plummeted from a high of more than $10 a pound early last year to around $2.20 in December due to a slackening demand in world-wide demand.

An analyst with brokers George Huysamer & Partners said the vanadium price had since increased to the present free market price of $4. He forecast that Highveld Steel and Vanadium would set its second-quarter price at $3.25.

The analyst quoted Vansa Vanadium, with its three main areas of business — chrome, platinum and vanadium — as a good rand hedge stock.

He said vanadium consumers had worked through excess stock after the surge in vanadium prices early last year, and this would increase demand for the metal this year.

Vansa Vanadium chairman Allen Sealey said at the company's annual meeting in January that profits would decline if the vanadium price — which was then $2.10 a pound — remained depressed. However, MD Steve Ashworth said yesterday the free market price had firmed at $4. But he wondered whether it would stay firm after Usco commissioned its vanadium plant.
Iscor optimistic about better times ahead

By Derek Tomney
Iscor could show better profits later this year.

MD Willem van Wyk said in an interview last night that there had been some reduction in the over-supply situation in the steel industry abroad. He expected this to lead to an improvement in export prices from the third quarter of this year.

The over-supply position has been hurting Iscor recently. It has been affecting current export prices and led Iscor to announce four weeks ago that earnings for the six months to June were likely to decline.

The expected increase in export prices should lead to an improvement in Iscor's earnings in the six months to December.

Mr van Wyk said it was too early to put any figure on the extent of the expected upturn in prices, but orders being received with the steel industry worldwide for delivery in four to six months' time showed that prices were about to rise.

Mr van Wyk said the improvement in the steel market was the result of production cutbacks by overseas producers, resulting in a better supply-demand position.

The industry had learned the hard way in the early 1980s that it did not pay to maintain full production at all times.

Reviewing other developments at Iscor, he said that operations at the new Corex plant were exceeding its highest hopes. Corex is a world first, using coal instead of coke to make steel.

He said the Corex plant was producing at designed capacity and its product was excellent.

Consumption of coal and oxygen had been below estimates.

Mr van Wyk believed that with more experience the plant could be made to function even more efficiently. Iscor's iron ore exports were also running at record levels and prices of iron ore had firmed recently.

The overseas steel industry recognised it had to pay more for iron ore than it had in the past if it wanted continuity of supply.

Mr van Wyk said the move to liberalise East European business should result in a significant increase in world steel consumption in the long term.

But current efforts by East European steel plants to improve output and quality could lead to a short-term increase in the amount of steel going to Iscor's markets. He believed China could become a major market for steel products, as it made progress in re-organising its economy.

In 1989 exports of iron ore rose by more than 28 percent to almost 15 million tons, according to the annual report of the Department of Mineral and Energy Affairs, which was tabled in Parliament yesterday.

The total value of South African mineral sales last year was more than R37,668 billion, or 11.7 percent more than in 1988, of which export earnings accounted for more than 79 percent or R19,826 billion.

The report says total gold output last year amounted to 884 tons - 2.2 percent less than the previous year, while the production of rough diamonds increased by 6.5 percent to over 9 million carats. Coal was the biggest contributor to foreign exchange earnings after gold and 46,51 million tons valued at more than R3.5 billion were exported.

A conference in Toronto has been told that the recovery in base metal prices should remain strong in 1992-93.

This was the message given to the Prospects & Developers Association of Canada by Tim Petterson, a director of the Metals & Minerals Research Services consultancy organisation, reports the Financial Times.

He said that in 1989 dollar terms, real prices in the next four to five years would average 87c a pound for aluminium, 88c for copper, 31c for lead, $4.25 for nickel and 50c for zinc.
Alusaf raises aluminium supply to local markets

ALUSAF, under the watchful eye of Gencor, reduced its exports of alu-
mium to meet an increase in local demand late last year, it said
yesterday.

Gemini corporate director Kevin
Clarke said the Richards Bay smelter
was down to exporting about 30% of
production. About 51 000 tons of alu-
mium was exported to its European and
Far Eastern markets last year.

Clarke said the level of exports had
dropped from the 40% plus level at the
time of last year's takeover, to allow
supply of local markets.

However, aluminium Federation of
SA spokesman Martie Lampeecht said
while there had been a definite increase
in demand last year from SA's major
buyers of primary aluminium, notably
Palett Aluminium, Alustang, Wiscope,
Anso and Imex, it was tapering off.

Clarke said the industry was going
through a downturn and Alusaf had, as a
result, stockpiled about three months
raw material and about six weeks
(19 940 tons) of metal stock.

Sole producer of aluminium in SA,
Alusaf produces about 170 000 tons an-
nually, although Clarke describes the
company as "a small fish" contributing
only about 1% of the world's aluminium.

He said new capacities were being
investigated.

At the time of the Alusaf purchase by
Gencor for an effective R250m from the
IDC last August, Gemini deputy chair-
man Colin Morkel said exports would be
increased and expansions made to Alu-
saf by the end of this year.

At the time Officer said that, depend-
ing on market conditions, Alusaf would
be listed on the JSE during the current
year. Clarke now says there is no
chance Alusaf will be listed this year.

It had been made clear to the market
at the time of the purchase "not to
expect fireworks", Clarke said.

"In view of the downturn in the met-
als market we have put the listing on
the backburner. In addition, questions
such as how much of Alusaf to take to
the market and at what price, still need
to be resolved," he said.

He deferred comment on the likely
results of Alusaf for the year. Latest
turnover was just under R500m with
after-tax profits more than R150m.

However, the base metal is currently at
a spot price of about $1 500 a ton after
trading as high as $2 600 last year.

Alusaf is also reliant on imported raw
materials, particularly alumina, of
which 90% of world supply is used for
aluminium production. According to the
latest Minerals Bureau report, the
recent strong demand for aluminium
last year more than doubled the cash
price of alumina to $900 a ton.

The report says that as most alumina
is traded through long- and medium-
term mining contracts, the actual cash
price increased more marginally from
$550 to $600 a ton where it is expected,
it will remain until at least the middle
of this year when the world shortage
is expected to be alleviated.

A tight demand and supply scenario
is expected to persist until about 1994,
resulting in the possible closing down of
aluminium smelters with high produc-
tion costs and leading to an aluminium
shortage and higher prices, the report
says.

Clarke said while SA had the raw
materials for production of aluminium,
the grade deposits were not high and as
such would be very costly to mine.
Demand Ineasing

In the past five years, the demand for 31 percent energy over the five-year period, with the rest of the energy coming from the mixture of demand and supply. The overall increase in demand has been a result of economic growth and increased awareness of the need for energy conservation.

Noteworthy, the current level of demand is expected to reach a peak in the next two years. This is due to the decline in energy prices and the increased availability of low-cost alternatives. However, the pace of demand growth is slowing, and there is a need for continued investment in energy infrastructure to meet future demands.

In conclusion, while the demand for energy is expected to continue growing, it is essential to balance this growth with a focus on sustainable and renewable energy sources to ensure a secure and sustainable energy future.
SLIDING world aluminium prices in the wake of increased supply and waning consumer interest are likely to have a direct and negative influence on SA's export market, industry sources said yesterday.

A spokesman for Alusaf said that because Alusaf exported at a slight premium to the London Metal Exchange (LME) rate due to the high quality of the SA product, the producer was relatively sheltered from the fall in world prices.

However, Aluminium Federation of SA director Tony Paterson warned that a lower LME price relative to the SA price meant export earnings were bound to fall.

"During the 1988 boom we sold SA producers were selling overseas at a 14% discount and still clearing about R1 000 a ton. That margin has been drastically cut. The prevailing local price, as determined by the consumer price index, LME and prices of competing metals, now exceeds the import price," he said.

LME aluminium three-month prices ended at $1 533 a ton last week after moving up to $1 630 a ton earlier in the year. Paterson expected pricing to continue until next year due to the relative oversupply of metals on world markets.

The price of secondary aluminium (reusable) follows London Metal Bulletin (LMB) pricing -- similar to LME pricing.

Paterson said that the primary industry in SA had since 1971 upheld the policy that it provide a stable price environment. "Increases are announced more or less on a yearly basis in line with the prevailing inflation rate."

"However, the industry will not export at the cost of inhibiting the local market," he added. Alusaf's corporate director (through Gemm) Fred Clarke last month disclosed that Alusaf had reduced exports to 51 000 tons from 80 000 tons last year to meet local demand.

The aluminium price to a large extent represents the availability of stock levels. "At the moment there is international short-term surplus capacity. There is however no reason to assume the situation will not improve in the longer term," said Paterson.

The optimistic longer-term outlook is based on large demand from Eastern Europe.
Manganese price boosts Samancor

By Derek Tommey

Samancor, the world's largest exporter of manganese ore, increased its earnings by 16 percent on an annualised basis in the year to June. A 50 percent increase in the price of manganese ore helped to more than offset a sharp drop in the price of ferro-chrome, another of its major exports.

However, earnings on an annualised basis were only six percent, owing to an increase in the issued share capital.

A final ordinary dividend of 60c and a further extraordinary dividend of 50c have been declared, making a total of 180c for the year.

This compares with a payment of 160c (annualised) for the previous 12 months.

Managing director Hans Smith says a number of factors were behind the jump in the manganese ore price.

International production of carbon steel remained strong.

Russia switched from being an exporter to an importer of high-grade manganese ore and the Japanese stepped up their high-grade imports.

As most of the world's four major producers of high-grade manganese ore are working at full capacity, the increase in demand sent the price soaring.

The supply situation is still tight.

Against this, a drop in stainless steel production earlier this year and a huge rundown of ferro-chrome stocks caused the price of ferro-chrome to fall from 81.5 US cents a pound of chrome content a year ago to 47c a pound.

Demand for ferro-chrome has picked up, says Mr Smith, but prices still remain low, mainly because of "unreasonable" competition among South African producers.

South African producers are infamous all over the world for their over-zealous competition, he says.

The group is budgeting for higher profits from manganese, but prospects for ferro-chrome remain bleak.

Unless there is a significant recovery in the ferro-chrome price to around 55c a pound, the group will not be able to repeat its 1989-90 profits, particularly if the rand remains strong against the dollar, he says.

Negotiations are still continuing with the group's partners in the Columbus stainless venture and also with a number of governments and government departments.

These negotiations have proved unexpectedly time-consuming and a decision on the project has had to be delayed.

Mr Smith says if Samancor does not get the right terms it will abandon the project.

Samancor had a turnover of R2.0 billion in the 12 months to June, against R2.1 billion in the previous 15 months.

Income before tax was R916.4 million (15 months: R839.5 million), while taxed income was R527.7 million (R511.0 million).

Net attributable income was R538.8 million (R568.6 million).

After provision for dividends, R237.6 million (R268.9 million) was retained.

At June 30 ordinary shareholders' funds were R1.15 billion (R813.0 million) and capital employed was R1.26 billion (R916.9 million).

At June 30 the group held R638.5 million in cash, against R501.6 million a year earlier.
Johannesburg — Iscor has achieved record profits for the third consecutive year with a 14.1% rise in earnings to 50,1c a share. Dividends are 17,8c a share.

Attributable income rose to R829m on a turnover of R6,3bn.

MD Willem van Wyk announced yesterday that the iron and steel producer planned to spend nearly R3bn over the next three years on expanding into value-added products.

He said the board had approved capital expenditure totalling R1,36bn for the financial year to June 30, 1991, then R970m for 1991–92 and R644m the following year.

Most of the spending would be on large-scale projects that would take several years to finish, then begin to earn an economic return.

"Capital expenditure over and above that needed to maintain and improve existing plant is being directed at expansion into value-added products, either as Iscor initiatives or in partnership with other private-enterprise companies," he said.

No capital spending is envisaged to increase basic iron and steelmaking capacity in the current decade, he said.

"Improvements to existing plant incorporated during refurbishment will, however, effectively add 650,000 tons of liquid steel production, an increase of nearly 9% on current production levels, by June 1992," he said.

Iron ore exports from its Sishen mine in the Cape Province showed a 32% improvement to 13,5m tons, also a record.

In all, Iscor generated turnover of R2,46bn in 1990–91 from steel and raw material exports, he added. — Business Staff and Reuters
The backbone of the nation

By DON ROBERTSON

Steel's role in South Africa's industrial progress is underestimated, says Iscor managing director Willem van Wyk.

"If we are to be more successful in establishing peace and stability, we need industrial development. Industry cannot grow without steel," says Mr Van Wyk.

Steel has played a major role in the development of Europe and America. More recently, steel production has been a major factor in the development of Japan and South Korea where there are shipbuilding, motor and engineering groups.

Advance

Mr Van Wyk says SA should make more consumer goods.

Because of the declining domestic market, Iscor has been forced to export more than before. In the past year, exports earned R2.4-billion from total sales of R7-billion.

The company exports to more than 60 countries - markets which have been developed since 1955. SA sales, however, represent only about 1.5% of the world total, which is expected to decline by 2.5% this year to 783-million tons.

Mr Van Wyk says prices have fallen because of an increase in world production. "We sell four months in advance, and are seeing a bottoming out in prices as stocks become more balanced."

Mr Van Wyk says the major challenge will be to increase production, not by installing new plant, but by improving facilities and efficiency.

After Iscor's rationalisation in 1983, production fell to 5.6-million tons. In the latest year, production rose to 7-million without any increase in plant. Output will be lifted by 10% to 7.7-million tons in the current year.

Capacity

"We must concentrate on volume because of the high fixed cost of plant," says Mr Van Wyk.

The company plans to add value to its products by increasing cold rolled capacity or by coating with either zinc, chrome, tin or paint. Most of the capital expenditure of R5-billion in the next five years will be for this.

Thereafter, capital expenditure will fall and Iscor will consolidate its operations. The plant at Vanderbiltpark will be modernised.
Symo seeking niche in EC

Business Times Reporter

SOUTH AFRICAN steel converters should be able to get similar prices to those being offered on international markets, he says.

So says Edhill International Marketing Services director Edward Punshon, adding that Icor's export incentive scheme is a help, but often not enough even when the rand is weak. "It's a real buyers' market out there," he says.

His client, shelving and racking specialist Symo Corporation, of Eldorado Park, is intent on finding an EC niche - in competition with, at first, the 30 major shelving manufacturers. Mr Punshon has discovered one in the UK.

"Fortunately, we find that enthusiasm carries weight, and Symo, with a unique fastening method, requiring no nuts and bolts..."

"Quality, quality, quality,"

Symo general manager, Tony Monga, bubbles over with enthusiasm, at this stage, for SARS 1987 - achieved by his plant in 1983.

"It has involved co-operation from all the employees in the plant and raised the quality of thinking throughout."

He is certain Symo can match the quality of any international supplier.

Mr Punshon, putting to good use incentives available under "GEIS" (the General Export Incentive Scheme), has drawn up a dollar price list for the shelving Symo wishes to export.

This is going out to addresses obtained from his consultancy's sources and with assistance from the Department of Trade and Industry.

His advice to would-be exporters is that establishing an offshore base in the EC doesn't have to cost more than a few thousand rand.
Aluminium
packaging
proves a
winner.

HULETT Aluminium Rolled Products, of
Maritzburg, has increased exports by 35%
over the past two years to bring foreign busi-
ness up to 36% of total sales.

The company, a subsidiary of Hulett Alumini-
um, manufactures high strength aluminium-
allys in flat rolled, coil, plate and foil.

The company had been exporting modest
tonnages for many years, chiefly to neigh-
bouring states, but in the mid-80s export horizons
were broadened and niches sought.

Partnership

This resulted in a close partnership with
Alusef, the only local aluminium smelter.

As part of its programme to improve
quality and service, the company is invest-
ing R3m in its plant to meet the needs of
domestic and export markets.

Executive director Peter Stander says a por-
tion of its production goes to the local market
for subsequent value-added export.

"The products include

- toothpaste tubes,
- confectionery wrappers,
- cigarette foil, petrol
- tanks, cookware, build-
ing sheet and awnings.

"There are also sub-
stantial exports of con-
sumer products such as
margarine, cooking oil,
soaps, wines and spices
that use aluminium in
their packaging."
The curtailment of mining and vanadium pentoxide production operations at Vansa Vanadium's Steelpoort operation is not expected to adversely affect the rest of the industry, industry sources said this week.

They were unanimous in the belief that the curtailment of the 250-ton a month Steelpoort operation would not be detrimental to the SA industry. The drop in output would be absorbed by producers or would help alleviate the oversupply situation caused by the inflow of low-priced material from China late last year.

The SA vanadium recovery industry now lies predominantly in the hands of two operations — Highveld Steel & Vanadium (HS & V) and Transvaal Alloys. Other players are Vametco Minerals in Bophuthatswana and Rhombus Vanadium. Rhombus's ore will be upgraded at its mine, and then trucked to Vereeniging where Visko will extract vanadium. Visko's planned capacity is 9,000 tons per annum of vanadium pentoxide.

A HS & V spokesman said yesterday the vanadium market was extremely depressed compared with the boom a year ago, and confirmed the curtailment of operations at Vansa would not have a massive short-term effect.

Strengthening

He said HS & V had been reducing production as the market dictated, but that these were temporary moves and could be reversed if the situation changed. Transvaal Alloys refused to comment.

Vanadium is used as an alloying element that is added to strengthen a large variety of steel products.

While the 1990 steel production figures for the USA and western Europe are lower than the 1989 figures, it has to be borne in mind that 1989 was a record year for steel production, and that 1990 production figures are still above 1987/88 levels. The market for ferrous commodities should therefore be strong, a source said.

Not only is SA the largest producer and exporter of vanadium in the world, but it also has the largest reserves. Figures released by the Minerals Bureau show that in 1988, world vanadium production was 71,641 tons, with SA (including Bophuthatswana's production) producing 31,473 tons, equivalent to 43,9% of world output.

The Minerals Bureau reported that in 1989 SA's exports increased to 29,550 tons, but that no comparable world figure was available as yet. SA has a vanadium reserve base of 5,400 kilotons or 22,6% of the world's reserves.

Most of the vanadium sold locally is in the form of ferrovanadium and nitrovan.

The price of vanadium pentoxide has declined, standing at between $2,50 and $3,70 per pound at present.
Genmin in manganese cutbacks

Genmin’s Manganese Metals Company (MMC) on Friday announced extensive cost-saving measures to ensure it remained competitive.

A spokesman said production at the company’s plant in Krugersdorp was to be reduced by 80%, while a 20% across-the-board reduction in the labour force was to become effective before the end of November.

This translated into 80 of the 396 jobs at MMC’s Krugersdorp plant, and 8% of the total MMC workforce.

Problems

The cutbacks in labour and production were the result of lower manganese metal prices on the oversupplied international market. The oversupply was a result of a number of new, long-term competitors entering the market.

MMC MD Kobus van Wyk said his company was discussing ways with trade union officials to alleviate problems associated with the retrenchment process.

Manganese plays a vital role in the production of all steels. It has a great affinity for sulphur and other deleterious elements, and it is able to transfer these from the molten metal to the slag. It is also a valuable alloying constituent added to many types of steel.

Steel production is therefore crucial to the demand for manganese, consuming about 95% of total production. Therefore, the demand for the one is dependent on the demand for the other.

The Minerals Bureau reports that SA has the largest base of manganese ore reserves in the world, at 3.992 megatonnes (Mt) or 31.7% of the world’s known ore reserves. The bulk of SA’s production of manganese ore is of metallurgical grade and is mined in the northern Cape mainly by two companies, Samancor and Associated Manganese Mines with a small, third company, National Manganese.

In 1988 SA was the largest producer in the Western world and the second largest producer overall, producing 4.1Mt compared with the USSR’s production of 9.1Mt low grade manganese. In 1989, SA produced 4.8Mt of manganese ore.

In 1988 SA became the world’s largest exporter of manganese ore, with shipments totalling 2.74-million tons, representing 25% of total world exports. However, no export figures are available for 1989.

In 1989, 1.768 kilotons of manganese ore were sold on the local market.
Hulett accused of dumping

The Taiwanese government is to investigate allegations that Hulett Aluminium is dumping aluminium products in Taiwan. This is the first time a South African company will be investigated for dumping, the practice whereby a company exports products at a substantially lower price than its domestic market value.

Taiwan's state-owned China Steel Corporation has alleged that Hulett Aluminium's dumping resulted in a decline in its aluminium sales, Reuters reports.

China Steel said it could not compete with Hulett Aluminium which sold its products in Taiwan for almost $1 000 a ton less than its domestic price.

A Taiwanese Ministry official said that if the charges proved true, the Ministry would increase the import tariff on Hulett Aluminium products by 40% from the current 12.5% level.

Hulett Aluminium MD Des Winship said the matter would be discussed with the Taiwanese authorities immediately. He said the problem stemmed from the fact that SA aluminium prices were not linked to fluctuating world aluminium prices, which were adjusted annually. Hulett Aluminium used a steady pricing policy.

Hulett Aluminium exported 1 400 tons of aluminium products to Taiwan between 1987 and 1989. This accounted for 1.25% of Taiwan's total aluminium imports during this period.

Winship said Taiwan's China Steel Corporation concentrated on steel production, and its aluminium production was negligible and of poor quality. Hulett Aluminium was only one of many international aluminium suppliers to Taiwan, which included Spain and Greece, which Winship said sold at a price substantially lower than Hulett Aluminium's.
Hulett Aluminium may avoid dumping charge

HULETT Aluminium, recently accused by the China Steel Corporation of dumping its products in Taiwan, has yet to be formally charged.

Hulett Aluminium MD Des Wmiship told Business Day the matter had been taken up with China Steel and although no reply had been received he was confident the problem would be resolved.

Wmiship said it could be at least six months before formal action was taken by the Taiwanese authorities and that the problem could merely blow over.

He said Hulett’s exports to Taiwan were merely 1.2% of the total world aluminium exports to that country, and Wmiship believed China Steel would have problems in convincing authorities to proceed with charges.

He said to warrant an investigation Taiwanese authorities would have to prove that substantial harm to the market was caused through alleged dumping.

Taiwanese authorities claimed the import tariff on Hulett’s products would be increased to 40% from the current 12.5% level if China Steel could prove the charges.
Huge stainless steel capacity 'needs to be built each year'

TO SATISFY future international demand, new stainless steel capacity the size of the R2bn plant being evaluated by the Samancor and Highveld Steel & Vanadium joint venture had to be built every year.

This was said yesterday by Samancor chairman Brian Gilbertson, who addressed local and international visitors at the official opening of Samancor's No 5 furnace at its Tubalco ferrochrome division at Witbank.

The opening of the furnace signalled the completion of an R88m expansion programme which increased the plant's capacity from 180 000 tons a year to 300 000 tons, making Samancor the world's second-largest ferrochrome producer.

Also announced were plans for a new open-cast mine at Grootboom to be developed, which would increase Samancor's chrome ore production by 480 000 tons to 2.4-million tons, a Samancor statement said.

Samancor produces 650 000 tons of ferrochrome annually, Gilbertson said. Demand for stainless steel had grown at 24% annually over the past 20 years.

Experts said this rate would at least be maintained in the future and many had forecast a higher rate of growth, Gilbertson said.

To supply this additional demand, two new furnaces the size of the furnace opened yesterday -- which produces 60 000 tons of ferrochrome annually -- would have to be built.

New stainless steel capacity the size of the Samancor and Highveld Steel & Vanadium joint venture would also have to be built annually, Gilbertson said.

Samancor and Highveld Steel & Vanadium have signed a letter of intent with a Taiwanese steel producer to establish a R1.5bn cold-rolled stainless steel plant in Taiwan and a R2bn hot-rolled plant in SA.

That mooted SA plant, which was expected to be established in Witbank, would produce 270 000 tons annually, newspaper reports said. Gilbertson said a decision regarding the plants would be announced within months.

He said that by 1990, SA had managed to capture 8% of world ferrochrome production. By 1988 this share had grown to 9%.

Advantages to the pursuance of this growth were that SA had 75% of the world chrome ore reserves while SA and Zimbabwe combined had a 99% share of world chrome ore reserves.

Furthermore, SA production costs were among the lowest in the world, he said. In spite of these advantages, SA produced only 1% of the world's stainless steel.

Raw material for the Tubalco works was supplied by Samancor's nearby Montrose, Jagdlust, Tweefontein and Groothoek chrome mines, the nearest of which was approximately 40km from the plant. The relative proximity of the raw material source had contributed to the plant's cost effectiveness, he said.
Steel industry struggling to cope with excess stock levels

THE steel industry is struggling to cope with extremely high levels of primary steel stock in the wake of a depressed international market, reduced domestic demand and overproduction by Iscor.

Latest figures show stocks of higher value flat products to last December at an all-time high, up a hefty 51% to 1,55-million tons compared with a million tons for the comparable period last year.

Rolled Steel Producers Association secretary Johann van Zyl said the increased stocks related to the downturn in demand from the motor vehicle and durable goods markets.

Flat products, produced only by Iscor and Highveld Steel, are used in the motor industry and durable consumer “white” goods (such as washing machines and refrigerators). Flat products can be differentiated into slabs, in which stocks were up 34.7%, sheet bars (up 16.5%) and coils (up 46.6%).

— BRENT MELVILLE

Iscor spokesman Pret du Plessis denied that there were problems with the value of orders and said market conditions were good. However, a spokesperson for Baldwin steel said that a definite oversupply situation existed, “especially in view of the expected softening in the motor industry.”

Logistical

While declining to give production figures another Iscor spokesman said that there were several factors which had influenced the oversupply situation, including the cooling of the domestic economy.

In addition, led by its new Corex plant, and having overcome its problems at its Vanderbijlpark works, Iscor was producing what, according to a Macsteel spokesman, was “simply way too much steel”.

The Iscor spokesman said that Iscor was also having logistical problems with its steel exports. Iscor currently exports about 22% of production. The International Steel Institute recently released figures indicating a worldwide reduction in steel output by 4.1%.

Highveld Steel chairman Leslie Boyd expected a 1% decrease in world steel consumption this year, although he added that, volumes should stay at “reasonable levels”.

A director for Scaw Metals said that Scaw’s exports of rolled steel products had reached an oversupply situation which, coupled with the strong rand, would erode prices and have a negative impact on earnings.

Van Zyl, meanwhile, said the industry was hopeful of an upsurge in demand by the beginning of the third quarter. When it was expected that demand would again be in line with supply.
Highveld/Samancor set for R3 billion deal
Minerals in the mix determine grades

There are 259 different grades of stainless steel, a number of which are produced in the country. The grade of stainless steel is determined by the composition of the materials added into the mill. In the South Africa Stainless Steel Development Association, executive director, Ian Eldoon-Drew, says, "We have all the ingredients available in SA, apart from molybdenum."

The raw materials which go into stainless steel are chromium and nickel. Elements such as titanium and molybdenum are added in smaller compositions. The most popular stainless steel is called 304, which stands for 18% chromium and 8% nickel. The rest is ordinary carbon steel.

Each time we change the composition we are also changing the mechanical properties of the material and the corrosion resistance. "There are other grades such as 316, in which we don't put any nickel into the mill," says Eldoon-Drew.

The mechanical properties of stainless steel are to the fact that when the material is bent it increases its strength. Other elements which might be added include manganese, phosphorus, nitrogen, silicon, niobium, niobium, and cobalt. "N. D. Engineering at the Mid Allan Lithbrand says the quality of SA-made stainless steel has improved to such an extent that it is on a par with the product available overseas. The only disadvantage with the local product is the small plate sizes produced. This leads to increased manufacturing costs due to more joining being required. Price can be better on the overseas market given the large number of competing mills. In SA there is one producer (Midddorf Steel and Alloys) and all others buy from the same source. N.D. Engineering buys its stainless steel from the three official stainless steel merchants or one of the non-suppliers. "Service tends to be good across the board. Prices on the other hand vary, despite the simple product. "This is probably due to differing buying techniques and variations in their buying strategy," he says.

Learning to cater for needs of the international market

SA EXPORTS about half of its production of stainless steel directly from the Middendorf Steel and Alloys (MSAA) mill.

Steel division sales manager Derek Engelbrecht says the company's success has been the result of a lot of work and learning to cater to the needs of the overseas market.

"We have more of a mini-mill in world terms. One German plant produces 250,000 tons of stainless steel in a year. Our production is about 90,000 tons. "Our volume sale, therefore, much lower and have had to work hard to make ourselves competitive," says Engelbrecht.

MSAA bought the existing plant in 1980 when the raw steel rate was 10. The new plant was coupled with innova-
tive stainless steel know-how. Buildings and machinery were butted and translated.

MSAA has adopted the advantage of selecting its customers. In Tanzania, for example, the company has about 17 customers. For each customer MSAA represents about 20% to 20% of its material needs. Only one customer buys 30% of its stainless steel needs from MSAA.

Integrated mills

Engelbrecht says the company is more flexible and is able to cater to needs which may be larger of the smaller mills cannot.

When the old mill was upgraded, a strip mill was added to the original plate production facility. For customers who need plate it is a simple task to divert the plate before it goes through the strip mill, to the more sophisticated integrated mills this would be diffic-
ult.

In addition, MSAA is able to do smaller production runs than the larger mills.

"We can produce five tons of hot rolled and 10 tons of cold rolled steel. We can, therefore, produce a minimum of 20 to 20,000 tons," Engelbrecht.

MSAA has a laser team which acts as a technical link between the customer and the mill.

The team goes into customers' factories and studies the working methods and needs. The team is then able to assist the mill and tell the customer exactly what he needs. The mill can fill.

The future of the stainless steel industry and all other metals is a humble.

The so-called "chrome chain" consisting of the chrome mines, ferro-

chrome producers, stainless steel producers and manufacturers, was asked by the Board of Trade and Industry to forecast the structural change of the future of the industry.

Committee executive director Paul Haity says the report has been compiled, but is being held in abeyance.

"Rather than making structural change to the industry, we determin-
ed the future of stainless steel and the other producers has to ex-
plore. However, government has de-

eloped export and industry structures should be regarded as separate issues and the report has not been con-

sidered in its entirety," says Haity.

The long-term view of the report contains projects targets set by the members of the industry and includes projected production of stainless steel from about 90,000 tons at present to 100,000 tons by the year 2000.

The figures are based, says Haity, on realistic projections of expanding local production - about 300,000 tons a year from a new plant planned by Highgrade Steel and Seabourn and expansion of the Midddorf Steel and Alloys plant to produce 60,000 tons.

Haity says the 'plan includes improving SA's share of exported stain-

less steel products from the current 5,000 tons to 50,000 tons.

The industry does not need tariff changes, apart from a reduction in import duties on some raw materials. Neither, he says, does the industry need structural changes.

"The plan is oriented entirely towards exports. What a committee and outline the structural future of the industry," he says.

"We have put forward definite objectives for the industry and stated exactly the kind of output we believe is required from government to make it happen."

The world production of stainless steel was 135 million tons in 1988. By the year 2000 demand is expected to reach 145 million tons.

"SA is in the position to take an increased share of the market, but it will need to move soon as other world producers have the same figures and will be adding to their plant," says Haity.

The industry is looking for government to take a 10-year programme. It is not simply looking for financial assistance but also the assurance that the rules will not keep changing.

"It is unrealistic to expect huge capital investment without such a commitment from government."

The industry is also looking for financial commitment in the form of export and export financing assur-

ance, investment and research and development assistance.

Haity says the help would be put to:

As a result of the assistance the entire industry would earn sufficient foreign exchange over the next 10 years to pay off almost all SA's foreign debt.

The government's assistance would amount to an estimated 8% of the export value. The government would earn an estimated R1,250 in tax for every R1 it contributed to the industry.

"We don't believe government interven-
tion is desirable for the industry. We don't believe that would be a good thing. But because of the short-

age of resources in SA and the need for sustainable growth, we believe the government needs to use some of its re-
sources to encourage and assist those industry sectors which can make a significant contribution to the country's growth.

We do not class the proposed scheme as government intervention as it is up to the various members of the industry whether they accept as-

sistance.

"The industry also needs to attract entrepreneurs and they need to know they can make money," says Haity.
SA gets set for breakthrough in pollution control market

Stainless steel is used extensively in industrial applications, but there are areas where the material has been largely ignored in SA.

It is used extensively in equipment to prevent sulphur dioxide getting into the atmosphere.

But the industry says pollution has not become a major issue in SA and demand for stainless steel in pollution prevention is low.

Manufacturers do not see this situation changing in the near future.

However, the industry does see opportunities in the catalytic converters being introduced throughout the world to prevent air pollution from cars.

While the local market is non-existent, two local manufacturers have recently approached Middelburg Steel and Alloys (MS&A) to investigate the possibility of making the converters in SA for export, probably to Europe.

There are three main markets for stainless steel in SA.

Use of stainless steel in industry has almost reached saturation point, with the material being used in about 80% of possible applications.

However, in architectural applications, stainless steel use in SA is substantially behind the rest of the world.

MS&A estimates stainless steel is used in only 3% of potential applications.

The consumer market is another area where stainless steel has not penetrated, with only 10% to 15% utilisation.

Given the almost saturated industrial market, the industry plans to concentrate its efforts on increasing the use of stainless steel in building and the consumer markets.

MS&A steel division GM Keith Layt says stainless steel is being used extensively overseas as cladding for buildings but the trend has not reached SA.

"The trend is so well established in the overseas markets that manufacturers are even producing etched and coloured stainless steel panels."

"The higher profit makes it worth a producer's while to divert a small portion of the mill's production into a special facility."

"Stainless steel is a low maintenance material which adds substantially to the structural strength of a building and it is pleasing to the eye."

"Stainless steel is also an important roofing material, particularly for chemical factories where the products would damage other roofing materials."

"Stainless steel is there for life, and with the cost of labour rising it is a cost effective material when the life-cycle costing is taken into account. There is no painting and no panel replacement because of scuff marks," says Layt.
‘Crucial to add value to raw materials’

*FABRICATORS in the stainless steel industry face a number of obstacles if they are to take on the export challenge on which they believe the future of the whole industry rests.*

Executive director of the committee formed to examine the industry’s future, Paul Hatty says the SA fabricator is at a huge disadvantage when compared to his overseas counterpart.

‘Machinery costs the local manufacturer an estimated 75% more than his foreign competition. Local entrepreneurs are at a disadvantage from the interest rate, inflation rate and taxation differentials. Aside from the higher equipment costs the local manufacturer faces longer lead times and higher transport costs because of the distance from the markets.

There are also factors such as import duty differentials, the cost of political sanctions and the exchange rate.

**Management**

‘While management does have the ability and the responsibility to manage the business, there are factors which are outside of its control. ’

‘Management can minimise the effects but not eliminate these problems,’ says Hatty.

**ND Engineering joint MD Allan Lofstrand believes it is vital to SA and the industry that the country starts to maximise the added value to its raw material by exporting manufactured goods rather than shipping out its natural wealth.’

He says the quality of SA manufacturing in the stainless steel industry compares favourably with the best in the world.

‘With this in mind, there is no reason why we should not become a major exporting nation in products made out of stainless steel.

‘I believe one of the obstructions is that perhaps most of us in the industry are rather inexperienced in the field of exports and we need a lot of guidance before becoming successful exporters,’ says Lofstrand.

Another difficulty is the high cost of setting up export links. For many SA companies, especially the small and medium sized companies, the cost might be prohibitive.

Better equipment is another need and again that is costly. ‘I believe we should start by concentrating more on import substitutions. This is an area in which we have proved successful. Having developed a successful product for the local market, surely we can then compete on the foreign markets.

‘To succeed both in import substitution and in the export markets we must win the support of the South African end users. You cannot develop anything if your local market is only half willing to try your product. Trust your products and work together to develop effective products.

‘This has worked well overseas and there is no reason why the same should not prove effective in SA.

**Supportive**

‘Our company is operating to a large extent in the pulp and paper industry.’

‘This sector is very supportive and we have been able to replace a lot of equipment that was previously imported.

‘We believe we could export these items to all of the paper and pulp producing countries. But if you look at the main equipment suppliers for the pulp and paper industries — namely the Nordic countries — you find most of these suppliers are also owned by the pulp and paper companies. ‘All the equipment that they now export has been tried out in their own mills and problems sorted out before going into production.’
Stainless steel output expected to decline

MIDDELBURG Steel and Alloys (MS & A) expects the Western world's 1990 stainless steel production to drop below 18-million tons -- a 7% decrease over 1989.

But looking ahead to 1996, production was forecast at 12.5-million tons, with expansions of more than 2.5-million tons projected to come on stream in the next five years, the first-quarter edition of MS & A magazine, Chromsa, said.

It added that stability in raw material costs was critical to sustaining market growth. Long-range forecasts predicted world demand would resume its average annual growth of between 3% and 4%.

It said dramatic increases in raw material costs, particularly nickel, as well as high inventories saw demand levels, both in SA and internationally, drop sharply during March 1989.

Effects

Although the drop had been anticipated for some time, Chromsa said, it was more sudden and sharper than most producers had predicted. This had resulted in a significant decline in the price of stainless steel over the past eight months.

"Producers feel that the price has bottomed, but the market is currently overstocked and producers have cut back production. The real effects of this have yet to be felt."

It said a direct correlation existed between world economic growth and stainless steel consumption, and although the US economy was entering a recessionary phase, developments in Eastern bloc countries and the unification of the European market, it said, held potential for growth in stainless steel demand.

Another encouraging trend was the environmental awareness which was gathering momentum. Several pollution reduction projects utilised large quantities of stainless steel.
Coal and steel exporters start counting the days to the end of sanctions

COAL and steel are two industries which will be watching political developments carefully in coming months. Both were severely affected by the imposition of sanctions in 1985 and 1986. And although they have found new export markets, they hope the lifting of sanctions will allow expansion and improved profits in the medium to long term.

For steel producers, higher exports could mean they could expand capacity. The coal mines, on the other hand, hope for higher prices — they have had to increase exports by lowering prices, offering a "political discount" on their coal.

Highveld Steel chairman Leslie Boyd and this week. "The far-reaching announcements made by State President FW de Klerk at the opening of parliament will not only have a positive impact on the South African economy, but should also lead ultimately to the lifting of sanctions and the reopening of Highveld's steel markets in North America and the EEC.

Anglo American's Highveld, South Africa's second-largest steel producer after Iscor, increased its after-tax profits for the year ended December by a whopping 165 percent to R322-million, in large part as a result of export earnings from steel and particularly from vanadium. More than 60 percent of Highveld's sales of R1.6-billion in 1989 came from exports.

Vanadium has not been affected by South Africa's political status in the world as it is regarded as strategic by most countries. Highveld produces 40 percent of the world's vanadium and so can set its own terms.

But with sanctions, the South African steel industry lost access — at least officially — to what were its two most important markets, the United States and Europe.

Since then, it has found new markets, particularly in Far East, in a context in which the world market for steel has been growing rapidly. Last year it reached a record 791-million tons, 9-million higher than in 1988.

According to Steel and iron domestic sales, Highveld's rolling mills and iron and steel plants were running at full capacity last year. A one percent downturn in the world steel market is expected this year, as it a slowdown in the domestic market. But Highveld is still looking healthy.

So is Iscor, which is due to release its interim results next month, the first since it was privatized in November. Analysts expect the corporation, which produces more than three quarters of South Africa's steel, to be on target to meet its forecast 20 percent growth in earnings for the year.

So it seems that, if sanctions were to be lifted, the South African industry would have to be looking at increasing capacity. This might be the case for the coal industry too. But while coal producers waste most in higher export prices. The"political discount" varies from country to country, but is as high as 10 to 20 percent on mining market prices.

Their ability to increase volumes immediately would be limited, because the bulk of coal exports go through the Richards Bay Coal Terminal. At the moment it can move 64-million tons a year, although it is increasing capacity to 88-million tons. If it plans to raise that still further to 53-million tons, according to export prospects improve.

But if political developments do change the sanctions scenario, this would not necessarily apply to the South African industry immediately coal contracts with the big buyers (particularly the public utilities such as Ebel in Italy, the equivalent of our Eskom) are negotiated for a year in advance. Contracts with European buyers have already been concluded for this year. Negotiations with the Japanese are due at the end of this month.

Three countries which specifically imposed sanctions on South African coal were Denmark, France and the US — together they accounted for one quarter of the country's exports prior to 1986. In several other countries, state-owned public utility companies stopped buying South African coal. Japan was an important market and became more so after 1986.

But that country's Ministry of Trade and Industry (MITI) froze import from South Africa at 1987 levels in recent terms. This has meant export tonnages to Japan have dropped.

Japanese buyers showed some enthusiasm following De Klerk's speech, enquiring about options to increase their tonnages, according to Trans Nalt Coal chairman Brian Gilbertson. It's not clear that any of this will affect export prospects — Gilbertson is cautious.

But the fact that South African coal mines have been successful in finding new export markets was highlighted by Trans Natal's interim results, released last week.

Bottom line profits, at R56.9-million for the six months to December, were 113 percent higher than in the same period in 1988. "This increase is due largely to an increase in sales revenue, mainly because of higher export volumes, improved dollar prices and a weaker rand/dollar exchange rate," said parent company Gemco (Gencor managing). Exports of 5.1-million tons were up one third of total tons sold, compared to 26 percent for 1988.

Trans Natal is the most export-dependent of the coal mining houses and has therefore been the most vulnerable to sanctions. Anglo American Coal (Acoal) and Rand Mines' Witbank Collieries have much higher domestic sales, most of this to Eskom.

Trans Natal's fortunes plummeted in 1987 and 1988. This was not only due to falling exports but to problems in the structure of the company.

And for South Africa's coal industry, sanctions in that period simply exacerbated the situation on world coal markets, where there was oversupply. But markets have since swung into balance.

Coal export volumes dropped from over 45-million tons in 1987 to 32.5-million tons in 1988. They then increased by one percent to 43-million in 1989.

South African coal producers have found new markets in the East and South East Asia. A significant amount of South African coal is also said to travel to Eastern Europe, although this trade goes through middlemen and precedes sanctions.
Silverstein Shy times to temper years of strong growth

Stainless steel production for local and export markets

Middleburg Steel and Alloys

- Provide 90% of SA's consumption of stainless steel

<table>
<thead>
<tr>
<th>000's Tons</th>
<th>(Estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>48</td>
</tr>
<tr>
<td>80</td>
<td>86</td>
</tr>
</tbody>
</table>

The manufacturing sector has produced a high volume of capital goods and was supported by the large SA steel commission, which has been able to reduce the costs of producing the steel due to the advantages of scale. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.

The manufacturing sector has experienced strong growth due to the increase in capital expenditures and the ability of the industry to produce in large quantities. The growth has been supported by the availability of capital and the ability of the industry to reduce costs by producing in large quantities.
Sluggish demand

Activities: Steel rod conversion, non-ferrous metals and light engineering

Control: Malak and Annc each have 36%

Chairman: G S Thomas, MD: J Feek

Capital structure: 19.5m odds Market capitalisation: R883m

Share market: Price 2 990c Yields 5.2% on dividend, 13.6% on earnings; PE ratio, 7.4

cover, 2.6, 12-month high, 3 100c; low, 2 200c Trading volume last quarter, 117 000

shares

Year to Dec 31 '88 '87 '88 '89

ST debt (Rm) 19.6 26.1 78 108.3

LT debt (Rm) 13.8 10.4 3.5 5.6

Debt equity ratio 0.12 0.16 0.22 0.28

Shareholders' interest 0.64 0.60 0.70 0.71

Int & leasing cover 18.3 15.7 0.4 12.1

Return on cap (%) 4.8 22.3 4.2 15.8

Turnover (Rm) 707 794 876 1 180

Pre-int profit (Rm) 93.8 115 118 100.2

Pre-int margin (%) 13.1 14.5 13.2 12.7

Earnings (c) 2374 2854 320 406

Dividends (c) 95 114 128 167

Net worth (c) 1 302 1 488 1 684 1 938

Haggie has successfully sidestepped the effect of US sanctions and diversified its export markets to more than 60 countries. According to group MD John Feek, exports grew 61% last year, constituting 14% of turnover.

Haggie Rand's labour problems have been harder to surmount. Following a six-week lockout at the Jupiter wire mill in 1988, management reckoned it had shown it could not be bullied. But last year violence and to be associated with the MDM and Cosatu's national overtime ban erupted at the Germiston plant. The ban is no longer in force.

At Jupiter, workers who occupied the offices were dismissed and ejected from their hostel after an application to the Supreme Court Numsa's unfair dismissal action before the Industrial Court was set down for May. Meanwhile, 240 new workers, still temporary pending the action's outcome, are employed at the mill.

Perhaps responding to questions about its approach, the annual report says in two places that Haggie has striven to create an industrial relations climate which is co-operative rather than adversarial. Feek says Numsa's attitude has been confrontational. He believes the group as a whole suffers no more labour problems than some other groups, but its problems are more public.

Despite the growing effect of the labour problems, Haggie's EPS rose 27% last year, after the disappointing 12% in 1988. Turnover exceeded R1bn, though the pre-interest margin declined slightly, primarily because of much higher prices for copper. Copper prices declined sharply late last year but have picked up recently. Haggie should benefit this year, assuming copper does not recover further.

Gearing rose to 0.26 (0.22), which Feek says appears high only in comparison to the low levels of the past. Finance charges increased about fivefold but were 12.1 times covered. Higher working capital requirements, resulting from the cost of copper, capex and acquisitions, contributed to the higher borrowings. Haggie's accounting is conservative and it still provides for deferred tax on a comprehensive basis.

Haggie has set about rationalising last year's acquisitions, of which the largest was the ropes and twines division of Romatek for R16.5m. This takes the group further into production of twines, in the past, it has made these only as covers for rope production.

Feek says domestic demand for the group's products is sluggish. The only forecast in the annual report is that the group is budgeting for improved earnings and man-

agement is "cautiously optimistic" about achieving them. With local and international competition likely to intensify, the increase may not be large. Meanwhile, the share has recovered in reaction to Haggie's strong performance and it now yields slightly less than the average for its sector.
our foreign customers," says GM (chrome)
Fred Bosshoff: "If the stainless steel project
gets ahead we will have to install new fer-
rochrome furnaces as an integral part of it."
The first phase of the stainless steel plant
would have an annual capacity of 300 000 t,
meaning that Samancor would be looking at
a new ferrochrome facility with a 100 000 t
capacity. The cost of that facility is part of
the R2bn price tag on the stainless steel
project.
Samancor and Highveld are reportedly
negotiating with Taiwanese interests. It is
expected that the plant would deliver less
sophisticated hot-rolled stainless steel while
Taiwanese partners would handle the cold-
rolling. In order for SA to get a bite of the
more profitable and advanced cold-rolling
side of the operation, the deal may result in a
partnership or cross-holdings between the
SA and Taiwanese facilities.
Feasibility studies for the plant are com-
pleted and an announcement is expected
soon.

At face value, the timing of a major new
stainless steel plant looks odd. Global de-
mand for stainless steel, as well as for its
main components, nickel and ferrochrome,
has dapped sharply because of the slowing
world economy.

After reaching an all-time high of 10.7 Mt
in 1988, stainless steel sales declined to an
estimated 10.2 Mt last year, while this year's
demand could drop to 9.5 Mt, according to
Middelburg Steel & Alloys MD John Go-
mersall.
Falling demand has forced down the nick-
el price dramatically, from about
US$22 000/t two years ago to $8 000/t now.
Middelburg, SA's only stainless steel pro-
ducer with an annual 100 000 t capacity,
dropped the price of its nickel-bearing stain-
less steel by 13.2% last week. Middelburg
has also decided to cut ferrochrome produc-
tion by about 20% after a slump in global
demand coupled with increasing capacity.

Samancor and Highveld appear unsur-
ed. Bosshoff says it could take three years
after they get the green light before the
stainless steel plan is in operation. By that
time world demand should resume the 3.5% annual growth of the past 15 years.

"On operating costs, the proposed plant
should be highly competitive," says High-
veld chairman Leslie Boyd, "even though
we'll have to pay world prices for our nickel."

With an assured foreign market in
Taiwan, the plant could be far less troubled
than Middelburg's highly sophisticated mill,
which endured a costly shake-out period be-
fore its technical, production and marketing
problems were sorted out.
SA hot-rolled steel mill mooted.

SAMANCOR is not only studying the possibility of a hot-rolled stainless steel mill in SA, but is also considering to join forces with Taiwanese partners to build a cold-rolled plant in Taiwan, MD Hans Smith said yesterday.

London-based Metal Bulletin (MB) magazine said in its February 15 edition that Samancor was joining forces with Taiwan businessman Fei-Shiu Lin to form a joint venture company to build a 250 000 tons per year (TPY) cold-rolled stainless steel mill near the southern port city of Kaohsiung.

A site had apparently been selected and negotiations had already begun with equipment suppliers, MB said.

Smith said Samancor had been talking to Lin "and a number of other guys in Taiwan," but "nothing has been finalised, no contracts have been signed."

The idea behind the Taiwan plant was for SA partners in the local 300 000 TPY plant — Samancor and Highveld Steel and Vanadium — also to have a stake in downstream manufacturing of stainless steel, while the Taiwan partner(s) had a stake in the SA plant, he said.

The local plant would manufacture and supply hot-rolled stainless to the 250 000 TPY Taiwanese plant, which would manufacture the cold-rolled products.

SA steel was still affected by sanctions, but even it was not, it would make sense from the point of view of a marketing strategy to involve Taiwanese entrepreneurs, he said.

"The Taiwanese are in the market. The Pacific Rim countries are where the great growth potential lies for stainless steel," he said.

Samancor and Highveld would be hard-pressed to make a decision before the end of the financial year (June 30), "but I will be disappointed if we have to delay it longer than that," Smith said.

"It just makes sense not to rush a decision on a $50m project. We want to turn every stone to make sure we have looked at every alternative," he said.
SAMANCOR is not only studying the possibility of a hot-rolled stainless steel mill in SA, but is also considering to join forces with Taiwanese partners to build a cold-rolled plant in Taiwan, MD Hans Smith said yesterday.

Zunder-based Metal Bulletin (MB) magazine said in its February 15 edition Samancor was joining forces with Taiwan business magnate Fe-Shiu Lin to form a joint venture company to build a 250,000 tons per year (TPY) cold-rolled stainless steel mill near the southern port city of Kaohsung.

A site had apparently been selected and negotiations had already begun with equipment suppliers, MB reported.

Smith said Samancor had been talking to Lin "and a number of other guys in Taiwan", but "nothing has been finalised, no contracts have been signed yet."

The idea behind the Taiwan plant was for SA partners in the local 350,000 TPY plant — Samancor and Highveld Steel and Vanadium — also to have a stake in downstream manufacturing of stainless steel, while the Taiwan partners(s) had a stake in the SA plant, he said.

The local plant would manufacture and supply hot-rolled stainless to the 250,000

SMIT
Extraordinary

Superb results from Highveld Steel & Vanadium surprised some investors but are in line with what analysts predicted in April (Fox April 7). However, euphoria over the more-than-doubled total dividend is tempered by the sober outlook for this year. That's why the share price did not budge on Tuesday, sticking at R16.50.

Chairman Lesley Boyd describes 1989 results as extraordinary and says earnings will return to more normal levels this year. "Earnings will be significantly lower but should still be an improvement on 1988."

He declines to break down revenue sources but it's clear the major profit contributor was vanadium. The price soared early in 1989, temporarily reaching US$10/lb. Highveld climbed boots-and-all into this market from the second quarter, when it pushed its vanadium pentoxide price up to $7.50 from $4.50 in the first quarter.

Prices started sliding in the second half but Highveld's price was still $6.30 in the third quarter and $5.00 in the fourth. The market came off badly in the last two months of 1989 and Highveld set its 1990 first-quarter price at only $2.50. Overall, it got excellent prices for 10 months of 1989.

Steel also boomed. For the second straight year, Highveld produced more than 1 Mt and for the first time also 1 Mt-plus of iron. It appears steel exports remained at record levels despite the loss of its two main markets - the US and EEC - because of sanctions.

Boyd points out that total apparent world steel consumption rose to a record 791 Mt from the 1988 record 782 Mt. Downward pressure on export prices was felt only in the last quarter. He expects consumption to dip this year but only to 1988 levels.

MD John Hall, who retires at end-March, believes vanadium has bottomed and sees no reason why the price should not move to "healthier" levels for the rest of 1990.

He won't forecast beyond that because of uncertainty over new production. The Rhino/Unco project should kick in this year.

RIDING HIGH

<table>
<thead>
<tr>
<th>Year to December 31</th>
<th>1988</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (Rm)</td>
<td>1,189</td>
<td>1,613</td>
</tr>
<tr>
<td>Pre-tax profit (Rm)</td>
<td>224.5</td>
<td>685.1</td>
</tr>
<tr>
<td>Attributable earnings (Rm)</td>
<td>121.5</td>
<td>224.4</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>170.6</td>
<td>450</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>57</td>
<td>130</td>
</tr>
</tbody>
</table>

Even if it produces only half the forecast full annual output of 9,000 t of vanadium pentoxide, it will have a big impact. Highveld produced about 22,500 t vanadium in 1988, since then Vansa has come in and should hit full output of about 3,000 t in its financial year to September.

The dividend is split into a normal 70c a share and an extraordinary 60c. Cover has been increased to 3.46 from 2.99. Boyd says the group had R319m cash at end-1989 compared with R54m a year before.

Such financial policies are to be expected before a decision on the stainless steel joint venture with Samancor. At least one analyst reckons Highveld has been overgenerous on the dividend, given that this project is expected to cost R1bn-R2bn. Samancor last year indicated a decision was due early this year but Boyd now says it will be around mid-year. A number of details are still being worked out but none should stop the project.

If Highveld maintains the normal 70c dividend, the forward yield is 4.2%, compared with 7.9% historic. Boyd indicates there is a good chance of further expansion in steel output if relaxation of sanctions enables the group to get back into the EEC and US. That, added to its dominant position in the vanadium market and move into stainless steel, makes Highveld an excellent long-term investment. However, in the short term, the price could soften further.
Middelburg slashes ferro-chrome output

By Sven Lunsche

Middelburg Steel & Alloys (MS & A), South Africa's leading ferro-chrome producer, is cutting back production because of the slump in demand and prices.

MS & A, which in the year to end-September was the major contributor to Barlow Rand profits, recently took down a second ferro-chrome furnace at its Middelburg plant for overdue refurbishment.

Paddy Probert, general manager of the division, says the shutdown will result in a loss of around two months production. "We won't necessarily rush to bring it back on stream again," he says.

This is the latest in a number of cutbacks by MS & A as it seeks temporarily to reduce production by 20 percent.

Apart from the shutdown of the furnaces, one old submerged arc furnace at the Middelburg plant has been closed altogether, with another scheduled for mid-year.

Another at the Krugersdorp plant has been temporarily shut down for refurbishment.

Mr Probert says hot-test trials of its new R280 million CDR (chromium direct reduction) kiln and furnace at Middelburg are due to start in June.

The upgraded furnaces will be kept running at a reduced and more cost-effective rate, although production could be stepped up if demand improves.

However, there is little likelihood of this occurring before next year because MS & A is confident of an effective and timely commissioning of the CDR.

Mr Probert expects worldwide over-supply of ferro-chrome of about 400,000 tons in 1990 as supply capacity rises from last year's 2,75 million tons to over three million tons.

Demand, however, is expected to decline from 2,65 million tons to 2,4 million tons, in line with an expected 10 percent decrease in Western demand for stainless steel this year.

Mr Probert offers three reasons for the oversupply situation:

• Demand has been affected in North America and Europe, where car production and housing starts have weakened.

• While demand from Japan has held up well originally, its Pacific Rim exports have declined markedly over the last few months.

• Stainless producers, particularly in Europe, maintained a high level of production, despite the demand slowdown, coupled with stainless service centre destocking, concurrent with expectations of lower nickel and chrome prices.

• A higher-than-usual percentage of scrap charge by stainless producers, driven by inherently cheaper nickel costs, has temporarily aggravated the demand for ferro-chrome.

An industry source claims there is some sign that stainless de-stocking is abating in the US and Europe, but he says it is not a sign of underlying increased demand.

With uncertainty over stainless steel demand next year and the threat of overcapacity hanging over the ferro-chrome market, observers claim prices and tonnages are set to drop further over the next two quarters.

South African producers have just concluded negotiations for first-quarter prices with customers in the US, Japan and Europe at levels ranging from 52 US cents to 55c per pound.

As recently as the second quarter of last year prices were quoted at 94c.

Prices are likely to drop further in the months ahead. Spot ferro-chrome prices in the US and Europe are continued to slide, with small tonnage business booked last week at below 45c and stainless demand faltering because many stainless steel mills are well covered for chrome under existing long-term producer contracts.

Swedish plant closed

Swedish ferro-chrome producer, Swedchrome, closed down last month, ostensibly as a result of their inability to obtain South African chrome ore, a leading overseas industry publication claims.

The Metals Price Report magazine says in its latest edition that the recent dramatic decrease in ferro-chrome prices and an unfavourable cost position due to the Swedish embargo towards South Africa were the main reason for the closure.

The magazine quotes company officials as saying: "The Swedish embargo on South African ore, which came into effect in October 1987, has put us in a difficult situation with other ore supplies and left us with little bargaining power."

Swedchrome was established in 1934 by a number of Swedish companies and the City of Malmo with one of its aims being to reduce the industry's dependence on South African ore.

However, from the start the plant encountered technical difficulties and the recent slump in prices led to the closure of Swedchrome.

Norwegian producer Norschrome also recently closed down in the wake of the slump.
Stake in stainless
The acquisition by Macsteel, said to be SA’s largest private company, of joint control and an effective 45% of specialist steel processor and trader Van Reenen & Nicholls (VRN) should benefit Reichmans, which also holds 20%. But neither VRN nor Macsteel will go for a listing, according to VRN CE John van Reenen.

Reichmans CE Clive Cohen says the 20% acquired in 1987 for R3.3m was the group’s first investment outside its traditional area. Reichmans has since acquired 10% in listed I B Joffe, a manufacturer, wholesaler and retailer of leather and outdoor goods.

Cohen says Reichmans takes a “bottom-drawer, long-term approach” to these investments. The stake in VRN, which Reichmans equity-accounts, paid off handsomely in 1988, when VRN’s taxed profits more than doubled. Last year, VRN was hit by declining demand for stainless steel, of which it had large stocks.

Macsteel has little involvement in stainless steel while VRN is the largest processor — it cuts profiles from plates, fabricated by other concerns, into components. VRN’s turnover is about R400m, less than a tenth of Macsteel’s estimated R4.5bn. Van Reenen says VRN’s earnings are derived 60.40 from processing and trading but, as part of an export drive, it spent R4m on setting up an offshore base last year.

After political changes, and in expectation of a full settlement in SA, Van Reenen says VRN is preparing for major expansion of steel-related exports into Africa, especially of products for mining. He says SA earns about R1bn annually from export of steel and related products, but this could be lifted to R10bn with more emphasis on added value and when the political liability has disappeared. Department of Foreign Affairs figures show exports to Africa are worth about R3.8bn but a further R16bn sourced elsewhere could be supplied by SA; this compares with current total value of exports of R25bn, he says.

Togue Payne
Resilient results from Robor Industrial Holdings (RIH) can again be expected this year, though growth is likely to be slower than last year, an excellent one for steel and its derivatives.

The domestic steel sector usually lags the economy by about six months, so Robor has seen few signs of a downturn yet, says MD Mike Gahagan. International steel prices dropped sharply in the latter half of 1989, though they have stabilised in recent months.

Last year, 28% (20%) of operating profit was from exports, 49% (52%) from manufacturing and 23% (28%) from merchanting. SA steel and its downstream products form a minute part of world supply and Gahagan says SA exports have always been able to find niches for their products, but they earn lower margins than domestic business.He targets more exports for RIH, but not to the extent that it becomes over-dependent on them.

Steel supplied locally by Iscor for export is sold at world prices, so RIH is not affected by changes in the rand exchange rate. It is virtually an agent for Iscor, adding value in manufacturing, and marketing the product Iscor's inability to supply enough steel last year affected the whole downstream industry.

Steel supplied locally by Iscor for export is sold at world prices, so RIH is not affected by changes in the rand exchange rate. It is virtually an agent for Iscor, adding value in manufacturing, and marketing the product Iscor's inability to supply enough steel last year affected the whole downstream industry.

Steel supplied locally by Iscor for export is sold at world prices, so RIH is not affected by changes in the rand exchange rate. It is virtually an agent for Iscor, adding value in manufacturing, and marketing the product Iscor's inability to supply enough steel last year affected the whole downstream industry.

Steel supplied locally by Iscor for export is sold at world prices, so RIH is not affected by changes in the rand exchange rate. It is virtually an agent for Iscor, adding value in manufacturing, and marketing the product Iscor's inability to supply enough steel last year affected the whole downstream industry.

Steel supplied locally by Iscor for export is sold at world prices, so RIH is not affected by changes in the rand exchange rate. It is virtually an agent for Iscor, adding value in manufacturing, and marketing the product Iscor's inability to supply enough steel last year affected the whole downstream industry.

Steel supplied locally by Iscor for export is sold at world prices, so RIH is not affected by changes in the rand exchange rate. It is virtually an agent for Iscor, adding value in manufacturing, and marketing the product Iscor's inability to supply enough steel last year affected the whole downstream industry.

Steel supplied locally by Iscor for export is sold at world prices, so RIH is not affected by changes in the rand exchange rate. It is virtually an agent for Iscor, adding value in manufacturing, and marketing the product Iscor's inability to supply enough steel last year affected the whole downstream industry.

Steel supplied locally by Iscor for export is sold at world prices, so RIH is not affected by changes in the rand exchange rate. It is virtually an agent for Iscor, adding value in manufacturing, and marketing the product Iscor's inability to supply enough steel last year affected the whole downstream industry.

Steel supplied locally by Iscor for export is sold at world prices, so RIH is not affected by changes in the rand exchange rate. It is virtually an agent for Iscor, adding value in manufacturing, and marketing the product Iscor's inability to supply enough steel last year affected the whole downstream industry.

Steel supplied locally by Iscor for export is sold at world prices, so RIH is not affected by changes in the rand exchange rate. It is virtually an agent for Iscor, adding value in manufacturing, and marketing the product Iscor's inability to supply enough steel last year affected the whole downstream industry.
R280m SA triumph

SA's ferrochrome exports were worth about R2 billion in 1998. Stainless-steel exports earned only R700 million. Reports show that the value added to a ton of chrome when converted to ferrochrome is R1 300. But if converted to stainless steel, the added value is R5 200.

Several companies plan to increase production of ferrochrome. MSA is to spend R240 million to lift production by 130 000 to 430 000 tons. Samancor will add 120 000 tons to its production and Consolidated Metallurgical Industries will boost production. Chrome Corp and Chrome Corp. Tech will increase output by 40 000 and 120 000 tons respectively.
Steel firms set for R3bn Taiwan deal

FERRO-alloy producers Samancor and Highveld Steel & Vanadium have signed a letter of intent with a Taiwanese steel producer to establish a R1bn cold-rolled stainless steel plant in Taiwan and a R2bn hot-rolled plant in SA.

The 200 000-ta-year Taiwanese plant would be designed for downstream processing of hot-rolled stainless steel from the proposed Samancor/Highveld joint venture plant, Samancor CEO Hans Smith said yesterday.

Reuters reported the two companies and West Germany's Thyssen Edelstahlerwerke AG would share a 50% interest in the Taiwanese plant, which would be established at a cost of R1bn in Kaohsiung county in southern Taiwan.

Smith said the Yieh Loong group - producer of 700 000 tons of steel a year - would invest an equivalent amount in the 270 000-tonnes-a-year SA plant, which would cost an estimated R2bn and was likely to be established in Witbank.

This in effect means Samancor and Highveld - discounting Thyssen's interest - will trade paper with Yieh Loong. The size of Thyssen's stake in either or both of the plants was unclear yesterday, and the company declined comment.

Although the signing of the letter of intent is the clearest indication yet that the two companies could go ahead with what has been named the "Columbus Project", both Smith and Highveld chairman Leslie Boyd said from Taiwan yesterday no contracts had been signed.

"A decision will only be made towards the end of June," Smith said.

The Kaohsiung plant would absorb the bulk of the SA plant's output and would primarily supply the Taiwanese market.

The only local producer of stainless steel, Middelburg Steel & Alloys, already supplies the local market and exports a total of 110 000 tons a year of hot-rolled stainless steel, analysts Kevin Kar

"I don't think the domestic market can take more stainless steel," Arthur said. The two felt Samancor and Highveld would probably finance a deal by borrowing and not via a rights issue.

Kartum said each company had about R40bn in cash, and Highveld's gearing was almost zero while Samancor's was about 14%. They could go up to 25% before "taking strain."

Arthur said it was not unusual for steel manufacturers to be geared to this extent. Samancor and Highveld had extensive infrastructure in Witbank, and a new plant could create up to 5 000 jobs, Kartum said.

Middelburg Steel & Alloys has 4 000 employees in both its operations.
Price of Highveld vanadium raised

BARRY SERGEANT

HIGHVELD Steel, world price leader for vanadium pentoxide, has confirmed an increase in its price from $2.50 a pound to $4.20 a pound, setting the scene for SA exports to approach R600m this year.

Highveld's price increase is effective from April 1.

Industry experts say about 99% of SA's vanadium pentoxide production of more than 30,000 tons a year is exported. The increase amounts to an absolute 68%, but is closer to 80% in rand terms, as a result of the rand's decline over the past three months.

Highveld Steel's GM marketing Robert Herbertson says the increase comes off a low base.

"The vanadium pentoxide market has been particularly volatile over the past year, with sentiment and perceptions appearing to be the main driving forces. Analysts say the shares most directly affected by the increase — Vansa, Rhovan and Usko — have yet to reflect the hike. Said one: "This is the highest commodity increase affecting any JSE share for more than a year."

Vanadium traded as high as $11 a pound spot last year, before slumping to $2.20 a pound.

SA is the prime producer of vanadium, which is used mainly as an alloying agent in steels, for example in the manufacture of cutting tools, and in increasing the strength of metals.

Vanadium is not unique in the properties it lends to steel, but alternatives have to be assessed on a thorough cost/benefit survey.

Analysts say equities representing vanadium pentoxide — such as Vansa, Rhovan and Usko — were "oversold" counters last year.
US allows SA steel imports

NEW YORK—The US government has allowed almost a million tons of SA steel into the country despite an anti-apartheid law forbidding its importation, the New York Times reported on Sunday.

The newspaper, quoting Commerce Department officials, said the administration had bypassed a 1986 law stating that no iron or steel produced in SA could be imported into the US.

It said Treasury Department lawyers had excluded fabricated steel products like girders, beams and plates from their definition of the metal, thus allowing the importing of more than 900,000 tons of the material, worth at least $350m.

It quoted Bryce L Harlow, assistant secretary of the Treasury, as saying that “bridge sections, structures and parts of structures”, even if they were manufactured from SA steel and iron, were not subject to the embargo.

The New York Times quoted Harlow as saying that the Treasury’s explanation was based on “established legal principles”.

Neither Commerce nor Treasury Department officials could immediately be reached for comment.

The 1986 law, which aims to apply economic and political pressure on SA to end apartheid, also forbids imports of items grown, produced or manufactured by companies owned, controlled or subsidised by SA.

The Bush administration has said it will consider lifting or modifying such sanctions if the Pretoria frees all political prisoners and moves toward the banning of apartheid. — Sapa-Reuter
Steel exports to US 'are not illegal'

BRENT MELVILLE

IT WAS because SA was the world's major producer of ferrochrome that US doors were still open to its steel products, SA producers said yesterday.

In response to reports that US President George Bush's administration was apparently circumventing sanctions and allowing SA iron and steel imports into the US, several steel industry spokesmen yesterday said prefabricated items were definitely being exported to the US.

"We are, however, acting with the knowledge of US customs and most are downstream, value-added products — strictly speaking not covered by the Comprehensive Anti-Apartheid Act (CAAA) of 1986," said a spokesman for one steel producer.

The CAAA, passed by Congress over former President Ronald Reagan's veto, prohibits new lending and investment, bans flights to and from SA and prohibits US imports of SA coal, textiles, uranium, farm products and gold coins.

The spokesman said, however, that exports of raw iron and steel had effectively been cut off.

Estimates

Although alternative markets had been located in Europe and Asia, margins had been affected.

"What we are also doing is selling to US companies for use in projects outside the US," he said.

Iscor spokesman Piet du Plessis said yesterday Iscor had exported no primary steel products to the US since 1985.

"We are not geared for using devlooms, roundabout ways of sanctions-busting," he said.

However, reacting to estimates that almost a million tons of SA iron and steel products had entered the US over the 1987-1988 period, spokesmen for Highveld Steel & Vanadium and Iscor said the bulk would have been in ferro-alloys and products not subject to regulation.

Highveld GM, marketing Robert Herbertson said there was no evidence to suggest SA's exports to the US did not conform to US regulations.

He declined to specify Highveld's volume of exports, including in iron manganese and ferrochrome.

Seasas chief economist Mike McDonald said because SA was the world's major producer of ferrochrome — used extensively by the US in its armsments industry — the US could not afford to import the product from the other major producer, the Soviet Union.
MS&A increases rebates for stainless steel exports

MS&A Stainless has revised its rebate policy for stainless steel exported in manufactured form. Fabricators are now offered a 10 percent rebate on the base price of any of MS&A’s products.

This is in addition to the export incentives offered by the Government which came into effect on April 1.

MS&A has paid out more than R1 million on its export rebate scheme since 1983. However, Mike Kitchin, manager, local sales, MS&A Stainless, says this figure could have been much higher if manufacturers had taken full advantage of the scheme.

"Through our new policy, we hope to encourage manufacturers and increase the exports of fabricated products. "There is enormous potential in this country to add value to our raw materials and in so doing to create jobs and wealth.”

Beneficiation of the chrome chain has been MS&A’s policy for a long time. Applications for rebates can be made in writing before the export of articles produced from MS&A products. The rebate will be paid on proof of export of the finished goods.

Enquiries about the scheme can be made to Mike Kitchin or Basil Goldswain at (011) 789-2060.
Metals under stress

Highveld Steel & Vanadium and Consolidated Metallurgical Industries (CMI) have shown what it's like to operate in a world disenchanted with stockpiles and with none of the old protection of a sliding rand. Both companies have reported sharply lower sales as chrome and vanadium prices have weakened and as the world's steelmakers have overcome earlier fears of ferro-alloy shortages and cut alloy inventories in anticipation of lower prices.

Both companies have put on reasonably brave faces, expecting export prices to stabilise. But neither can count on the rand retreating its recent relative strength against the dollar to help protect profits from the erosion of cost rises.

CMI was the worst affected as its second-half turnover dropped to R86.7m in the six months to June 30 from R128.7m in the financial year's first half and R142m in the second half of fiscal 1989. The second half's operating income was chopped to R9.4m from the first-half R59.3m and second-half earnings crumbled to 60c from the first half's 107c. Sure, the interim and final match fiscal 1989's, but it is almost inevitable that the current financial year's first half will result in further revenue and profit slides.

Of course there were special factors at work in the ferrochrome market. Stainless steelmakers, clobbered by some sharp nickel price increases, had built stocks of ferro-alloys (particularly ferrochrome) in 1989, and then ran them down fast for fear of being caught with high-priced stocks when the nickel price started to slide. SA's ferrochrome makers generally welcomed the market shift as they had been delaying routine maintenance and running their furnaces round the clock to cope with last year's unprecedented demand.

Now, those overworked furnaces are being shut for maintenance, but new ones are being brought on stream so output is not dropping CMI has added a further furnace to its original two and expects to complete the refurbishing of the older units by year's end.

MD Barry Davison says US and European stainless steel markets have stabilised and ferrochrome prices also appear to have settled. So there seems little prospect of production being held back as a means of propping up export prices. In fact, new producers are coming on stream in SA, though their output could be offset by more closures of uncompetitive plants in the northern hemisphere.

Davison adds that demand is firming with the completion of steelmakers' inventory cuts and he hopes that will permit a small increase in CMI's contract price in the fourth quarter. It was pegged at $0.47/lb for third-quarter delivery.

Highveld was chopped in all directions in the half-year to June 30 — lower vanadium sales and prices, weaker demand for steel and the rand's strength MD Trevor Jones says he cannot quantify the effect of the rand's recent stability against the dollar but analysts reckon currency shifts could have cost about 5% of the latest half's turnover.

Jones is cautious on immediate prospects. Highveld still has to face up to the uncertainty of a quantum increase in supplies available to world markets when Ustko's new plant gets well under way. That is leading to hesitancy over vanadium prices by customers. They have largely reduced inventories but are doing their best to match purchases to current consumption just in case oversupply cuts prices to the $2/lb free-market lows hit in December.

Highveld agrees vanadium markets will remain weak for the rest of this year but the company's size relative to the world supply still allows it some measure of control. Highveld can produce about 50m pounds of vanadium a year and, of that, about 13m pounds is produced as vanadium pentoxide by the company's Vantra plant and the remainder as a slag by-product of steelmaking.

Vantra's production has now been cut by about two-thirds in response to comparatively slack demand, though it is too early to say whether this will allow Highveld to peg its fourth-quarter prices at the third-quarter's $3.35/lb.

For the present there is little likelihood of vanadium slag production being cut as steel production is being maintained despite slackening domestic demand. Normally Highveld sells about half of its steel sections in SA and exports the rest. The ratio is shifting as exports take up the slack, but export prices are "not exciting", says Jones.

And there is no help in sight from exchange rate shifts.

There is still no finality on the crude stainless steel plant being planned as a joint venture with Samancor and Taiwanese steel company Yieh Loong. The feasibility study has defined the capital cost, not disclosed in the interim report but estimated by analysts to be about R2bn for a plant to make crude billets in SA with a further R1bn for a processing facility in Taiwan. A letter of intent has been signed with the Taiwanese.

<table>
<thead>
<tr>
<th>STAINLESS STAINED</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year to Jun 30</strong></td>
</tr>
<tr>
<td>Turnover (Rm)</td>
</tr>
<tr>
<td>Operating income (Rm)</td>
</tr>
<tr>
<td>Pre-tax profit (Rm)</td>
</tr>
<tr>
<td>Earnings (c)</td>
</tr>
<tr>
<td>Dividend (c)</td>
</tr>
</tbody>
</table>

and a final decision is expected this half-year.

Chairman Les Boyd warned in his last annual statement that this year's performance would be poorer than the spectacularly good one of 1989. He and Jones reckon this year's first-half performance is in line with Boyd's earlier forecast that 1990's outcome will be better than 1988's when earnings totalled 170.6c a share and the dividend 5c. Beating the 1988 figure should be a piece of cake even if there is a major collapse in the second half and there seems no reason why this year's final should not match last year's 40c "normal" final.

Jun Jones
Steel Export markets plugging gap

The steel market in SA and overseas is softer than last year but local mills are still pumping out almost as much as ever. Happily, they're exporting most of what the local market can't absorb. Unhappily, they're getting lower prices.

While local carbon steel mills Iscor and Highveld Steel & Vanadium have increased local steel prices, they have been forced to bite the bullet on the international market where prices are 15% lower than a year ago.

In addition, the declining strength of the dollar against the rand is hurting their margins.

Middelburg Steel & Alloys is expecting a 15%-20% drop in local steel output, down from last year's 53,000 t, which group MD John Gomersall admits was a bit high.

Iscor chairman Marius de Waal says Iscor had some production problems over the past year. "We could not meet our flat products targets at the Vanderbijlpark hot-strip mill, which contributes 25% to total production. This was the most important reason, in addition to softer export prices, for us not achieving our predicted 20% increase in profits in 1990. We have solved the problem at the hot-strip mill, which is now running at full steam."

Iscor now exports about 2 Mt of steel a year to about 60 countries. "Production this year will be about 2% below 1989," MD Willem van Wyk says. Local sales are about 3.3 Mt a year.

Most exports are going to the Pacific Rim countries, where SA mills are competing with producers from Japan, Taiwan, South Korea, central Europe and South America.

Little, if any, is being done into North America, where the import of SA rolled steel is banned. The import of fabricated steel products and ferro alloys is sometimes allowed.

The international market for carbon steel dropped at the beginning of this year because of a fall in demand, which created a temporary surplus. In SA demand dropped because government's efforts to cool the economy reduced the sale of cars and white goods and curbed construction, says Seifsa economist Michael McDonal.

The local market would not have dipped had the drop in the gold price not resulted in severe mines deferring to even minor modifications, says Highveld MD Trevor Jones.

Arthur Browne, a director of Mascastel and president of the SA Steel Merchants' Association, believes the market hasn't bottomed yet. It will improve only if interest rates drop by two percentage points, and that probably won't happen until labour takes a less belligerent stance and there's an improvement in political confidence.

He says merchants are overstocked, which is why mills have to look to exporting. Unlike last year, "there are no supply problems, all the shapes and sizes we want are available."

Gomersall says the stainless steel market worldwide has recovered from the massive inventory correction that occurred at the end of last year. "The cause was near-pac buying of stainless steel earlier in the year as the nickel price posted almost daily gains. When it started dropping, those who had accumulated stocks at the higher prices had to get rid of them."

"Right now I would say production is equalising world demand, which will probably be 10 Mt this year, and 14 Mt by 2000," Gomersall says.

"If it peaked in 1988 at 10.6 Mt, then dropped to 10.1 Mt last year, Demand in SA, including that for 3CR12, a 12% utility industrial corrosion-resistant steel that has never been an export product, should grow by 4%, maximum 5%, for the next few years."

Highveld chairman Leslie Boyd says it's too early to predict how the rising oil price and turmoil in the Middle East will affect steel. "If it tips the balance towards a recession, it will tip the balance against everything. If it leads to high oil prices it could lead to a lot of drilling and exploration, as it did in the early Seventies, which led to increased demand for certain steel products, such as tubular products."

SA stainless steel prices dropped sharply from their peak in November and started uphill again in May. They have to be kept in a narrow band to discourage users from importing supplies, and there's no shortage of foreign producers ready to dump stainless, Gomersall says.

The R1.5bn-R2bn stainless steel facility planned by Highveld, Samancor and a Taiwanese partner is still under consideration. A decision will probably come before the end of the year, says Highveld's Jones.

"At this stage it looks as if it will come together," he says. "Though plant, rating about 200,000 t of finished products, in which Samancor and Highveld will have the majority of shares, will probably be built next to our existing Middelburg plant. And another one, where the product will be cold-rolled to final specifications, will be built in Taiwan. Our partners from the East will have the majority stake in that plant."

Construction would take two years.

[Image]

Airline deregulation

Eying up Goliath

It hasn't taken long for the first challenger to step forward and put SA Airways on notice that it will soon have company on major domestic routes.

Looking to be the first out of the deregulation gate, Trek Airways is considering leasing, says Trek MD John Blake. "A 94% of the domestic passenger market, another airline is apparently taking a bite, at least for now. Safair recently says it 'will have to consider its options very carefully before committing itself to an extensive scheduled passenger service."

"But Trek is preparing for battle against Safair, which controls 94% of the domestic passenger market, another airline is apparently about 120 passengers each, to fly the main routes."

"We trust that our licence application in terms of the new Air Services Act will be finalised within the next three to six months," says Trek. "But we will start serious feasibility studies for flying the domestic markets."

"We've already made some inquiries to SAA."

"We're preparing for battle against Safair, which controls 94% of the domestic passenger market, another airline is apparently about 120 passengers each, to fly the main routes."

"We trust that our licence application in terms of the new Air Services Act will be finalised within the next three to six months," says Trek. "But we will start serious feasibility studies for flying the domestic markets."

"We've already made some inquiries to SAA.

"But Safair will go after SAA's cargo business now that deregulation opens the way for competition for 'Our service will commence, within six months of a licence being granted, 89
Talks on stainless deal ended

By Derek Tommey

The R2.5 billion Columbus stainless steel project proposed by Samancor, Highveld and the Taiwanese company, Yieh Loong, has been suspended.

The reason given is difficulty in finalising the agreement. However, this is not the end of the matter.

A spokesman for the South African partners says that there is a place in the market for such a project and that viable alternatives are being explored.

The project envisaged building a 300 000-tonnes-a-year stainless steel manufacturing plant in South Africa, which would produce hot rolled coil.

Most of this steel would have been exported to Taiwan for further working by Yieh Loong in a new cold rolling mill.

Negotiations have been protracted and Hans Smith, managing director of Samancor, said recently he would have no hesitation in halting the negotiations if the outcome was not satisfactory.

He said last night that progress had continued to be slow and it had been decided by mutual consent that both parties should look at alternatives.

Mr Smith said he believed South Africa had a competitive edge in producing hot rolled stainless steel and the South African partners were considering other courses open to them.

Although the recent steep rise in the oil price had caused sharp losses on the Taiwanese stock exchange, he did not believe that the matter of financing the Taiwanese mill was the reason for the difficult negotiations.

He said the South African partners had been aware that the German's Krupp AG was planning a similar venture with another Taiwanese company, Tung Mung.

But the Taiwanese stainless steel market was growing at such a rate that there should be room for both Krupp and the South African project.

Analysts said last night that there was considerable scope for the South African partners to operate alone.

It was not essential for them to have a foreign partner, though at this stage it would probably be preferable.

They could, for example, become a producer of semi-fabricated products, which they could sell worldwide, he said.
Steel tube exports expected to rise

The export of steel tubes and pipes was expected to jump by 12% by the end of 1991 as government's new incentive scheme breathes new life into the market for finished product exports. Association of Steel Tube and Pipe Manufacturers of SA president Mike Gahagen said yesterday.

SA averaged 155 000 tons in exports of steel tubes and pipes a year for the five-year period from 1985 to 1989, and it was estimated that exports of 174 000 tons would be achieved for 1990 and 1991.

Exports constituted 27% of SA's steel tube and pipe manufacturing capacity of 550 000 tons, and were expected to take up 32% of this capacity by the end of 1991.

Gahagen said the industry was to commence its most challenging period in the export arena and had to continue to pursue its productivity drive and establish new export markets especially as the association was optimistic that the pressures exerted by American and European sanctions would be relaxed.

In this event, SA mills would be taxed to produce the additional volumes to be supplied to these major markets, he said.

**Untapped**

A spokesman for the association said the industry exported to the UK, Europe, the Middle and Far East, Africa, South America and the Indian Ocean Islands.

Gahagen said the major development that SA steel tube and pipe manufacturers achieved, when sanctions were imposed in 1986, was the penetration of previously untapped markets in Africa, Asia and elsewhere.

“We believe that if America and Europe were to be re-opened, we would not lose these now established markets for SA tube and pipe, but would continue to service them while re-establishing ourselves in America and Europe.”

However, Gahagen said the industry would have to respond by conducting better market research and introducing new and better technologies and manufacturing procedures as well as downstream manufacturing to assume these new challenges.

“This may have to occur through investment in our existing SA consumer base, thereby assisting them to expand both their facilities and organisational structure to meet these challenges,” he said.
Steel demand likely to edge lower in '91

WORLDWIDE demand for steel, which has been strong in 1989 and 1990, is likely to ease only slightly next year, despite a slowdown in economic growth in industrial countries.

Locally, the general feeling is the market will probably remain flat, with little improvement in the next year.

AP-DJ reported the Brussels-based International Iron and Steel Institute (IISI) forecast total world consumption of crude steel would total about 773-million tons in 1991.

This figure was down about 0.8% or about 6-million tons from 1990, which had been described as a peak year for world consumption.

Iscor MD Willem van Wyk said world production of steel was almost static in 1989 and the slowdown in global demand was expected to lead to a 2.4% reduction in 1990.

"The greater commercial reality that developed among steelmakers during the '80s, with profitability being the overriding requirement, has seen major producers move in recent months to reduce output levels to conform with a lower demand. "In this way, they will obviate the pro-

PETER GALLI

longed surpluses that historically had a negative effect on price levels for steel during times of reduced demand," Van Wyk said.

Iscor, which accounted for just 1.1% of global trade in steel, was still able to sustain exports in times of lower international demand, Van Wyk said.

"We therefore see opportunities for increasing exports of raw materials and primary steel products. Taken together with local sales, increased exports will enable Iscor to maximise capacity utilisation," he concluded.

A Highbled Steel & Vanadium spokesman said with a substantial price increase planned for January 1, there would be a surge in domestic sales in the fourth quarter of this year, with a decline in the first quarter of 1991.

Middelburg Steel & Alloys predicted the world demand for ferrochrome, which is linked to the demand for stainless steel, would show an increase of between 3% and 5% in the next year, but a spokesman said this prediction was subject to developments in the Middle East.
MS&A undaunted by sanctions

MIDDELBURG Steel and Alloys (MS&A) has achieved a 63% increase in exports for 1989 over the previous year. The annual percentage increase for 1988 over 1987 was 28%

This was achieved in spite of trade sanctions, dramatic fluctuations in the nickel price and the slump in the world ferrochromium and stainless steel markets during the latter part of 1989.

Exports make up almost three quarters of the company's total sales. MS&A group MD John Gomersall says: "The ferrochromium operation of the group, MS&A Chromium, has an annual capacity of 240,000 tons and is the world's second largest producer.

"Its sister company, MS&A Stainless, produces 100,000 tons of stainless steel and "CRI2 annually and is Africa's only stainless steel producer."

The export marketing strategy for the MS&A Stainless has been to build sound working relationships with customers, to supply quality products at market-related prices and to ensure the company is a preferred supplier.

This approach has been carried out without compromising MS&A Stainless' focus on its local customers.

To encourage the export of value added products and to stimulate demand, MS&A Stainless introduced a 10% export rebate for fabricators.

New products are continually being developed to meet specific industry needs.

MS&A Stainless has a dedicated team of export managers working in close co-operation with a worldwide network of agents.

Technical assistance to overseas customers is offered by the technical customer liaison department.

"The ferrochromium market is a commodity market and highly competitive. "Price competitiveness, which translates directly into cost of production, is the key to maintaining market leadership," he says.

"The downturn brought an enhanced focus on quality. MS&A Chromium is the only ferrochromium producer in the world to have been accredited with ISO 9002 (SABS 0137) certification and this has been pivotal to our maintaining market share."
Hiveld cashes in on weakness of the rand

AS a result of strong markets and a weak rand, Hiveld Steel and Vanadium Corporation (Hiveld) improved exports by almost 46% last year.

Hiveld, based in Witbank, is a subsidiary of the Anglo American Industrial Corporation and exports vanadium materials, steel products, ferrosilicon, ferromanganese and silicon-manganese.

Hiveld's three main markets are Japan, the US and western Europe, as there are large steel producers with sophisticated production methods in these areas.

The company produces more than one million tons of steel a year, and it exports a larger percentage of its production than most other producers.

Hiveld's MD Trevor Jones says a highlight of the past year has been the spread of contributions between all exported products.

“We perceive next year as being more of a challenge than the past few years. It will be difficult to get near last year's performance in the light of the weak markets and stronger rand.”

He says there has been no noticeable difference in trading abroad under the new political dispensation in SA.

“THERE have been signs of easing of sentiment towards SA, but nothing concrete.

“We hope with the lifting of sanctions to be going back to markets denied us,” he says.
SAMANCOR, a subsidiary of JSE-listed Gencor's mining arm Gemco, is the world's largest producer of integrated alloys. In the past year, its exports have increased by 119%—88% of its production is exported.

MD Hans Smith says the company is ranked as the world's number one alloy producer, the world's number one ferrochrome producer (with an estimated 20% of the world market), and the world's number two producer of ferromanganese (with an estimated 17% of the world market).

"But with the bottom falling out of the ferrochrome market there will be a major reduction in earnings contributions from this," Smith says. But, by turning the slump in the market to its advantage and using the time to revamp and refurbish plants, Samancor expects to sell the same tonnages this year as last.

"Something to look forward to in the new SA is obtaining cheaper foreign project financing," Smith says.

30 years
Ferro-alloy incentives, rebates come under fire

PETER GALI (189)

GOVERNMENT'S export incentive structures and tax rebates for ferro-alloy producers should be made more competitive with the structures that exist in competing countries, the new chairman of the Ferro-Alloys Producers' Association (FAPA) Hans Smith said recently.

Smith, who is also chairman of Samancor, said the poor system presently in existence would soon result in SA's ferro-alloy producers becoming non-competitive in the international market. His ultimate goal as FAPA chairman was to see that these structures became more competitive.

"Assuming that construction costs were the same, the tax incentives offered in Taiwan, for example, would make the construction of their plant far cheaper than in SA, and this matter needs to be addressed," Smith said.

Major player

Export incentives were being phased out but FAPA, which had the support of all 11 of the SA ferro-alloy producers, intended to appeal to government as a unified force to address these matters, he said.

SA was the world's lowest-cost and most efficient producer of ferro-alloys, which gave it a tremendous power base, but it could not allow this strength to be negated in world markets because the SA rebate and incentive structures were out of line with its competitors.

As a major player SA should be producing more alloys and exporting less ore, Smith said.

The industry needed to concentrate on the development of value-added products, which would be better for both SA and the individual companies as much more revenue would be generated by added-value products than from the export of plan ore.

The industry had always "done its homework smartly" and would develop a strategy that made sense yet did not disrupt the sensitive situation of supply and demand in world markets, Smith concluded.
CMI will have to wait for recovery

Ferrochrome producer CMI has been hit by poor conditions in world markets and although recovery is being talked about, it will take some time for the excess supply to dwindle and prices to accelerate.

In the latest annual report, chairman B E Davison explains that the demand for ferrochrome is closely related to the demand for stainless steel and consequently the rapid decline in stainless steel production which took place in the second half of 1989 produced an equally dramatic decline in the demand for ferrochrome.

He expects the oversupply of ferrochrome to continue, possibly until 1992.

CMI is a producer of all types of metallurgical and chemical products and is one of the world’s most cost-effective producers of ferrochrome.

The company is predominantly export-oriented with some 95 percent of turnover being derived from exports to North America, the Far East, the UK and continental Europe.

In the year to June, group turnover declined 34 percent from R324.3 million to R215.4 million while operating profit plummeted 60 percent from R171.2 million to R69.0 million.

Mr Davison attributes the sharp fall in operating profit to lower production volumes which caused the unit cost of sales to increase by some 30 percent.

Interest and dividend income nearly doubled from R8.9 million to R17.2 million, reducing the decrease in pre-tax profit to 52 percent from R180.6 million to R86.1 million.

The effective tax rate was significantly reduced from 44.1 percent to 17.8 percent due to reduced profits and to capital expenditure allowances mainly on a new furnace.

Consequently the fall in attributable income was limited to 29 percent from R100.8 million to R71.0 million.

Earnings per share amounted to 167c, compared with 237c in financial 1989.

The dividend for the year was maintained at 115c a share.

The balance sheet appears strong with negligible borrowings and a cash balance of R94.5 million.

CMI, priced at 850c, is trading on a price earnings ratio of 5.1 and provides a dividend yield of 13.5 percent.

Significant capital growth is unlikely until world markets recover but in the meantime shareholders can console themselves with an attractive income yield.

COMMENT: CMI’s share price entered a downward trend early in 1989 after peaking at R20.25. The price then declined sharply to its current level of 850c.

LYNNE PEACH
METAL PRODUCTS

1990
Workers locked out of factory

ALMOST 70% of the work force at a Blackheath steel-wire factory were locked out by the company yesterday in a bid to force workers into dropping their demand for plant-level bargaining.

Confirming the lockout yesterday, Allen's Meshco managing director Mr Rick Allen said the action was aimed at pre-empting a threatened strike by members of the Electrical and Allied Workers' Trade Union of SA (Eawtusa).
FRASER ALEXANDER INTO THE MUCK

Materials handling group Fraser Alexander (Frelax) is heading for a slowdown in its EPS growth, as the recession takes its toll on markets. Chairman Peter Flack expects this year to be the most difficult in the group's recent history.

Frelax has maintained steady growth over the past five years, with a 24% earnings increase in the year to end-June. Analyst Arthur Thompson of E W Balderson is predicting an 18% EPS advance this year. Flack is opting for a more conservative view. He reckons that most companies, including Frelax, will be performing very well to produce growth in line with inflation.

Even so, Flack's expectations seem a bit optimistic considering the current state of the mining industry, where the group earns most of its income. He notes, however, that the mining industry's waste handling requirements, where Frelax is active, are not unduly affected by the cost squeeze.

The group owes most of its early growth to the mining industry, but over the past five years has been seeking to diversify. Only 60% of sales are now to the mining sector and the proportion continues to fall. However, all the major mining houses are customers and Frelax has been responsible for the design, building and maintenance of slimes dams at more than 150 installations.

Flack says there is scope for organic growth in northern Transvaal. A recent Fokker waste handling contract has established the group in the region and created a base from which to expand operations. Another such area is coal beneficiation, a plant has been built in the eastern Transvaal, where the group is processing coal on behalf of Lonrho Environmental concerns are also expected to provide opportunities.

The balance sheet has been strengthened, with gearing reducing from 49% to 40%. At 775c, the share stands on a 9,4 times earnings multiple and looks fully priced.
METAL PRODUCTS EXPORTS

1990
From in-house to top in the country

G VINCENT Metal Sections has gone from being an in-house supply company to SA's largest cold form section exporter.

Some 15 years ago, it started focusing on the export market and today about 30% of its total production is exported.

In 1988, the company's exports increased by 139.7% and in 1989 by 58.4%.

Exports in volume terms have already improved on last year's figures, says joint deputy MD Colin Shaw.

But this has not been done without some hard work.

"We found the export market difficult to sustain for a number of reasons, including politics, price, locality and competition," chairman John van Rensburg says.

"Although all SA companies face the same problem, steel is particularly sensitive.

"This means our product has to be marginally cheaper, the quality of the highest and our service the best," he says.

Joint deputy MD Adrian Shackleton says the new political dispensation in SA, heralded by President F W de Klerk in his watershed February 2 speech, has had some impact abroad in that "buyers are much more receptive and willing to see us".

"Special achievements over the past year include the increased markets and that we participate in about 50% of SA quota to the European Economic Community, making us the biggest cold form exporter in SA.

"Our output ratio on the export to local front is 30/70 and is ever growing. The expected ratio in 1990 is probably going to be 40/60," Van Rensburg says.

The depressed steel market worldwide is another reason the company intends to explore new markets, Shackleton says.

Negotiations are well down the line for the establishment of a production facility in the UK.
STANDARD ENGINEERING

PROFITABLE TAKE-OUT

Malbak’s engineering arm, Standard Engineering, took out minorities in Astas, Hall Longmore and Union Carriage effective at the end of March 1990 in a R55m deal which can be seen as the completion of restructuring which started two years ago. Settlement was in R14.6m cash and the issue of 7.3m ordinary shares, which reduced Malbak’s holding to 72.8% from 92.5%.

The group boosted operating income by 70% to R80m from a 69% turnover rise to R690m in the year to end-August. Full control of Astas, Hall Longmore and Union Carriage should give earnings another boost this year.

Chairman Hugh Brown feels that while prospects for local markets are not encouraging as lower volumes are expected, the shift towards exports should, to a large degree, shelter Standard A minor hatchery government’s allocation of category 3 export benefits to Hall Longmore, a manufacturer of large bore steel pipes. Brown reckons Hall Longmore deserves the category 4 treatment for adding value to Iscor’s coiled steel.

<table>
<thead>
<tr>
<th>EXPORT GROWTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year to August 31</td>
</tr>
<tr>
<td>Turnover (Rm)</td>
</tr>
<tr>
<td>Operating income (Rm)</td>
</tr>
<tr>
<td>Earnings (c)</td>
</tr>
<tr>
<td>Dividends (c)</td>
</tr>
</tbody>
</table>

receives category 3 incentives for exporting coiled steel.

The export drive had exceptional results for Union Carriage. In August 1988, the electric and diesel locomotive manufacturer was running at 15% capacity, with turnover of R16m. An order for passenger trains from Taiwan changed its fortunes and turnover rose to R41m in the latest period. An order book of R208m extends to end-1992.

Brown expects earnings to improve this year and, with 30% gearing, the balance sheet provides a sound basis for exploiting opportunities which may arise. The share price of 582c is 6.5 times earnings and does not look overpriced.

Gerhard Siemann
IRON SIZL
+
ENGINEERING
GENERAL
1990
Malbuk looks overstretched

Malbuk, the company controlling Gencor's industrial interests, is growing fast. Management with Gencor's might behind it is certainly on an acquisition trail, but it seems big is not necessarily beautiful. Perhaps they should rather aim to be the best.

In the annual report, management's strategy is unclear. In the year to August 1969 further consolidation and rationalisation took place as Malbuk structured itself into seven divisions—packaging and paper, engineering and mining supplies, branded consumer products, food, construction supplies, development and international. I think it's an unwieldy conglomerate.

The first three divisions produced 35 percent of sales and almost 70 percent of earnings, whereas the last two were disappointing, with sales of around R2 billion but only R256 million in earnings. A single-minded management has some real headaches.

Abercom disposed of its SA interests—Abertech Industries—to Standard Engineering to enable it to buy UK paper interests, paying a massive goodwill (R600 million), and is now saddled with mammoth debt (R133 million) and mounting losses.

Increasing the interest from 29.1 percent to 40.7 percent in Quality Tyres has ended in default. Management is still borrowing to bail out of liquidation with concurrent creditors being offered only 3c in the rand.

The attempt to sell Protea Chemicals to Sitrachem also failed. Subsequent to year-end Malbuk bought Pat Hinde Motors, making its motor division the second-largest Toyota dealer group in SA.

The health care industry is seen as an exciting growth area. Schwarzkopf hair care products, MPS Labs and 60 percent of Wyeth Ayerst—infant nutritional products and ethical drugs—were acquired.

All this has been costly and debt had risen 60 percent to R161 million (1968: R573 million) by end-August.

To minimise the increase, management has deducted cash resources of R161 million (1968: R166 million) from debt, but can’t escape the fact that interest expense has more than doubled to R171 million (1968: R63 million).

While earnings increased 35 percent in 1969—21 percent organic and 13 percent by acquisition—one should not lose sight of the new role played by Kanbym where Malbuk increased its 37 percent interest in 1968 to 84 percent, so making it a subsidiary. It produced 11.2 percent of total earnings.

A lower tax rate of 30.1 percent helped increase earnings by R20 million for comparison purposes.

Chairman Graun Thomas produced his usual bullish statement that everything was fine—clearly Gencor's caretakers for its industrial interests could face problems in this decade unless they let the arms around the various businesses before branch out.

Already management is thus having sent Kohler’s Ian Willis to England to try to sort out Abercom’s mess.

Sales increased to R7,33 billion (1968: R5,23 billion), yielding pre-tax profits of R52 million (1968: R417 million). These profits declined to 6,88 percent of sales (1968: 7,97 percent).

After deducting tax and outside shareholders’ interest, attributable earnings were R251 million (1968: R184 million)

Extraordinary items below the line of R75 million (1968: R65 million)—mainly goodwill written off—left a bottom line of R176 million (1968: R110 million).

Earnings per share were 136c (1968: 107c). With a very conservative 4,5 times dividend cover, dividends were raised marginally to 30.5c (1968: 25c).

The group has modified its accounting policy for deferred tax, which lifted earnings by 5.7c (1968: restated 2.7c).

The packaging and paper division, now listed under Holmains, increased sales to R16,6 million, with earnings of R5 million. Engineering and mining supplies had sales of R12,2 billion and R58 million in earnings.

Branded consumer products—Tedexel, Ellerines, Malbuk Motors and Malcoyess Tractors—lifted sales to R132 million, with R54 million in earnings.

D&H Construction Supplies, assisted by Blue Circle, contributed R3 million in earnings.

The development section—Protea Pharmaceutical, Electronics, Protea Chemicals and the Berden group—had sales exceeding R1 billion, but virtually no contribution, reporting income of only R3 million.

The international division had high sales and poor earnings. Clearly, Abercom’s losses were the culprit, leaving Protea’s export steel and Eagle Freight as the main contributors.

Ordinary shareholders’ funds increased to R13,13 billion (1968: R956 million) at end-August 1969.

Working capital declined to R627 million (1968: R678 million).

Although R200 million in tax losses are available, the future effective tax rate will increase as Tedexel, Kanbym and D&H absorb their remaining tax losses.

The historic cost net asset value per share has increased to R6.11 (1968: R5.55).

The current JSE price is showing weakness at R7.65, probably compounded by the low dividend yield, bad publicity relating to Quality Tyres and chairman Grant Thomas’s “significantly more disquieting” outlook for 1990.

Earnings for the forthcoming year will be of a similar order—whatever this means.

While some divisions are predicting increases, others are silent. Does this mean no increase is expected or that the increase will only equal the inflation rate?

Clearly management is finding it tough going, even with Gencor behind it.

Would it be better to concentrate on the three or four best divisions and leave the others to someone else because management could end up masters of none.
95% take up.  
Elcentre offer.  

Over 95 percent of Elcentre and Elgro shareholders took up the offer of bonus shares in lieu of the cash dividend offered by each company. 

For every 100 shares held in either company, a shareholder had the option to take five new shares, giving a total of R2.50 in lieu of the cash dividend equivalent of R1.95. 

In Elgro’s case the five new shares are currently valued at R13.75 compared with the cash dividend payment of R9.50.
Prospects for Middelburg are not encouraging, cautions Cleolow

BARLOW Rand CE Warren Cleolow warned shareholders yesterday to expect a reduced contribution from subsidiary Middelburg Steel & Alloys for the remainder of the financial year.

Speaking at Barlow's AGM, he said that though the mining and electronics and the electrical engineering divisions were expected to show a good advance in profits, along with most of the industrial and food divisions, Middelburg's prospects were "not encouraging".

He added that though first-quarter earnings for the three-month period to end-December 1988 were similar to the corresponding first quarter last year, any gains made in other divisions would be offset by Middelburg's poor performance.

The contribution to bottom-line earnings from the electronics and electrical engineering division last year jumped by 56% to R50m (R32m), with mining adding R173.6m (R124.6m), an improvement of 39%.

The star of the Barlow stable last year was the ferro-alloy and stainless steel division (Middelburg), which contributed a hefty 21.8%, or R215.7m, to Barlow's bottom-line earnings of R1bn -- an 87.7% hike on its R114.9m contribution in 1988.

Aside from Middelburg's dramatic growth, Barlow has benefited from major capital spending with the group allotting R1.8bn last year, compared to R1.1bn in 1988. The Rand Mines division expanded its gold, platinum and base metals operations and the group spent an additional R21m on exploration, an increase of 38% against 1988.

Deflating world stainless steel prices and a better exchange rate are the root of Cleolow's pessimistic scenario, Middelburg MD John Gomersall confirmed yesterday that the depressed prices would dramatically affect profits. Middelburg is the sole producer of stainless steel in SA.

He said that consumption of stainless steel had fallen in local and export markets, resulting in a significant decline in price to $2,000 a ton. "The market was overheated in 1988-1989 with stainless steel priced at over $3,000 a ton. "What we are seeing is a cooling off as a result of inventory adjustments," said Gomersall. He added that the stronger rand would play a detrimental role as well.

Earnings in the alloys operations were expected to be substantially lower this year as well, as the demand for ferrochrome also fell, he said.

Gomersall said that the price of stainless steel was linked to what happened to the price of nickel, "which has dropped from $7-$8 a pound during 1988, to under $1 at present."

Gomersall said that the price could drop to as low as $1,000 a ton if the nickel price went below $2 again.
Buyout of Toco concluded

THE management buyout of Toco Holdings has been successfully concluded, it was announced yesterday. Toco MD Adrian Goodman, buyout co-leader along with chairman Paul Todd, said the buyout represented the disposal by Columbia Consultants of its entire remaining 10% shareholding in Toco, or 6.5 million shares. The buyout involved a 20-member consortium of Toco's operating executives who purchased 32.9 million shares, or 63%, from Columbia last May, upping their stake from 9% to 63%.
EPS 52% on improved gearing and other risk ratios at year-end. By comparison, Dorbyl's turnover and EPS rose 20% and 40%. The difference is largely due to Metkor Industries. Little is disclosed about this division, but Kotzee says its results should continue to improve, especially after the sale of the Lasher Tools and Racce divisions. Since Metkor Industries is affected by consumer spending, the improvement is unlikely to be as marked as last year.

Kotzee says 50%-held Apasap Gas and 27.1%-held Usko, both equity-accounted, did not influence the improved performance, mainly because of increases in their finance charges. Apasap's business is steady; Usko is expected to do much better this year. The vanadium price has fallen, but it is pointed out that Usko's project was planned at lower prices anyway. Assuming the project only breaks even this year, it will stem the drain on Usko's resources.

Metkor's effective 34.6% of Dorbyl is worth about R243m now, the 27.1% of Usko's 100,000 shares is worth R21.7m and the 30% of its prefs about R14.6m. Dorbyl must have contributed about 70% of income last year and Usko about 12%, so the unlisted interests would have earned about R10m. On a p/e of 4.0, they would be worth R40m, though book value is much higher. Total worth of Metkor would thus be R319m, or about 294c a share, slightly below the current price.

The share has not performed as well as Dorbyl in the past year and its yield, at 5.1%, is higher than Dorbyl's 4.5%. Metkor has risen recently, probably on release of the Dorbyl annual report as the group remains Dorbyl-driven. Usko will weigh in next year at the earliest, and Metkor Industries' improvement is unlikely to be marked.

Yvonne Payne
Mintek non-state revenue up to R10m

Mintek non-state revenue up to R10m

The statutory Council for Mineral Technology (Mintek) was enjoying more sponsorship from non-state sources than ever before, the body’s president, Alex Edwards said in its 1989 annual report.

Income from sources other than the state rose from R1.8m in 1984, or 7% from total income, to more than R10m in 1989 (20%), Edwards said.

The passing of the Mineral Technology Act by Parliament in March 1989 enabled Mintek to expand its sphere of operations and to address the challenge of increasing revenue earned from non-state sources.

“The opportunities presented by these developments have required changes to Mintek’s organisational structure that will enable it to adopt a more business-like approach,” Edwards said.

The council now has four divisions: Finance and Business Development, Research Development and Technology Transfer, Special Projects, and Human Resources and Corporate Services.

Mintek’s efforts on 16 major research projects from 1970 to 1986 resulted in quantifiable benefits to industry exceeding R50m annually.

The council has developed a process to extract platinum from UG-2 Reef which effectively doubled the world’s proven platinum reserves.

Another recent success is the carbon-in-pulp (CIP) process for the extraction of gold from ore and from sand and slime retreatment. An estimate of the gold that can be recovered by the CIP circuits already installed is 0.03 g/t, equivalent to 1,800 kg and worth about R56m a year.
City firm fires 114 'illegal' strikers

By BRONWYN DAVIES
Tygerberg Bureau

MORE THAN 114 National Union of Metalworkers of South Africa (Numsa) members have been dismissed by the Multi Mech company in Epping after being on an "illegal" strike since Monday.

The workers demanded that a 50 percent across-the-board pay increase be put into effect immediately and that management pay their "sick pay", which must in turn be claimed from the motor industry.

A spokesman for the workers, Mr Tennysen Zangashe, said they have demanded a 50 percent across-the-board increase because the wages they are paying here are below the breadline.

Mr Zangashe said the last wage negotiation was in August last year when a wage of R120 a 45-hour week was negotiated for general workers and R186 for operators.

Multi Mech general manager Mr G J van Niekerk said employees were being paid according to the negotiated rates.

"Discussions were held with representatives of the workers, but they insisted that the demands must be met first before they would go back to work."

"Numsa representatives were asked to take the necessary steps to ensure that their members ceased their illegal industrial action and return to work by 2pm on Tuesday. If not, their services would, unfortunately, have to be terminated."

"After communication with Numsa, the time limit was extended to 5pm to assist them in solving their problems. We, however, had not further feedback from them."
Good results make Klipton "a sound bet"

BRENT MELVILLE

After posting a significant improvement in performance for the year to June, the excellent results of industrial holding group Klipton for the six months to December should come as no surprise to its shareholders. Analysts feel the share merits attention. On its current financial form, Klipton should prove a safe bet; operating profit shared by 62,7% to R4,2m (R3,6m) on a 40,8% rise in turnover to R16m (R12,2m).

Shrugging off higher interest charges and a hefty 74,3% jump in contributions to the tax man to R1,7m (R822,600), bottom-line earnings increased by 54% to R2m (R1,3m), translating into profits of 26,5c (20,4c) a share. This is based on an estimated 7,5-million shares in issue following the final payment for the recent Austen Safe purchase.

Joint chairman Robin Matthews says the receipt R6m acquisition has bedded down well. In addition, the group is still actively investigating acquisitions to complement existing businesses, and is contemplating the addition of a new major division, he says.

On the balance sheet, gearing was at 49% (59%) - slightly up from the June year end as a result of the Austen Safe acquisition - with the current ratio down to 2,0:1 (2,7:1).

Hewing at just over R2, Klipton still appears underrated. Analysts feel the low rating is due to the general tendency of the market to neglect second-line stocks.
KNJ Group interims reflect ups and downs

JACQUES MAGIJLO

KNJ Group's interim results to end-December reflect mixed fortunes.

Costs were cut and the group's businesses restructured, which resulted in "major savings," says finance manager John Knight. But lower demand from the mines caused turnover and attributable earnings to fall to R161m (interim 1988 R177m) and R8.7m (R12.5m) respectively.

In addition, the operating profit was reduced by R1.3m to account for changes in accounting practices and policies introduced at end-1988.

"Although firm and positive action was taken with Subroc companies, the interim proved difficult because these problems persisted."

Problems applied to contracting businesses engaged mainly in drilling operations are being addressed.

Merge

Interim results show net current assets rose to R55.6m (R29.4m), but are too abridged for proper analysis.

Other events included the sale of the group's interest in the business of Natronic and its 78% shareholding in Bisque for "small excesses against book value." The Trackless Vehicle Manufacturing business of the Subroc operations was incorporated in Camec.

In the second half of KNJ's financial year, the group will merge its Midmacor Holding with quoted PDS Holdings. "The net effect of the reverse listing will give KNJ an 83% interest in the new listed company, which will be renamed Midmacor Industries," says Knight.

The shares are to be listed on March 5. No effect on EPS or net asset value is expected.
MCG not for sale, says Wassall CE

JACQUES MAGLIOLO
SINCE Wassall's takeover of Metal Closures Group SA (MCG) in January, the group had been approached by some big companies which wanted to buy MCG, Wassall CE Christopher Miller said yesterday.

But despite poor results achieved in MCG's year to end-December, when operating income fell 16.9% to R16m and EPS by 21.1% to 75c, the new directors were determined to continue trading, he said.

"The company is definitely not for sale."

Miller, two other Wassall directors, Philip Turner and David Roper, who had inspected Wassall's new acquisition. Miller said the directors found MCG was a well run, well nourished company.

"We want it to run as it is running, to stay independent," Miller added. He conceded some changes would be made to MCG, but said plans had not been released yet.

Wassall directors said that when MCG Plc was bought it soon recognised that any scope for improvement in the overall performance of MCG international operations had centered in the UK and not in SA. But, Miller stressed that the local company's technology was "state of the art and certainly not inferior to that of the UK."

The MCG Plc acquisition marks Wassall's entry into the packaging field. 5/10+1. 20/7 '70
Numsa wage demand

The National Union of Metalworkers of South Africa (Numsa) will demand a R2 an hour minimum increase in all sectors at this year's national wage negotiations. This decision was adopted at the 22,000-strong union's first national bargaining conference held in Johannesburg at the weekend.
Chubb should look safer once storm is weathered

WITH demand for security products increasing, it would seem Chubb Holdings should be a favourite share among investors. But the opposite is happening, and the group's share price has recently fallen to a 12-month low.

Chubb is a widely recognized and highly respected name within the domestic security market.

The group is divided into three major divisions - physical security, electronics security and fire security. The physical security division is involved in safe, strongroom doors, locks and related fire-resistant equipment. Chubb's electronics security operation manufactures, installs and services such products as electronic alarms, intrusion detection equipment and vehicle protection systems.

Portable and fixed fire-fighting appliances as well as chemicals and powders used to extinguish fire are manufactured and distributed by the fire security division.

Chubb's solid reputation as an industry leader allows the group to be active in virtually all sectors of the marketplace. This reputation has translated into an impressive earnings growth record for the group during the past five years.

Turnover nearly doubled to R122m for the year ended March 1999 from R64m in financial 1989. During this period, earnings per share grew at a faster rate and rose to 149.5c for financial 1999, from 25.7c in 1989.

To help explain the group's fine bottom-line performance over the past five years, chairman Dirk Ackerman told shareholders in the 1999 annual report that Chubb was a leader in its field. He further stated that the group's association with sister companies around the world enabled Chubb to keep abreast of the latest trends in the security industry, as well as benefit from the research conducted in many Chubb centres.

In discussing the group's prospects, Ackerman recognized that government's action to dampen credit demand would have an adverse impact on profit margins during financial 1999. But despite these problems, he was confident Chubb would improve its financial performance.

Judging by the latest interim statement covering the period ended October 13 1999, Chubb will have to struggle to avoid an earnings decline for the current financial year. Interim turnover rose by 17.8% to R78.1m (R64.6m), but the lower margins caused trading profit to advance by only 10.1% to R4.6m (R4.2m).

Considering the tough economic environment in this period, it seems investors would have been satisfied if earnings could have shown a similar percentage gain to the increase in trading profit.

Unfortunately, that was not to be, as finance charges rose by 239% to R1.3m (R499 000), causing earnings to drop by 6% to 49.5c (53.6c).

With interest rates set to remain at current levels for the remainder of Chubb's financial year, it appears that the interest bill for financial 1990 will be substantially above the R1.3m of the previous year. It is therefore understandable that investors are worried about Chubb's bottom-line results for financial 1990.

Chubb derives approximately 40% of its turnover from the building industry, which is being severely affected by high interest rates.

Both the electronics security and physical security divisions have been hurt by this situation.

But management is confident that their continuing efforts in developing a more stringent asset management policy will enable the group to reduce interest bearing debt significantly during financial 1991 and thereby reduce finance charges.

In addition, the group is identifying non-performing assets which will eventually be disposed of. Consequently, when economic conditions improve, investors should again begin to focus on the strengths of the group. This could cause the share price to recover quickly, as Chubb's rating against the industrial index has fallen to one of its lowest levels since it was listed on the JSE in 1979 (see accompanying graph).
Longmiles operating profits climb

LONGMILE has lengthened its margins and turned a 20% growth in turnover into a 25% improvement in operating profit for the six months to December, results released yesterday disclosed.

Turnover rose by R37m to R220m from R183m in December 1983 and operating profit to R23m from R18,7m. After a higher interest bill and a slightly reduced tax rate, attributable profits came out 24% better than R10,7m in 1983 (R8,6m).

Earnings a share climbed by a similar percentage to 21,4c (17,2c) on which a conservative interim dividend of 3c a share was announced, unchanged from the previous year.

Chairman Hendrik Potgieter said he had warned shareholders in his annual statement the current year would see a slowdown in the group's recent growth.

"While growth has slowed down moderately, it is still at an impressive level in the light of the brakes on the economy," he said.

"We expect to exceed our first half results during the remaining six-month trading period and should exceed the annual earnings per share of the previous year."

Longmile has four major divisions. It held 50% of Tredcor, a tread rubber manufacturing and retreading business, until early this year when the merger of Tredcor with Tycon (formerly Goodyear) was announced. Longmile now holds 18% of the merged firm.

Benefits

At the time of the announcement of the merger directors of the companies involved said the effect on earnings and net asset value would be established only with the release of results to December.

Potgieter said yesterday the merger was unlikely to have a meaningful short-term effect on the group's earnings or asset value but should produce longer-term benefits.

Longmile's other manufacturing interests are silencers through Silencer Services, industrial fasteners trading as Utility Fasteners and women's clothing with a range of labels.

Interest charges in the period under review rose to R6,8m from R4,2m. The directors said this was caused by higher interest rates and the traditional first half build up of working capital for the Christmas period.
Cullinan records a slight drop in earnings

Cullinan Holdings recorded a slight drop in earnings for the six months to December 31 and was unlikely to show growth for the full year, financial director Roddy Stewart said yesterday.

Cullinan is a diversified industrial holding group with electrical, ceramic and property interests.

Reduced margins and severe labour problems were largely responsible for the poor performance, Stewart said. "The engineering division did not perform as expected and a significant reduction in demand for ceramic products occurred."

Earnings per share were 79.5c (81c) and the dividend was maintained at 17c.

Despite a 44% boost in turnover, which reached R336.4m (R233.5m), operating profits increased only 7% to R23.8m (R22.1m). Interest paid more than doubled to R8.2m (R3.3m) resulting in pre-tax profits of R15.34m (R19.76m). This figure was 18% lower than for the previous year.

Attributable earnings declined 1% to R11.1m (R11.2m). That the decline was only 1% can be attributed to Cullinan introducing partial provision for deferred tax.

This, directly related to Cullinan's substantial capital expenditure programme, resulted in the tax charge falling to R34.009 (R48.68m). Cullinan's balance sheet was significantly changed at the interim date. Capital employed increased more than 30% to R308.9m (R236.1m) and total interest bearing debt soared 93.9% to R111.7m (R57.6m).
Niche market provides Fraser Alexander with high growth

OPERATING in very much a niche market has enabled materials handling group Fraser Alexander to have an annual compounded growth rate of 46.8% in earnings a share over the past four years — sustained in its recently announced interim results.

Although the group is already operating on a high base, chairman Peter Flack is predicting further growth by the year end. After doubling earnings last year, the group has pushed up earnings a share by 26% in the six months to December.

However, with well over half of sales dependent on the mining industry, Fraser Alexander may well be swimming upstream with the recent drastic cost cutting in gold mining and the slowdown in civil engineering.

Flack says the group has hedged against the downturn by mechanising some of its operations, notably improving performance within the utility services division and underground contracting operation.

The group's mining division, still the biggest contributor to group sales, posted turnover by 8.5% and pre-tax profit by 30.7% to R58.7m and R8.1m respectively last year. Analyst Wynand van Niekerk of Senegal, Mouton & Kitshoff reckons the division will contribute R75.8m to group turnover and R11.8m to pre-tax profit for the 1999 financial year.

Active in ash disposal, coal stockpiling and reclaiming, station clearing, horticulture and waste management, the utility division capitalised on several large contracts with Eskom last year to bolster turnover by 110% to R21m and pre-tax profit by 15% to R2.3m.

Hire

Flack expects substantial growth in this division through contracts from city councils and smaller municipalities for the group's "Trashmaster Compaector", the smallest of which costs R500,000.

Currently three Trashmasters are on hire to the Johannesburg City Council. Van Niekerk feels this division has the largest growth potential, due to the privatisation of waste management and cleaning services.

Following the acquisition in 1997 of Vianini Pipes from Everest, the group's concrete division is the second largest supplier of concrete pipes, culverts and manholes in SA, with about 30% of the market. The concrete products division also buys and sells about R20m worth of equipment annually. Last year the division donated 25.1% to R6.4m (R3.7m) to pre-tax profits.

Flack says the construction division enjoyed its best year last year, handling a greater workload without any appreciable increase in overheads. Turnover climbed by 13.7% to R44m (R38.7m) with pre-tax profit leaping by 12.4 times to R6.7m (R700,000).

Based on the divisional analysis and the half year performance, Van Niekerk has forecast total group pre-tax profit up by 40% to R35.7m (R25.5m) for the year and, after accounting for an effective 40% (38%) tax rate, attributable earnings of R22m (R16.4m).

With 12.26 million shares in issue, this translates into 179c (133.8c) a share. On its present share price of 1060c, this would put Fraser Alexander on a P/E of 5.9 times versus the sector average of 6.6. Van Niekerk believes that on its track record and potential, it deserves a P/E rating of 8.0.
Warning sounded by Amic results

BRENT MELVILLE

SUNDOWN results from Anglo American Industrial Corporation (Amic) are a precursor to seriously deteriorating SA business conditions, Amic chairman Graham Bousted says in his annual review.

In the review, announced yesterday, Bousted said that while it was clear government was intent on bringing the domestic economy under control and reducing inflation, the short-term effects would continue to restrain business activity.

For the year to December, the group posted an earnings rise of 26% to R171m (R150m) per share. The rise, however, marks a slowdown from an "extremely buoyant" first half in which Amic showed an earnings leap of 30%, and was just shy of market expectations, analysts said.

Simpson McKie industrial analyst Mark Forshaw said he had been looking to an earnings and dividend rise of 30% - to 1290c and 375c respectively. A final dividend of 240c was declared, bringing the total for the year to 350c (290c).

Turnover for the industrial giant, whose subsidiaries include Highveld Steel and Mondi Paper, with AECI, Altron, Dorbyl, Rennies, Samcor, and Tongaat stabilised as investments, rose 22% to R5,80bn (R4,7bn). Earnings from operations were 32% up at R1,1bn (R847m) with associates donating a further R388m (R218m).

Taking into account finance lease charges of R71m (R76m) and interest payments of R55m (R57m), pre-tax earnings were R1,4bn (R1,8bn). The tax charge, with deferred tax provisions of R176m (R240m), took a further R444m (R337m).

In terms of contributions from subsidiaries, Highveld Steel, capitalising on the favourable world prices of steel and ferro-alloy products over the year, was by far the brightest jewel in Amic's crown.

Attributable earnings kept by 16% to

To Page 2

Amic results

R322m, or 450c a share, and Bousted says there are indications that the group is likely to do equally as well in the coming year. Scaw Metals' year-end earnings were 24% exceeding market expectations of 22%. Earnings of R77m (R62m) were supplemented by its 55% holding in engineering group Haggie.

On market expectations that the group's pulp and paper interests should have benefitted from higher paper prices, the actual results of Mondi were disappointing. Bousted attributed the negligible rise in attributable earnings of R163m (R153m) to the late-year softening of world prices.

In line with improving production capacity and product quality within its core businesses, Amic has involved itself in substantial development programmes at Mondi, Highveld and Scaw, said Bousted. Total capex for the year amounted to R313m (R232m), although gearing remained stable at 20% (25%).

Bonar International experienced a "severe" downturn in demand for its exploration drilling equipment as a result of the lower gold price. attributable income dropped by 16% to R67m (R97m).

Samcor kept its share of the market, though total new vehicle sales fell by 15% last year, said Bousted. He said new acquired Karl Schmidt Limited and Samcor were well placed to meet the new "significant" opportunities afforded by phase 6 of the local content programme.

He said, however, that while the "normalisation" of SA's relationships with overseas trading partners should occur, 1993 was still likely to be a "difficult year".

"In these circumstances it will prove difficult to sustain earnings at the levels achieved during the last year, but management has set maintaining group earnings as an objective for the year," he said.

At its 9700c share price, the results put the group on a p/e of 8.1 and a dividend yield of 3.6%, against the sector averages of 8.8 and 4.3% respectively.
Cemenco offers good yield, long-term growth potential

By Lynne Peach

While Cemenco's earnings should continue to advance this year, stockbrokers expect the rate of growth to be negatively affected by the current economic slowdown which they predict will continue for most of 1990. Furthermore, they point out that when the economy starts picking up, other shares, such as consumer stocks, are likely to react quicker to the recovery than Cemenco.

However, Cemenco is trading at 7000 on a price-earnings ratio of 4.5 and provides a dividend yield of 10.7 percent. Brokers believe the share is worth holding on to in view of the above-average dividend yield and favourable long-term growth potential.

Mining industry

The group is a holding company with its subsidiaries engaged in a wide spectrum of general engineering and contracting operations, principally for the infrastructure and mining industry.

The GPC Mining division provides various services to the mining industry including deep level shaft sinking, mine development, tunnelling and major surface and underground drilling contracts.

Chairman R1 Shaw comments in the latest annual report that although local mining houses have numerous major projects in the planning stage, their contractual demands in the year ahead are unlikely to result in any major upturn.

The mechanical engineering divisions include heavy press forging operation Cemenco Forgings and Cementation Engineering and Cemenco Steel Structures.

The latter two divisions undertake structural and fabrication work, light, heavy and precision engineering as well as production and manufacturing contracts.

The activities of other group companies include the manufacture of track equipment, maintenance and construction of railway track, production of ferrous and non-ferrous castings, manufacture of electronic products and marketing of a range of mining adhesives.

In the year to September 1989, group turnover increased by 6.5 percent from R3142 million to R3347 million.

Better operating efficiencies pushed operating profit up 14 percent from R194 million to R221 million.

The 28 percent rise in the interest bill from R41 million to R53 million was more than offset by a decline in the effective tax rate from 37 percent to 27 percent.

This pushed after-tax profit up 23 percent from R96 million to R122 million.

After deducting outside shareholders' interest and preference dividends, attributable profit increased 29 percent from R83 million to R107 million.

Earnings a share rose from 120.4c to 155c. The dividend for the year was 75c, compared with 42c in financial 1988.

Preference shares

The dividend exceeds the triggering figure of 62.5c which automatically converts the preference shares into 2.1 million ordinary shares with effect from October 1 1989.

This transaction results in GPCA directly holding 23 percent of the total issue of 9 million ordinary shares.

The balance sheet showed a deterioration in gearing from 63.7 percent a year ago to 67.1 percent and a decrease in cash resources from R18 million to R11 million.

Net asset value appreciated 11 percent over the year from R16c to R18c.
ON A PLATEAU?

<table>
<thead>
<tr>
<th>Year to December 31</th>
<th>1988</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (Rm)</td>
<td>4 726</td>
<td>5 777</td>
</tr>
<tr>
<td>Operating income (Rm)</td>
<td>847</td>
<td>1 128</td>
</tr>
<tr>
<td>Share of associates earnings (Rm)</td>
<td>218</td>
<td>283</td>
</tr>
<tr>
<td>Investment income (Rm)</td>
<td>76</td>
<td>92</td>
</tr>
<tr>
<td>Attributable earnings (Rm)</td>
<td>517</td>
<td>653</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>963</td>
<td>1 211</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>280</td>
<td>380</td>
</tr>
</tbody>
</table>

A balance sheet has not yet been published for Amic, but chairman Graham Boustedt notes that the debt-equity ratio has been reduced to 20% (25%), despite capex rising to R831m (R432m).

However, international prices of Highveld's major products started tumbling around mid-year. Boustedt says there are indications that world prices of Highveld's products may have bottomed out in the first quarter of 1990. That may be the best scenario that management can hope for. Production, meanwhile, has been curtailed and Highveld chairman Leslie Boyd is forecasting "significantly lower" earnings in 1990 (see Companies).

Mondi: Paper, the largest single contributor to Amic's 1988 equity earnings at 19.9%, last year saw attributable earnings virtually static, rising by only R1m to R163m. It, too, is emerging from the commodities rollercoaster. World pulp and paper prices rose until mid-year then softened progressively, with the result that operating profit rose more slowly, while earnings were also hampered by a heavier interest burden.

The attributable earnings of 100%-held Boart International fell by R10m to R57m, because the lower gold price brought about a substantial reduction in prospecting activity in many areas.

Wholly owned engineering subsidiary Scaw Metals, a laggard in 1988, lifted earnings by 24% to R77m. It had help from its 35.3% interest in Hagge, while in Scaw's own operations the grinding media division produced better results and the rolled products and foundry divisions achieved higher capacity utilisation through increased exports. Boustedt notes that the domestic market for Scaw's foundry products has remained depressed.

Heavier going in recent months has also been reported by another major contributor, 39.5%-held AECI (Fox February 23). Though full-year EPS were up by 23%, in the second half the pace slowed to 14.4%.

The final dividend was lifted by 17% and the total pay-out was up by 21%, with the cover further increased to 3.5 (3.3) times. For this year, rather than simply forecasting a slowdown, Boustedt says it will be difficult to sustain earnings. The share has slipped to R92 from the 12-month high of R112.

Andrew McNulty
Tough wage talks ahead for giant metal industry

By DICK Usher
Business Staff

ANNUAL wage negotiations in the giant metal industry get underway next week in what promises to be the toughest and most complex series of talks for many years.

Employer organisations in the Steel and Engineering Industries Federation (Sefisa) meet on Monday to formulate an initial response to trade union demands, of which the most significant are likely to be those from the Congress of South African Trade Unions (Cosatu) affiliated National Union of Metalworkers (Numsa).

Also facing interesting wage negotiations is the leather industry where for the first time a Cosatu affiliate, the South African Clothing and Textile Workers Union (Sactwu), will participate in talks from the outset.

Numsa's role in negotiations this year will, from an employer perspective, be complicated by positions arising from the union's national bargaining conference held in February.

Aiming to unify the different sectors of Numsa, it compiled central demands as the basis for all Numsa negotiations at company and industry levels this year.

Thus, while separate negotiations will take place in the iron and steel, tyre and rubber, automobile manufacturing and motor industries, the bargaining committee for each sector no longer has the power to decide on final settlements or deadlocks.

These will have to be approved at a further national bargaining conference in June, opening the way for settlement in one sector to be delayed by dispute in another sector.

Talks in the motor industry, covering employees in garages and workshops, opened earlier this month, but no date has yet been set for automobile industry talks.

Employer sources indicated that, following last year's disputes around centralised bargaining, this year's auto industry talks would again be national. All employers except Delta were due to participate, but no demands had yet been received from Numsa.

In the Sefisa talks, Numsa's central demands are for an minimum across-the-board increase of R2 an hour and percentage increases ranging from 24 percent to 56 percent, a 40-hour week without loss of pay, a limit on overtime, the right to strike and a pocket, an agreement not to implement the 1988 amendments to the Labour Relations Act, tighter conditions on retrenchment and redundancy, improved maternity, paternity and sick leave benefits.

The union has also presented demands on job creation, time of for shop steward training and proportional representation on the industrial council.

Leather industry talks are already complicated by a dispute about the starting date.

Sactwu, which claims large membership gains from the National Union of Leatherworkers, is this year for the first time submitting its own demands to the industrial council.

It was admitted to the council last year following an court application, but negotiations had already started at that stage.

According to Sactwu spokesman Ebrahim Patel, the union has signed up about 1,200 members in the Western Cape in the past few weeks and claims about 8,000 members overall in the industry.
Farm-Ag acquires Staalchem interests

FARM-AG is to acquire Staalchem's agricultural and chemical interests for R15.4m.

Staalchem's remaining assets will be cash and property worth R15.4m, equivalent to 46.9c a share.

The deal is effective from March 1, 1989, and payment includes R10m owed to the cash shell Staalchem.

Farm-Ag, which holds 77% of Staalchem's equity, is involved in the basic manufacture, formulation, wholesale and retail distribution of agricultural chemicals and the contract packing of toiletries.

The group is the target of market speculation that it is contemplating a merger of its chemical interests with another player in the agricultural chemical industry.

Farm-Ag and Rule issued a cautionary announcement to shareholders last week that negotiations were in progress that could affect their respective share prices.

ACHMED KAREEM

Farm-Ag has been criticised for being over-gazetted, but director Richard McKelligon says the company has taken action in this regard.

"In November 1989, Farm-Ag subsidiary Staalchem disposed of its steel roof sheeting business which resulted in the borrowing of that subsidiary being reduced by some R10m. (F9)

"Farm-Ag announced in January that it had disposed of its domestic electrical division which should result in group borrowing being reduced by a further R22m.

"Further, Farm-Ag toiletries subsidiary Potter & Moore has disposed of certain of its brands which will result in a further reduction in borrowing to the tune of Rm," he said.

Farm-Ag retains its 23% interest in listed bearing distributor Bearing Man, and its 40% holding in Hacks.
Surging metal prices augur well for SA

By Derek Tommey

This was supposed to be a year of moderate recession for the West.

Its economy, after all, shown almost eight years of previously unexperienced sustained growth, and most Western economists had been expecting it to take a breather.

But for reasons which are not clear, the West is not experiencing the expected slow-down.

The 29 percent jump in SA’s exports (mainly metals and minerals) in January and February is a good indicator that the West is not just growing, but growing at a faster rate.

More evidence of this growth can be found in the movement of metal prices and metal commodity indices.

In the past four weeks the price of lead has jumped 80 percent from £450 a ton to over £500 a ton. The sterling price of nickel has risen 32 percent, of zinc 19 percent and of copper 17.1 percent.

A more comprehensive indicator is the index compiled by The Economist.

In the past four weeks it has risen 16.7 percent in dollar terms, 23.4 percent in sterling terms and 19.2 percent in special drawing rights (SDRs) — gains which point to strong demand for metals in the Northern Hemisphere.

The sharpness of some of these rises indicates a slight degree of panic buying, suggesting that some manufacturers, anticipating the forecast downturn, reduced their stocks and are now struggling to rebuild them.

This is good news for South Africa, even though it is not a dominating producer of these metals, as it is of gold, manganese, chrome and platinum.

The higher prices are an indication that the price of metals South Africa does produce and export in large quantities should also improve, if they have not done so already, as they are generally used in combination with the main base metals.

The price of SA minerals has probably already started to rise since the metals and minerals share price index has risen 16 percent in the past four weeks, suggesting that the share market is expecting better times.

Altogether, the rise in prices seems a good omen for South Africa being able to continue exporting large tonnages this year, with great attendant benefits for the balance of payments and economic growth.

Though it is not certain, it would seem plans for the construction of East Europe could have a lot to do with the West’s upturn.

East Europe is desperately seeking plant and equipment and better quality raw materials to improve living standards.
Farm-ag on Tuesday relates to other negotiations, expected to be completed in about three weeks. The company retains 40% in hosery-maker Hack's Holdings and 23% of listed engineering company Bearing Man. McElligot says these are independently run and returns are satisfactory. There are no plans to dispose of them.

The end-February accounts will include the first-time consolidation of Staalchem. McElligot says he expects debt to be reduced by about R29m but this will not all be reflected in the 1990 accounts.

The group's ability to reduce debt to more acceptable levels this financial year seems limited. McElligot suggests that the debt equity ratio may deteriorate from the 1.17 of last year-end, but that a big reduction in borrowings is expected in the current half-year. He adds that successful conclusion of the present negotiations would further reduce debt.

Farm-ag initially acquired a 35% interest in Staalchem in April, as part-payment for its agricultural chemical wholesaling division Farmach, and 50% of Agroserve, which holds agricultural product registrations. Farm-ag director Richard McElligot says working capital requirements estimated by Staalchem management before the sale were too low. Additional funds were needed but Staalchem was already overborrowed and bank finance was not available. Farm-ag underwrote a R4m rights issue, which was undersubscribed, and the group was left with a 77% stake.

In addition to its agricultural chemical interests, Staalchem distributed steel roofing sheeting. The roofing sheeting interests and Greenschem, which produces lime chemical stabilisers, were sold with effect from end-February 1989 to former Staalchem MD Kobus du Toit, for R1.2m and about R13m respectively. He was joined by a number of Staalchem managers, including the financial director and company secretary. McElligot says these operations were unprofitable, their working capital requirements were excessive and they were outside Farm-ag's area of expertise.

In effect, Farm-ag was financing the entire chemical operation. It has now decided to buy back its former wholesale chemical operations, as well as the Staalchem retail operations (Staalchem Seed and Chemicals), for about R15.4m, and convert Staalchem to a cash shell.

The only asset left in Staalchem is a property company which owns the head office building in Isando. Its book value is R3.55m, but McElligot estimates market value at about R2.8m. After sale of the property, Staalchem will have about R15.8m cash. With 33.7% shares in issue, net worth will be 47c, compared with the market price of 30c. The share was listed at 80c in 1987. Farm-ag, meanwhile, has disposed of other businesses to strengthen its balance sheet and refocus on the agricultural chemical sector, mainly pesticides, fungicides and herbicides. Stock and fixed assets of the domestic appliance and equipment division, held in the M5 group, were sold to Wolf Garden Machinery for about R11m cash, excluding debt and liabilities. Potter & Moore, the toiletries subsidiary, disposed of certain brands for about R4m.

A cautionary announcement issued by
Unihold aims to boost return on total assets

UNIHOLD, whose core activities are within the engineering, foundry and electrical industries, is raising to 30% its targeted minimum return of operating profits to total assets.

To reach this objective, management will have to achieve an improved turnover-to-assets ratio while at the same time eliminating areas of loss, and improving or eliminating marginally profitable activities, says chairman James Haslam in his annual review.

Unihold improved its return on total assets to 28% in the year to December 1989 from 1988's 20.3%.

Haslam says the group is once again budgeting for major growth in earnings from all divisions. Part of this growth is obviously of an inflationary nature, but a substantial portion is related to new market opportunities in its core business activities. At this stage it is impossible to project earnings for 1990 until after the conversion of the balance of the debentures into ordinary shares in May. However, shareholders can judge the effect of conversion by the calculation of fully diluted earnings for the year to December 1989. These were 30.5c a share (1988 36.4c) compared with actual earnings of 37.5c a share (38.6c).

18% Listing

Shareholders will soon be receiving a circular on the proposal to constitute U-Control (formerly Unihold Investments) as a pyramid holding company controlling 80% of Unihold U-Control is expected to be listed on the JSE with effect from April 9.

The final ordinary dividend of 8c will be payable on April 20, which is later than it would normally have been paid. The reason for this delay is the listing of U-Control.

Unihold CE John Butler reports that prospects for 1990 are good, and a rate of growth in turnover similar to that experienced in 1989 is expected. The rate of profit growth will be more moderate.

Last year, turnover rose 38% and operating income soared 70%. The increase in the group's operating margin from 11.1% to 13.3% was due to improved manufacturing processes and close attention to productivity and cost control at all levels.

Tax losses available to the main operating company of the group were fully utilised in 1989. Taking the residual benefit of tax losses carried forward into account, the effective rate for the year was 30%. The rate will increase this year.
Sanlic Holdings boasts 275% turnover rise in interim results

ELCENTRE controlled DIY company Sanlic Holdings has announced substantial improvements in its six-month interim results released today, with a 275% hike in turnover and a 39% rise in earnings per share (EPS).

Turnover, operating profits and attributable profits for the half year all exceeded their equivalents for the entire previous year.

Turnover for the six months was R38,9m — 81% up on the year-end turnover of R21,5m announced last June and 275% above the December 1988 six-month turnover of R9,0m.

Improvements from the six-months to December 1988 include a rise in operating income by 244% to R3,3m and a 404% rise to R1,5m in attributable profits.

This was dented by goodwill write-offs of R12,000 as a result of acquisitions.

This figure is still 176% above year-end profits of R240,000.

EPS grew to 2,5c — 59% up on the previous six-months' 1,6c, and 1,1c off the year-end's 3,6c.

During the six months under review Sanlic acquired various companies for a total consideration of R33m settled by the issue of shares, debentures and cash.

Sanlic chairman Nathan Moweszkow et said the increased turnover was mainly a result of the acquisitions and stressed it had been an exceptionally difficult trading period having to absorb the acquisitions and still maintain trade and contact with customers.

Stock

On top of that the acquisitions brought about substantial overstocking which stood at R24m in December. This was expected to drop to R17m by June.

He said the 511% hike in finance costs to R1,5m was a result of high interest rates and inventory funding which should drop with the improved stock position.

The group's operations, he said, were being consolidated and had been strengthened by the acquisitions. Prospects were good with earnings for the second six months likely to exceed the first six.

Year-end earnings are expected to be 42% above last year's 3,6c.
Missing the mark

Aimark has again failed to meet management’s earnings forecast, with the first half’s profit growth failing to match that of turnover. The trading misery was compounded by sharply higher finance costs, which combined with narrower margins to restrict cash flow and the group’s ability to finance appropriate inventories.

Results for the six months to end-December make a mockery of chairman Ivan Cohen’s annual report forecast of “a return to greater profitability” and “earnings exceeding 7.5c” for the 1990 year.

Turnover is not disclosed, though Cohen says it rose “substantially.” In 1988 and 1989, sales grew by 110% and 76% from unspecified bases.

The firm slid into the red in the second half of fiscal 1989 after a fundamental change in trading conditions. There was a major swing from direct indent sales to ex-warehouse sales. That shifted stock financing directly onto Aimark when deteriorating consumer demand slowed stockturn. Interest-bearing debt increased sharply to finance the larger inventories and helped lift the half-year’s interest payments to R399,000 from R85,000.

The picture became even more dismal as money had to be spent on infrastructure needed to deal with the changed trading conditions.

Margins have been under pressure since mid-1989 and Aimark has been trying to source its goods locally to reduce the effect of import surcharges, currency fluctuations, supply uncertainties and to limit financing costs. Nevertheless, imports still comprise 80% of sales.

Cohen believes Aimark requires additional capital to finance the rapid growth in turnover and he is looking for an underwriter. He hopes to be back in the black by the end of calendar 1990, the new fiscal year-end. Margins have already improved, Cohen says. Meanwhile, the next few years’ cash flows will be ploughed back into the business rather than paid to shareholders.

Pan Borkum
Barlow Rand, Cosatu set for talks

Representatives of five Cosatu affiliates are to meet Barlow Rand in a bid to renegotiate collective bargaining structures. The meeting is set for April 9.

The Cosatu affiliates said in a statement that Barlow Rand's approach to industrial relations is a recipe for major conflict.

Cosatu unions were willing to negotiate with Barlow Rand into the 1990s, but, if an agreement could not be reached the unions had committed themselves to a sustained campaign against the company. This would include shopfloor action, meetings with the ANC, and further contact with trade unions outside South Africa.

The planned meeting follows discussions by regional shop stewards councils from Barlow Rand plants.

Some of the recommendations include:

• Demands about collective bargaining, retrenchment and job security at all Barlow Rand companies.
• Barlow Rand's head office should revise its position on centralised bargaining, right to strike, deregulation, and basic worker rights.

Clarify issues

A spokesman for Barlow Rand, Mr H Bell, said the meeting would clarify issues that led to the announcement of a Cosatu campaign against Barlow Rand. The discussions could lead to fruitful alliances between both parties.

But, Mr Bell added, it was not Barlow Rand's intention to enter into negotiations about collective bargaining arrangements.

The Cosatu affiliates involved are the NUM, National Union of Metal Workers (Numsa), Paper, Pulp, Wood and Allied Workers' Union (Ppwau), SA Clothing and Textile Workers' Union (Sactwu), and the Food and Allied Workers' Union (Fawu).
Cosatu, Barlow Rand find common ground

By Shehnaaz Balbulla

Talks between representatives of six Cosatu affiliates and Barlow Rand early this week were described as "useful" yesterday by Barlow Rand.

Cosatu affiliates entered the talks on Monday in a bid to renegotiate collective bargaining structures with Barlow Rand.

A spokesman for Barlow Rand, Mr Ken Ironside, told The Star the meeting was useful and had set an agenda for further discussions.

Cosatu said in a statement yesterday that a larger measure of agreement existed between the parties on basic worker rights.

Barlow Rand had undertaken to respond to a union memorandum by May 3.

According to the statement, Barlow Rand indicated that in terms of the Labour Relations Act (LRA), it supported and was prepared to implement a draft agreement which had been prepared in the recent talks between Saccoola and Cosatu/Nactu.

The talks between the parties were centred around centralised bargaining, job security, deregulation, basic worker rights, the LRA, strike dismissals, social benefits and restructuring for a post-apartheid South Africa.

Cosatu affiliates stressed that the critical issue which had to be resolved was Barlow Rand's policy that all matters concerning industrial relations be handled at plant level.

This policy prevented worker unity across plants, the unions said.

Another major union concern was Barlow Rand's reluctance to participate in Industrial Council bargaining.

A meeting between the Cosatu affiliates and Barlow Rand would take place in the coming two months, the union added.

Cosatu affiliates involved are the National Union of Mineworkers, the National Union of Metal Workers, the Paper, Pulp, Wood and Allied Workers' Union, the SA Clothing and Textile Workers' Union, the Food and Allied Workers' Union and the Chemical Workers' Industrial Union.
Blaming government

Interim figures from the Pickard group were released with little fanfare last week. It seems shareholders were informed directly, without advertisements being placed in the press. That may not be altogether surprising, as management can scarcely have been proud of results battered by interest payments and grim trading performances.

Principal company Picahph — whose main subsidiaries are 90%-held Picahph, Pecprop (78%) and Union Wine (58%) — slumped to a loss of 44c per share, after turnover dropped and margins narrowed from 9.8% to 5.8%.

Amidst the worst hit was consumer appliance company Picahph, the group's largest income contributor last year. At June 30, Picahph held interest-bearing debt of R16.4m and shareholders' funds of R46m. At the end-December interim, total debt had been reduced by some R20m but the first half's interest bill still rose to R15.2m from R11.2m in the corresponding period of 1988.

The net result was an after-tax loss of R3.3m (R8.4m profit). GM Jan Pickard Jr. says R30m of brown goods have been sold at a loss to clear stock that was difficult to move.

Union Wine lost R1.3m after payment of the interim preference dividend. Chairman Jan Pickard Jr. blames the slump in liquor sales on government's fiscal and monetary measures — the government gets blamed for a lot of things these days. Borrowings have jumped to R44m from the year-ago R33m and the interest charge of R5.5m (R3.7m) more than wiped out the operating profit.

Pecprop is the only non-financial company in the group to record a profit after interest and tax. Operating income was higher than in the previous year's interim period. The improvement came largely from sports and leisure wear manufacturing and, strangely, from Logans Sports, the sporting goods retailer just sold to management for R1.2m after being bought barely eight months ago.

About half of Pecprop's pre-interest profit came from dividends from the R16m investment in preference shares. Here, too, finance costs were the bugbear.

Meanwhile, he says, the white and brown goods industry should stop "killing itself" by competing on price alone. It is, he reckons, "the seed of its own death." He says the group will have to continue to cut costs and improve efficiency and product range.

The board will only consider a rights issue to recapitalise the group when it is clear that the market has run its "sick" phase, after the market recovery. At that stage, there seems to be no clear plan to lift trading profitability and shareholders could again see some distress inventory sales.

Pecprop's share price peaked at 50c, one-tenth of its August 1987 peak. And there seems little prospect of an early recovery. Pickard Jr. says sales remain depressed, the brown goods market is suffering from over-capacity, while consumer demand is restrained by high interest rates. Considering the group's own debt position, the six-month loss will probably be extended into a loss for the year.

Picahph's price has dropped from R18 in August 1987 to its present 55c, while historical earnings and dividend yields are 31.1% and 12.5% respectively.

Gerald Horsham
Barprop in line with forecast

Barlow Rand Properties has announced an interim loan stock interest payment of 54,32c a unit, equating to a rate of interest of 18,66 percent a year.

An interim dividend of 5,34c an ordinary share has also been declared for the six months to March 31.

Operating income before interest and tax improved by 13 percent from R19,5 million to R22 million, resulting in an operating profit before investment income and taxation of R5,8 million.

18,7 percent up on 1989. Income from investments increased by 45 percent from R12,6 million to R3,8 million due to higher interest rates on cash investments.

Tax absorbed R4,8 million (1989 R3 million). The higher tax bill arose mainly from the receipt of dividend income from short term investments in preference shares.

The results are in line with the forecast by chairman Evert Groeneweg, in his November annual review. — Sapa
Healing for a fall

Malbak executive chairman Grant Thomas has revised downwards his forecast of earnings for the year to end-August. Whereas last October, the projection was for figures “of a similar order,” now he expects “a small decline, perhaps 10%.”

Thomas believes trading conditions are exceptionally weak and other industrial groups will suffer similar setbacks. With these interim figures, which include attributable earnings up 10% and EPS only 4%, Malbak has signalled an end to the expansion embarked upon with the takeover of Protea in 1984. In the past five years, turnover has grown ninefold, from £827m to £7.3bn and earnings fivefold, from 23.9c to 136.1c.

The group’s half-year began in September and Thomas says it took the full brunt of the post-election measures against inflation and consumer spending. He contends the major divisions fared well in the circumstances. Margins were maintained at 8.4% and turnover and operating profit both increased 21%. Interest paid was higher by £30m or 49%, gearing was unchanged at 63% despite the write-off of R18m related to Quality Tyres.

Strong performances were reported by packaging group Holdings, which contributed 24% (22%) of earnings, engineering and tuming supplies 20% (21%), branded consumer goods, especially Eileen and Malbak Motor Holdings, 26% (30%), and Kanhyom 15% (13%).

Divisions which declined were development, 4% (7%), due to the effects of bloodletting in the computer industry on ICL. and a price war in the chemical industry which hit Protea, and international with a negative 3% (2%). Thomas says Malbak’s results for March were not good and he doesn’t believe the economy will improve this year. The group’s earnings usually accrue in a ratio of 45:55 in the first and second halves. The tax rate has been held at 33% for the past 18 months but will rise as D&H is moving to a full tax rate and assessed losses are running out in Standard Engineering and Holdains.

Divisions strong in the first half should continue to lead the group. The generally cyclical engineering sector is being buoyed by Mossgas, and Thomas expects Standard Engineering to continue reflecting this.

Malbak has a patchy record with acquisitions. Kanhyom did well but the purchase of MY Pic has been a disaster Thomas admits that too much was paid for MY, which is now Abercon’s major asset (see “Saving Abercon”).

Management envisages no restructuring, acquisitions or other major moves by Malbak in the second half. Holding the ship on course is apparently work enough.

The international division is a small contributor to Malbak. The Quality Tyres investment was even smaller but these problems have eroded Malbak’s share price. Its credibility will improve only when management has convincingly resolved them and shown it can perform as well as other major industrial groups in the downturn.

MUCH SLOWER

<table>
<thead>
<tr>
<th>Month</th>
<th>Feb 28</th>
<th>Aug 31</th>
<th>Oct 30</th>
<th>Jan 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>3,146</td>
<td>3,015</td>
<td>2,957</td>
<td>2,897</td>
</tr>
<tr>
<td>Pre-tax</td>
<td>216</td>
<td>286</td>
<td>244</td>
<td>111</td>
</tr>
<tr>
<td>Attributable profit</td>
<td>101</td>
<td>158</td>
<td>111</td>
<td></td>
</tr>
<tr>
<td>Earnings</td>
<td>54.6</td>
<td>85.6</td>
<td>68.6</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>12.6</td>
<td>18</td>
<td>12.5</td>
<td></td>
</tr>
</tbody>
</table>

Teague Payne
A first for Toco

By Don Robertson

TOCO Holdings has made its first acquisition — Reliable Pressings & Engineering — for R15-million cash.

Toco, which became fully independent after a management buy-out in May last year, has streamlined operations, upgraded facilities and strengthened operational management.

With an improved balance sheet and a positive cash flow, the industrial product manufacturer is ready for organic and acquisitive expansions.

It has reduced borrowings to about 25% of assets and hopes to pay cash for future acquisitions. It has cash and borrowing facilities of about R15-million.

Toco will focus on companies which make industrial products and plans to make more acquisitions this year.

Reliable Pressings was established 18 years ago by current managing director Aubrey Friedman. It makes small metal pressings for the engineering, electronics and general industrial markets.

It should fit in well with Toco because it has traded in the past with Versatile Gaskets, a subsidiary of its new owner.

Toco managing director Adrian Goodman says “We intend to develop Reliable Pressings by enabling its current management team to focus on its proven abilities in product design and manufacture. Marketing will be handled by Toco.”

Toco forecasts an increase in earnings and dividends for the year to March after a 20% rise in earnings at the half-way stage.
GENCOR FIM 415190

Losing steam

Softer commodity prices and a more stable rand are exacting an inevitable toll on some of Gencor's star performers of the past few years. In the 1989 year, some two thirds of attributable income was derived from just divisions metals and minerals — primarily Samancor and Sappi.

This year, Samancor will be hard pressed to maintain annnualised EPS and Sappi is almost certainly facing a decline. Other significant businesses such as Malbank, gold and platinum are also looking soggy. Gencor is now looking largely to its energy division, Engen, financial activities and coal to lift EPS for the full 1990 year.

ENERGY BOOST

<table>
<thead>
<tr>
<th></th>
<th>Feb 28</th>
<th>Aug 31</th>
<th>Dec 28</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income (Rm)</td>
<td>395</td>
<td>444</td>
<td>468</td>
</tr>
<tr>
<td>Pre-tax income (Rm)</td>
<td>287</td>
<td>322</td>
<td>369</td>
</tr>
<tr>
<td>Attributable income (Rm)</td>
<td>486</td>
<td>596</td>
<td>707</td>
</tr>
<tr>
<td>Prior period (Rm)*</td>
<td>49</td>
<td>—</td>
<td>25</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>46.5</td>
<td>88.0</td>
<td>80.1</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>12</td>
<td>22</td>
<td>14</td>
</tr>
<tr>
<td>* Mobil earnings for July and August</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figures for the six months to end-February look strong enough, with EPS up by 29% but chairman Derek Keys makes no bones about second-half prospects. "We won't make real growth in EPS for the full year," he says. "This is going to be a tough six months. But, unless something unexpected happens, we'll end with earnings somewhat higher than last year's."

That would still mean a jump in total profit. After last year's R1,55bn rights issue, the weighted average share capital will be nearly 20% higher at 1,176m shares.

A number of divisions produced little or no growth at the half-way stage. The contribution to Gencor's attributable income from gold was R79m (R77m), platinum R33m (R31m) and Malbank R56m (R58m). Malbank's own interim EPS increased by the contribution dropped because Gencor had modestly reduced its holding after passing some shares on to institutional investors. Meanwhile, Malbank chairman Grant Thomas last week forecast a fall of perhaps 10% for the full year.

Sappi was up at R1,55m (R78m) but this does not yet reflect the decline expected. Metals and minerals contributed R21m (R186m), with the 30.7% interest in Alusafl kicking in for the first time. Alusafl actually posted lower profits owing to a squeeze on product prices.

Bigger boost was from Engen, which after the acquisition of Mobil contributed R91m against the negative R15m in the 1989 interim. Engen's R201m earnings forecast for this year would add about 16c or 14% to Gencor's EPS.

Income from Genbel and investments more than doubled to R169m (R74m). Cash has been absorbed by investments such as Oryx but roughly R1,3bn of the funds raised in the rights issue is intact and is earning interest at around 18%.

Keys expects the balance will be roughly at current levels by year-end, so interest income for the second half would total some R234m.

Calls on cash may be made by the Samancor/Highveld stainless steel venture or the platinum sector but management expects the Gencor balance sheet to remain highly liquid. "My concept of the way to run a group like this is to have a cash positive position at the centre," says Keys.

After the recent spate of acquisitions, the emphasis is switching towards building up the greenfields projects. Keys does not see the group buying its profits over the next couple of years.

Keys reckons the domestic economy is weak and likely to get weaker and "tough sledding" is expected for the companies that do business locally. He notes, though, there are signs that international commodity prices have bottomed and export volumes have remained encouraging. Looking further ahead, he believes events in eastern Europe must ultimately be favourable for many of Gencor's markets.

Despite the current slowdown, the total dividend will certainly be increased, probably by at least 12%-15% to about 39c at 1,070c, the share offers a prospective yield of about 3.7% and discounts the April 20 NAV of 1,464c by 26.9%.

Andrew McNally

FINANCIAL MAIL MAY 4 1990
Pride to consolidate on Acrem Holdings

PRIDE Consultants is to sell off its assets in a re-structuring which will leave it a cash shell holding about R14.3m in cash (51c per share) before deducting restructuring costs.

The reason for the step, says Gordon Polovin, CE of Pride's holding company, Columbia Consultants, is to refocus and consolidate the group on the strong performing Acrem Holdings. After the deal, Columbia will hold about 50% of Acrem, previously 55% in an enlarged share capital of about R86m (about R2.2bn).

"Acrem has performed very strongly and is projected to perform even more strongly," Polovin says.

Pride's listing on the JSE will be suspended on March 1, it will sell its wholly-owned subsidiary, Westrust to Westtrust's management team for R20m cash, less about R1m in claims. Pride will also sell its 11.6-million shares in Acrem Holdings to Columbia Consultants for R1m in cash (69c per share). Dividends paid by Acrem after the effective date will accrue to Columbia.

Columbia will also purchase the preference shares which Pride holds in Alza Holdings for R600 000 cash. Dividends paid prior to the effective date of sale will accrue to Pride.

Pride will sell its wholly-owned subsidiary, Pride Consultants, to Columbia for R70 000.

As from June 1, Pride will sell its 30% stake in Jensen Electronics to controlling shareholder Rüdiger Jensen and Columbiafram for R3.2m (13c)."
Good results back up Woodrow's move

WOODROW Holdings will move to the main JSE board from the DCM sector with excellent results behind it.

An application to move to the main board will be made this month.

The expanded group, which made four acquisitions last year, posted a 70% rise in earnings a share to 16.1c (1993 pro-forma earnings 9.5c) on a larger issue share capital in the year to end-February.

Sales increased by 33% to R33.2m (pro-forma R7.6m) while net income climbed by 350%. A dividend of 5c has been declared, a 67% increase on the previous year's 2c.

Net operating income rose 397% to R3.6m (R384 000) interest paid increased sharply to R1.04m (R204 000) leaving net taxed income up at R1.59m (R420 000) Net attributable income after a nominal outside shareholders' interest amounted to R1.88m (R656 000) (18.1)

Earnings are expected to grow in excess of the group's requirements of double the annual rate of inflation in the year ahead.

Woodrow shares have been trading in a relatively narrow range over the past year - between a low of 70c in November 1993 and a high of 100c in February this year. Current market price is 80c.
NTC's Davis ... over-stocked and over borrowed

Activities. Trading and manufacturing

Control. A Oppenheimer (of Britain) holds 86%

Chairman: D J Adler, MD M J Davis

Capital structure. 6.8m ordinary 0.31/4m. Market capitalisation R31.4m

Share market Price 475c. Yields 9.3% on dividend. 28% on earnings PE ratio. 3.8. Coverage. 3.12-month high. 475c. low. 400c. Trading volume last quarter. 14,000 shares

<table>
<thead>
<tr>
<th>Year to Dec</th>
<th>'86</th>
<th>'87</th>
<th>'88</th>
<th>'89</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST debt (Rm)</td>
<td>211</td>
<td>286</td>
<td>25</td>
<td>16.4</td>
</tr>
<tr>
<td>LT debt (Rm)</td>
<td>218</td>
<td>18.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt equity ratio</td>
<td>0.56</td>
<td>0.59</td>
<td>0.29</td>
<td>0.40</td>
</tr>
<tr>
<td>Shareholders' interest</td>
<td>0.46</td>
<td>0.46</td>
<td>0.48</td>
<td>0.43</td>
</tr>
<tr>
<td>I&amp;L covering</td>
<td>2.74</td>
<td>2.7</td>
<td>2.3</td>
<td>3</td>
</tr>
<tr>
<td>Return on cap (%)</td>
<td>12.1</td>
<td>10.4</td>
<td>10.7</td>
<td>16.5</td>
</tr>
<tr>
<td>Turnover (Rm)</td>
<td>150</td>
<td>252</td>
<td>323</td>
<td>417</td>
</tr>
<tr>
<td>Profit (Rm)</td>
<td>5.9</td>
<td>6.1</td>
<td>141</td>
<td>28.6</td>
</tr>
<tr>
<td>Profit margin (%)</td>
<td>0.6</td>
<td>4.2</td>
<td>4.4</td>
<td>6.9</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>95.8</td>
<td>94.8</td>
<td>74.8</td>
<td>132.9</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>44</td>
</tr>
<tr>
<td>Net worth (c)</td>
<td>603</td>
<td>898</td>
<td>864</td>
<td>788</td>
</tr>
</tbody>
</table>

Income by 88% and EPS by 78%. Gearing jumped to 0.40 (0.29), though interest and leasing cover improved.

The major concern must be that gearing, a familiar problem for NTC, will rise further. Last year's rise occurred largely because stock and debtors grew by 34% faster than turnover. This is also notable that current liabilities rose 57% and current ratio improved.

Most of the stock is in the trading division, National Trading Company, in which Macsteel took a 50% stake at end-1988. NTC financial director Duncan Miller admits NTC is overstocked. Efforts are being made to improve the position but the going is tough in a difficult market in which debtors are increasingly recalcitrant.

At R3.5m authorised capex for routine projects is twice last year's figure of R6.8m, though Miller says actual spending may be lower than this. Given the stock, debtors and capex positions, gearing is unlikely to fall this year. Interest payments will probably rise somewhat.

On the other hand, Miller says all subsidiaries are profitable, whereas some made losses during part of last year. Conditions are said to be tough in the trading division but reasonable in the manufacturing companies.

Results so far this year are ahead of those of 1989 but Miller does not expect earnings to outpace inflation this year.

After the deal with Macsteel, trading and manufacturing each accounted for 50% of operating income, compared with the previous figures of 82% and 18%. Miller says Macsteel's involvement has resulted in the expected synergies and helped to curb growth in stocks. The trading division is still consolidated, as NTC has management control.

Most positive for investors is the management structure of NTC has been improved after the plunge into a loss in 1985, largely due to a high interest burden. Interests in sanitaryware and woodworking equipment have been sold and operations were separated into four subsidiaries. The appointment of Mike Davis as MD in April 1988 seems to have consolidated these improvements.

The share, like that of holding company National Trading Holdings, is tightly held. The prices did not rise matenally after release of the results, but have formed recently. Last year, the directors' optimistic forecast was fulfilled, and there is reason to be positive about the future, though some investors might want to await evidence in the interim report due in August. That gearing is under control.

Firmer structure

Investors will be asking whether the sound results National Trading Corp (NTC) achieved last year will be maintained, or whether the historically variable pattern will continue.

Turnover rose last year by 29%, operating
TSI results will hold back Barlows

By Ann Crotty

TSI's unexpected and sharp 33 percent drop in earnings has stunned most market analysts and adds significantly to the gloom that currently surrounds parent, Barlow Rand.

Unless Barlows' unlisted subsidiaries pull out some major surprises, it looks as though this massive conglomerate will be hard pressed to avoid a drop in earnings for the six months to end-March.

Barlows results will be published on Tuesday. Combined performance from the listed operations indicates a marginal increase on last year's interim earnings. But the market is looking to a drop in earnings performance from the combined unlisted operations, chiefly because of a significant deterioration in Middleburg Steel's profit contribution.

There are mixed expectations for the other interests. The earthmoving division should report higher earnings. Federated Timbers's contribution is expected to be weaker and things don't look too good for the consumer durables division.

Today's results from Barlows information technology division, TSI are well down on market expectations. Most analysts were expecting to see some increase in earnings. Instead, not only are they looking at a 33 percent drop to 17,5c (26,3c), a share, but an additional extraordinary loss of R19.2 million relating to the closure of manufacturing operations.

In difficult trading conditions turnover was down 13.5 percent to R541.8 million (R622 million). Slack demand for mid-range systems, a slow start in the restructured TS Software, continued pressure on micro computer margins and reduced manufacturing activities pushed operating profit down by 38 percent to R40.9 million (R67.2 million).
Sagging economy bodes ill for Barlow Rand performance

By Ann Crotty

Barlow Rand seems to be having a tough time of it right now, with the ERPM shadow lurking ominously in the background and a series of disappointing interim figures due for release tomorrow.

Analysts, who expect Barlow to report disappointing results, are forecasting a drop in earnings of 10 to 25 percent in some cases.

At R38.15 the share is close to its 12-month low of R33 and way off the high of R54.75.

The slide began in March when chief executive Warren Clewlow made a presentation to the Investment Analysts' Society. At that stage he made it clear to the analysts that things would be very tough for the group in financial 1990.

The 1989 annual report had already carried a warning of the difficulties facing the group in 1990, but by end-February the picture had obviously deteriorated even further.

By then it seemed the financial 1990 performance would be severely dented by a substantially lower earnings contribution from Middleburg Steel & Alloys — this division had been the star profit-generator of the group for a number of years.

The extent of the damage suffered on this front will only be known tomorrow.

Figures from the listed subsidiaries were generally down on fairly pedestrian expectations — particularly the two big money spinners Rand Mines and CG Smith.

The latter only managed a three percent increase in attributable earnings.

Romatex and Nampak (both subsidiaries of this division) turned in particularly disappointing contributions and there wasn't much help from the food division.

Difficult trading conditions in the base minerals market, a squeeze on coal margins and substantial increase in interest payments knocked performance at Rand Mines.

PPC again succeeded in pushing expectations and managed a slight real increase in earnings.

But management there warns of a tough second-half, with an increase in the tax burden and a reduction in interest income adding to the impact of the weakening economy.

Renert reported a very good performance, with strong export earnings more than countering difficult trading conditions.

RHH did better than expected in maintaining real earnings.

TSI was a major disappointment. Nothing very exciting had been expected on this front.

But the 33 percent drop in earnings took most analysts completely by surprise — it is the sort of surprise the market is ill-prepared to cope with.

Barlow Properties' performance was in line with forecasts. The UK operation, Robby, did well to post a slight nominal increase in sterling earnings.

The combined effect of performances from the listed subsidiaries is likely to be an increase of around R12 million — from R282 million at the last interim to about R304 million.

But this increase is expected to be more than wiped out by the weak results from wholly owned subsidiaries, particularly Middleburg Steel.

This is a major change on previous years when the wholly owned subsidiaries provided a massive boost to the strong earnings reported by the listed operations.

Earthmoving equipment is on line to report a nominal increase. Consular electric products will struggle to hold last year's earnings.

The overall effect will be a drop of about 10 percent in earnings for Barlow at the interim.

Looking to the full year figures, things are even bleaker, with one analyst forecasting a fall in earnings of around 25 percent.

As Barlow represents something of a microcosm of the economy, this forecast should not surprise too many investors because it is in line with the generally grim outlook for the economy and world commodity prices.

Adding to the bearish sentiment is the ongoing ERPM saga, which is not reflecting well on management as it struggles to find a long-term solution for the ailing gold mine.

On a brighter note, long-term investors in Barlow's are showing good real returns.
There's more bad news to come from Barlows

By Ann Crotty

In view of the current grim state and short-term prospects of the local economy and international commodity markets, it looks as though full-year earnings for the Barlow Rand group could be down by 15 to 15 percent.

(This is allowing for the increased financing costs of following the Rand Mines' rights issue.)

Figures released today show that in the six months to March, attributable earnings were down 4.6 percent to R404.1 million (R443 million) — equivalent to 218.4c (240.8c) a share.

An unchanged interim dividend of 51c a share has been declared.

Things were difficult across the board for Barlows but, unlike previous years when wholly owned subsidiaries were much more than the cherry on the top for Barlows shareholders, this time around the greatest damage was suffered by wholly owned interests.

Far from kicking in with major contributions, their combined impact on Barlows interim figures was to convert a slight nominal increase in earnings into a significant drop.

Middleburg Steel & Alloys (MSA), which for the past few years has benefited considerably from strong world ferro-alloy demand and strong international commodity prices, suffered a 45 percent drop in taxe income in the first half.

This meant that a contribution at taxed-profit level of R92 million in the first half of financial '89 was down to R50 million in the review period, which is particularly galling because as a wholly owned subsidiary all the taxed profit that is earned by MSA goes to Barlows bottom line.

Unlisted industrials (this category includes earthmoving equipment, motor, appliances, building materials, steel and paint) turned in a disappointing performance, with overall taxed profit down 13 percent from R84 million to R73 million.

The other serious casualty in the camp was listed TSI, which reported a 33.3 percent drop in taxed profits.

Otherwise the listed subsidiaries turned in performances that varied from pedestrian to reasonable, with Reunert and PPC something of stars because of their 20 and 16 percent (respectively) take in earnings.

(For forecasts in the table are based on an assessment of the prospects referred to by the directors at the release of the interim results, as well as analysts' forecasts for specific industry performances and the economy in general.)
Klipton in R10-m deal

Finance Staff
Klipton has acquired 100 percent of Access & Mobility group for R10.5 million.
The purchase price will be paid in a mix of cash and shares. Two million new Klipton shares (an increase of 27 percent) issued to the vendors have been placed with a number of institutions at 300c a share. Yesterday Klipton was trading at 290c.
The use of shares means that despite the acquisition, gearing will remain below the group's self-imposed limit of 50 percent.


Runging the changes

Klipton, regularly in the JSE's new-high list of late, has made its largest acquisition to date by acquiring the privately owned ladder-maker, Access & Mobility Group. The purchase not only increases Klipton's size substantially, but also enhances its growth capacity by bringing in additional institutional investors and a cash generator.

Joint chairman Robin Matthews says AMG provided Klipton with a good opportunity to meet its objectives of increasing critical mass, becoming a major player in industrial niche markets, growing through acquisition while maintaining dividends and boosting its cash position for further growth.

Klipton, one of the few 1987 listings which have consistently met its profit forecasts, has bought all of AMG for R10.5m of which R6m will be settled by the issue of 2m Klipton shares at their current JSE price of 300c a piece. AMG's two operating subsidiaries, Forelzer and Castor & Ladder, are the largest manufacturers and distributors of aluminium and fibreglass ladders, and of castors and small wheels (§87)

The number of Klipton shares in issue will rise 27%, but joint chairman Robin Matthews says pre-tax profits will increase by about 50% in the 1991 year, so dilution will not be pro rata. Management's shareholding will fall to less than 30%. Earnings benefits will not arise this year because Castor & Ladder's factory move early this year disrupted operations. But, using AMG's fully taxed results for the year to December 1989, AMG would have contributed an additional 13% to Klipton's 1990 earnings.

Matthews says AMG's net worth is conservatively estimated at R6m and that the R4.5m goodwill element in the purchase price will be written off below the line this year. That, in turn, will cut Klipton's own net worth by about 13%.

Even after the acquisition, Klipton remains conservatively financed with a debt-equity of about 35%. At the half-year, a heavy cash disbursement period, debt equity was 40% and Matthews says that since then, the company has been a net cash generator and its cash flow remains strong. In addition, AMG "has generated enormous cash flows over the last few years and every growing group needs one or two cash cows."

Klipton's cash flush position will allow it to stay on the acquisition trail. In August 1989, it purchased Austen Safes for R6.5m for cash and 0.95m shares at 200c.
Numsa to make crucial
decisions this weekend

By DICK USHER
Business Staff

CRUCIAL decisions affecting about 600,000 workers in four industrial sectors will be taken at a major union conference this weekend.

The National Union of Metalworkers (Numsa) second national bargaining conference in Johannesburg will deliberate progress in four sets of negotiations metal and engineering, tyre and rubber, auto manufacturing and the motor trade.

It is a follow-up to February's first national conference which, in a step towards unifying the four sectors in which Numsa is involved, laid down positions and guidelines for this year's negotiations.

The vital element emerging from the conference was that the bargaining committee for each sector would no longer have decision-making power on settlements or readlocks, but these would have to be referred to a further bargaining conference.

After last week's sixth round of negotiations in the metal industry, the Steel and Engineering Industries Federation (Seifsa) issued an optimistic statement that "considerable progress" had been made in negotiations.

Seifsa said employers' final offer on wages ranged from 15 percent (R1.24 an hour) for artisans to 18 percent (R1.54 an hour) for labourers.

In the three other sectors, a Numsa spokesman said some progress had been made on some issues but not on others.

While the ultimate drive is towards centralised bargaining around common demands, Numsa's position is that it wants to see satisfactory progress towards those goals this year.

The union's key demands include across-the-board increases of at least R2 an hour, a 40-hour working week, a limit on overtime and agreement to implement the 1988 amendments to the Labour Relations Act.

This weekend's conference will hear reports-backs from each sector on progress in negotiations and will deliberate further action.

Complicating the picture is the government's decision not to go ahead with legislation this year to amend labour legislation in line with the accord reached by the South African Employers' Coordinating Committee on Labour Affairs (Saccola) and the two union federations, Cosatu and Nactu.

Numsa, a Cosatu affiliate, is the major union involved in all four sectors, although Nactu affiliates such as the Metal and Electrical Workers Union (Meawu) and the Steel, Engineering and Allied Workers Union (Seawusa) have a significant position in the metal industry talks with the Steel and Engineering Industries Federation (Seifsa).

Paralleling Numsa's position, another Cosatu affiliate recently took decisions on centralised bargaining at a social security conference.

The South African Commercial, Catering and Allied Workers Union (Saccawu) considered long-term strategies including industrial councils covering all workers in a sector or centralised bargaining with groups such as Tradeorg, Metro and SAB Breweries, which controls OK Bazaars, Edgars and Sales House.

Seawusa is presently on strike at OK Bazaars, in dispute with Checkers and starts talks with Woolworth this weekend.

In the medium-term, Seawusa is to press for the same demands on wages and service conditions to be presented at all negotiations.

Another decision taken at the Saccawu conference mirrors a stance by another Cosatu affiliate, the Chemical Workers' Industrial Union (CWIU).

As part of its push for social security, Saccawu decided on a campaign for national provident funds in the commercial and catering sectors.

CWIU has for about the past two years been engaged in persuading employers to join the Chemical Industry National Provident Fund and has in recent months run several strikes over the issue.
Order on
400 sit-in
strikers

Supreme Court Reporter

ALMOST 400 striking
workers who have
placed an Atlantis fac-
tory under siege by a sit-
in in the canteen have
been ordered to vacate
the premises by
Supreme Court order.

Mr Justice J Foxcroft
made the order after an
urgent interdict was
brought against the
National Union of Metal-
workers of South Africa
and the workers

In papers, Mr Etienne
Max Schutte, personnel
manager of Grapnel of
Atlantis, said the strik-
ers, engaged in wage ne-
gotiations, ignored de-
mands for them to vacate
the premises or return to
work.

Although the strikers' be-
haviour had been ex-
emplary, it may be ne-
necessary to make use of ca-
sual labour, which may
cause conflict.
Police guard on factory after shooting

By DAVID YUTAR

S. H. Police were today guarding the closed Atlantis factory where several workers were injured at the weekend when police opened fire with teargas and rubber bullets.

The police action was the culmination of a two-month wage dispute at the Grapnel factory in Atlantis.

About 400 striking workers had held a sit-in at the factory since Wednesday last week.

The police were called after the workers refused to obey a Supreme Court interdict ordering them to leave.

BOTTLES

Police today confirmed the shooting and said police were compelled to open fire, first with teargas and then with rubber bullets, when workers had responded to their warning to disperse by attacking with stones and bottles.

Five policemen were slightly injured and two police vehicles damaged, according to the spokesman.

A spokesman for the workers said they were unable to disperse as police had given only five minutes warning before opening fire.

(Unrest report — page 2.)
ANC demands inquiry

Staff Reporter
THE African National Congress and Atlantis community organisations have slammed police action against striking workers in the town at the weekend and yesterday demanded a commission of inquiry into the shootings.
At least 21 people had been injured, union officials said yesterday, adding that two workers were in danger of losing their sight.

About 400 workers at Grapnel Silencer Services had been engaged in a sit-in strike since last Tuesday following a wage dispute. Grapnel management secured a court interdict on Friday ordering the workers to vacate the premises.

At a press conference yesterday, National Union of Metalworkers of South Africa (Numsa) shop steward Mr Carl Cloete said police took action against workers early yesterday morning when they were on their way to the Grapnel premises.

Police said yesterday that on Saturday they had arrested three men after giving the workers at Grapnel six minutes to disperse.

"The crowd became aggressive towards the police," police said, adding that they started throwing bottles and stones at the police.

Police then used rubber bullets, and when the crowd continued to throw stones birdshot was used — 15 minutes after the order to disperse was given and not five minutes as a Numsa spokesman said, police said.

According to police information only four workers were injured on Saturday.
Dabi dividend is down to 79c

RIAAN SMIT (15%)

THE dividend of DAB Investments (Dabi—in which JCI holds a 49.99% stake) has dropped from 108c to an unaudited 79c for the year to June 30, the company said yesterday.

The drop is due to an announcement in January by Consolidated Metallurgical Industries (CMI), of which Dabi holds 4.4%, that it would declare interim and final dividends in January and July and no longer in December and June.

Dabi will in future show a larger income in the first half of the year than in the second.

The Dabi board said of the 65.5c final dividend a share paid to shareholders in the 1989 financial year, about 39c was derived from the final dividend paid by CMI to DAB. If CMI had paid the same final dividend as June as it did last June, Dabi’s unaudited results for the year to June 30 would have reflected a 109c total dividend compared with 108c in the previous year.
March: Request for
cop with ‘long fuse’

THE Atlantis Industrial Group has asked police to ensure that the officer in charge of law enforcement at today's planned protest march in the area be a good communicator and "not short on the fuse", an executive member of the group said yesterday.

Mr Colin du Sart said feedback from employees was that Saturday's police action against striking Grapnel workers — during which several workers were injured by birdshot — was "a bit heavy".

The workers at Grapnel Silencer Services — all members of the National Union of Metalworkers of South Africa (Numsa) — have been involved in a strike since last week Tuesday over a wage dispute. And in another development, a member of the Atlantis Management Committee, Mr Freddie Brandreth, resigned from the committee on Monday night in protest against the police shootings on Saturday.
R10m storage expansion

In a R10 million expansion, the Romatex group's Island View Storage is increasing the capacity of its Witwatersrand tank farm at Isando by 160 per cent.

The bulk-liquid storage company acquired Total Oil's Isando tank farm near Johannesburg early in 1989 to provide its PWV customers with a close-to-hand terminal offering them strategic holdings and flexibility of distribution.

During the latter half of 1989, the tank farm was converted and modified to provide 9,000 cubic metres of tankage for bulk liquid chemicals and vegetable oils. It opened for business early in 1990.—Sapa.
significantly higher than in the country’s major trading partners is a further factor making capital in this country uncompetitive."

But even this gloomy story doesn’t put off Markel president Aidan Edwards, the man who popularised the term beneficiation: "The mining houses diversified their investments in the late Sixties when the gold price was low. With a sick gold price it makes sense to diversify into other ventures so we could well see comparable developments now."

The biggest of these capital investments will be the joint venture between Highveld Steel and Samancor to build a stainless steel plant which is expected to cost from R2bn to R3bn. It has already secured export markets in Japan.

Highveld chairman Les Boyd says: "We’ve decided that SA has a fundamental advantage over the rest of the world in stainless steel production and we’re looking actively at several options."

But McDonald says while the growth of the stainless steel and ferro-alloy industries is rightly seen as an outstanding example of successful beneficiation, it may be an isolated example. "It’s argued that we should set up a jewellery industry — but we need trained craftsmen brought up in a tradition of making jewellery before we can compete with a major producer like Italy."

"The more added value, the more difficult it is to compete with existing manufacturers. We can sell stainless steel all over the world but can we sell stainless steel coffee pots? Any industrialist who’s making a major capital project geared entirely towards exports at this time is highly courageous."

McDonald adds that the main problem here isn’t the lack of capital equipment but its under-use. In a Sefsa survey, 26% of the sample of 766 companies worked one shift only, a further 25% one shift plus two hours’ overtime and just 6% a full three shifts (see chart). Government has argued that it won’t penalise the purchase of capex, provided existing plant and machinery is used to its full potential. Whenever the clothing industry has sought an exemption of duty on its surcharges Pretoria has said the industry should rather go on to a three-shift system.

The most important reason for this was the lack of technology. This was even more important than lack of demand for the product.

There are a few signs, though, that SA spending will do to car prices is, of course, another story.

Even the electronics industry, which is expecting a significant knock after 1995 when the post office ends its preferential agreements with local suppliers, is investing in capital equipment with an eye on exports.

Altech director Keith Cresby says: "Altech has long-term plans for technological development and growth. Short-term downturns in the economy do not affect capital expenditure. Advanced technology is required in order to produce reliable hi-tech goods at competitive prices."

The more far-sighted companies are continuing to invest at least in the upgrading of plant, especially those who know that as protection is removed they’ll have to compete with the best in the world.

For instance, though sales in the textile industry have declined by 14%-15%, Da Gama Textiles is pressing ahead with plans to spend R34m a year on capital expenditure. CE Harry Pearson says: "We decided it was better to keep growing at it was time to modernise. But we wouldn’t look at a major expansion at this stage and we aren’t expanding our spinning operation at all.'"

A more pessimistic view is held by Framex chairman Mervyn King. The group has made cautious capex plans because of the present climate. "We’re told that our industry could expand on the back of an export boom from the clothing industry — but can we compete with the East and their work ethic, especially with the present state of labour relations in SA."

"There are enough maladies caused by the weak rand, but government has made it worse by import surcharges. It’s also very difficult to plan ahead when at any moment a trade agreement with Turkey or Hungary or Czechoslovakia could be signed and cheap imports could flood the market. What is government’s present industrial policy?"

He argues: "First, government should level the uneven playing fields in SA caused by the different tax structures and subsidies in the homeland areas. SA industrialists actually subsidise their competitors in the homelands.

"Secondly, it should get together with industry and set the timetable and action plan for the next 10 years to enable industrialists to do some long-term planning, such as improving our skills and productivity levels to enable us to become global players."

"One minute we’ve got a structural adjustment programme for textiles, then we hear it’s been removed or has it? It’s pure Alice in Wonderland.""

Under the new industrial policy, inefficient industries will — or at least should — be treated as lame ducks. According to Sa cob deputy director-general Ron Haywood: "Industrialists will have to accept that we won’t go on making everything in this country. Import substitution is now yesterday’s policy and in future only the identified sunrise industries will be encouraged."

Every industry likes to give itself the sunrise tag, even established industries like clothing and textiles claim it. And a sunrise industry in the rest of the world like electronics would have a quick sunset here without protection.

Haywood adds: "Obvious manufacturing opportunities have been missed in the past.
We are only just starting to make stainless steel exhausts.

McDonald concedes that government priorities have shifted from large engineering projects—such as Mossgas—and this will hurt the engineering industry in the short term. "Spending will shift towards housing, education and health, but in any case industrialists have learned that they can't rely on the consistency of industrial policy.

For instance, Durbuy was encouraged to set up a rolling stock plant—but then government changed its mind and cut back on rolling stock purchases. It was also encouraged to build a seamless tube plant for Mossgas—but, unless export markets are developed, this could become redundant as there won't be any more synfuel plants.

From now on, maybe SA can spend on capital projects for the same reason as everyone else in the world—to make products that make money, without a subsidy.
Labour action looms for metal workers

By SHARON SOROUR
Labour Reporter, and Cape Town about 150 Enterprise Bakery workers are threatening to strike after the union turned down management's R36 a week wage offer.
Workers are demanding R35.

Chapais Industries in Johannesburg, a Cadbury subsidiary, is threatening to retrench workers after a wage dispute with Fawu. The company is refusing to increase the wages of 800 workers to R5 an hour.

About 300 members of the National Education, Health and Allied Workers' Union (Nehawu) went on an illegal strike yesterday at the J G Strijdom Hospital in Johannesburg.

Nehawu spokesman Mr Vuyani Mabaza said the workers had accused one of the senior employees in charge of the hospital kitchen of an allegedly racist attitude and had complained about their working conditions.

Southern Sun Hotels and the South African Commercial Catering and Allied Workers' Union (Sacca) have resolved today in an attempt to resolve a strike by more than 6,000 workers at 43 hotels nationwide.

Hundreds of domestic workers, members of the South African Domestic Workers' Union, staged a protest march in Johannesburg armed with brooms and dusters. The workers marched to the offices of the Department of Manpower and handed over a list of demands which included a minimum monthly wage of R450, a 40-hour week, decent accommodation and maternity leave.

Meanwhile, the Western Cape engineering industry continues to be plagued by industrial action, including wildcat strikes followed by nearly 400 dismissals.

Still out
Earlier this week hundreds of workers staged illegal work stoppages at the Gabriel SA plant in Retreat, Grapple Exhaust Systems in Atlantis, Shelo Shelling near D.F. Malan Airport and SA Metal & Machinery in Salt River and Epping Industria.
More than 100 workers are still on strike at the Steeldale plant in Epping Industria, while workers fired from the Gabriel plant are protesting against their 'unfair dismissal.'
NUMSA plan to hold ballot is confirmed

MATTHEW CURTIN

THE Steel and Engineering Industries Federation of SA (Seifsa) yesterday received official confirmation from the Industrial Council of the National Union of Metal Workers (Numsa) decision to hold a strike ballot from Monday, said Seifsa spokesman Hendrik van den Heever.

Numsa rejected Seifsa's revised final wage offer, where a half percentage point increase in employers' provident fund contributions was converted to an extra 0.5% pay increase.

Van den Heever said the 14 other trade unions had still to respond to the offer as they were consulting their members. They had undertaken to advise the council of membership reaction by Wednesday.

In a statement last week after the Dispute Resolution Committee deadlocked, Seifsa executive director Brian Angus said some of the unions "seemed willing" to reach a settlement.

Numsa has not altered its original demand for a R2 an hour across-the-board increase, 56% up on the lowest rates. The last Seifsa offer amounted to 19% and 15.5% increases for labourers and artisans respectively.

Numsa revised its original demand for a 48-hour week to a phased reduction from 48 hours to 44 hours, followed by a timetable for further reductions. Seifsa has made no offer to reduce normal hours of work from 45 hours.
Deadlock in Paarl strike action

By SHARON SOROUR
Labour Reporter

ABOUT 150 striking workers at Satchwell Controls are still locked out of the Paarl South plant after a deadlock in annual wage negotiations.

Steel, Engineering and Allied Workers' Union spokesman Mr Peter Roman said the company was awarded an interim interdict on Friday restraining workers from entering the premises, damaging property, interfering with other workers or security guards.

The union has proposed mediation to resolve the strike but has condemned the company for allegedly calling in police to monitor the industrial action.

"Police confirmed the company called them in even though Satchwell assured the union they had not," Mr Roman said. "We condemn this because the strike is legal and we see it as bad faith bargaining as there was no violence and it is a ploy to get workers to accept management's wage offer."

Union members filed charges at the Paarl police station against Satchwell security guards, accusing them of assaulting employees.

The strike action follows a dispute over wage increases and service conditions.

The union initially demanded an across-the-board weekly increase of R100 but dropped to R65. Management offered a final increase of R40 on a minimum wage of R173.

Other issues to be debated included annual, sick and maternity leave, long-service allowance, annual bonus and public holidays.
Most Mosgas workers back

Most of the 9,000 Mosgas oil-refinery workers who stopped work for four days in a wildcat strike, resumed their duties yesterday. Mosgas spokeswoman Ms Denise Gee said the return-to-work follows two days of negotiations between 22 contractors and a 17-member employee team led by the National Union of Metalworkers.
T & N results dismal, with no relief in sight

TURNER & NEWALL Holdings' (T & N's) attributable profits slumped 75% in the six months to end-June because of extremely tight trading conditions for all its divisions.

A highly competitive market had the effect of reducing volumes, and put pressure on margins.

Earnings plummeted to 9.6c a share from the 1989 half-year's 38.6c, and the interim dividend has been cut by 55% to 3.6c (11c). The prognosis for the second half of the year is also dismal.

Turnover rose only 4% to R197.3m (R190.8m), reflecting a retrogression in real terms, while attributable profits declined to R2.2m (R2.9m).

Increased finance charges of R10.2m, up 63% on the previous R6.3m, added to the group's woes. A lower tax charge of R300 000 (R4.2m) had minimal impact on the bottom line.

CE Mattheus Pretorius said the downturn in the economy and in particular in the automotive industry was reflected in the results.

The results of automotive subsidiary Asseng showed a 36% drop in trading profit, while the T & N group decline was only marginally lower at 35%.

Ferrodi, Bolaco-Beral and Asseng all suffered from a reduction in demand. The radiator and heat exchanger companies were down on original equipment supply in line with the trend in new car sales.

However, Silverton Services, the aftermarket supplier and repairer, suffered a greater degree of reduced activity. Radiator imports improved.

To promote rationalisation and savings, the Bolaco-Beral business in the automotive sector was sold for R7m in exchange for a 28% holding in Dancer. The benefits would flow once the full programme of rationalisation had been implemented, said Pretorius.

On the chemical side, BIP's trading suffered from lower volumes whereas Butakem showed an improvement on last year's results because of better factory efficiencies and reduced raw material costs.

Pretorius said the slowdown in the economy had been more severe than foreseen. Trading in the second half of the year was expected to be difficult.

T & N shares are bumping at a year's bottom of 30c and there were no takers yesterday.
Numsa reverses plan to strike

A THREATENED national strike in the engineering industry seemed to be averted yesterday following a recommendation by the National Union of Metalworkers of SA (Numsa) that its members accept revised employer offers.

The violence raging through Transvaal townships played a major role in persuading the giant union to reverse its strike plans, Numsa spokesman Mr Benno Fanaroff said yesterday.

However, workers would first have to be canvassed before final agreement could be reached on a series of revised proposals by the Steel and Engineering Industries Employers' Federation (Seifsa).

Numsa and 13 other trade unions in the sector met Seifsa yesterday in a last-ditch bid to settle wage and other differences.

Numsa, with about 140 000 members, and the significantly smaller Metal, Engineering and Allied Workers' Union of SA (Meawusa) were the only trade unions to reject Seifsa's final offer before deadlock was declared in annual negotiations.

Yesterday's talks centred on six revised proposals tabled by the employer grouping last Friday.

Seifsa is expected to issue a full statement today, followed by Numsa on Monday — Sapa

City march for peace

A NATIONAL day of action has been called for tomorrow to urge President F W De Klerk to end the violence sweeping the country.

The local branch of the ANC's Women's League said a morning march, led by the league and organisations including the Black Sash and Cosatu, would start at District Six and end at Tuynhuys where a memorandum would be handed over.
Staff defection listed among causes of Claude Neon's woes

BOTTOM line earnings at Anglovaal Industries subsidiary Claude Neon plummeted 65% to R631,000 (R3,1m) in the year to end-June.

Reduced sales, staffing problems, under-recovery of costs and higher interest rates on increased borrowings were blamed.

This follows a number of years of static profit growth for the group, which is a supplier of advertising signs.

Earnings dropped 66% to 7.7c (54.3c) a share. The dividend — 24c last year — was passed.

Claude Neon directors attributed the decline in sales largely to a number of senior and sales staff having left the company to establish an opposition business.

Brian Bain is MD of Claude Neon and David Hoyton is chairman.

This led to litigation — which was at present sub judice — to enforce certain agreements and protect proprietary rights.

Profit before tax and interest fell 41% to R4.3m (R7.4m), and was reduced further to R694,000 (R5.7m) after interest charges. Although tax was reduced by 94% to R421,000 (R2.6m), bottom line profits took a 85% knock after preference dividends of R22,000 were paid.

Decline in profit was attributed to reduced sales volumes resulting in substantial under-recovery of costs.

Increased working capital, rental contracts and capex were funded by higher borrowings, bringing interest paid to R3.4m (R1.6m).

According to the directors, significant cost savings had been achieved, and sales had improved since year end. But a return to acceptable levels of profit would be delayed "until factory loadings improve to levels consistent with cost recoveries".

Arrangements with a commercial bank resulted in an interest rate saving on debt, in an attempt to cut down on operating costs and borrowings, a spokesman for the company said.

The spokesman said yesterday a future turnaround to profit would depend very much on the state of the economy, but steps have been taken to restore profit growth.
Engineering strike called off

ABOUT 40 000 members of the Metal and Engineering Workers' Union of South Africa (Mewusa) have withdrawn from a planned national strike after accepting a final employer offer "under protest". Mewusa general secretary Mr Tommy Oliphant said yesterday.

He said union members would call off a strike, but still had reservations on proposals regarding reduced working hours and March 21 as a paid holiday.

The union and its much larger counterpart, the National Union of Metalworkers of SA (Numsa), were the only unions to opt for a strike ballot when talks in the engineering sector broke down — Sapa
GROWTH in physical security at Klipton has resulted in investment security for shareholders of the industrial holding group.

Announcing splendid earnings growth this week, the group's joint chairman Robin and Nigel Matthews are modestly proud about the way their group is booming. Starting life on the Development Capital Market in 1987, Klipton has graduated to the main board, and is attracting a profile of shareholders usually identified with better-known companies.

**Allied**

Turnover in the year to June jumped by half to R95-million, and earnings a share were up a quarter at 88.5c. With the shares at 260c, the price-earnings ratio is 4.9. By comparison, Malbank's is 4.8 — it has yet to report for the year to August — and Barlows and Amc are both on 4.7 times historic earnings.

Klipton is paying a dividend of 12c, up from 12c, and yields 7%. The contribution from Auster Safes, bought in the previous year for about R9-million, was high.

Klipton is in the market for companies which are either small and complementary to its business, or bigger yet in a field vaguely allied to the existing divisions. The most important factor is a respectable gross-profit margin.

Nigel Matthews says Klipton stalked Auster for several years because it had earmarked physical security as a growth area. Patience was required before the deal was struck last year. The purchase of Access & Mobility was suggested to Klipton by Nigel Matthews. He admits that he had never heard of the group, but is delighted to have had first crack at it. It was bought for R16.5-million, settled on the issue of shares placed with institutions.

The two businesses are aluminium ladder and scaffolding manufacturer Forliser, and Castor & Ladder. Their large client base of more than 4,000, and non-reliance on a single sector made them attractive to Klipton.

The instrumentation and valves divisions of the Harvey & Russell company were sold during the year at an extraordinary net loss of R6.5-million. Nigel says it is important to realise that the capital can be better employed elsewhere if underperforming divisions are sold.

**Goodwill**

"It is important not to become emotionally attached to a business," he says.

Several achievement targets were outlined in the group's prospectus and they have been met on all fronts. Initially, 75% of the products were imported, now down to 25%. Nigel Matthews says that although SA sourcing is not as important as it was because of sanctions, it stimulates the group against current factors.

There is still room for manoeuvre regarding the balance of imports. It becomes cheaper to buy them here. Klipton will switch, and we'll do it.

Robin says that if the businesses themselves are sound, they will generate a strong cash flow.

The quality of the earnings is much higher, and returns on capital and shareholders' funds are respectively 35% and 40%.

The conservative balance sheet (goodwill written off immediately) has already been approved, and Klipton will continue to work on it.

**Founders**

Robin will oversee the industrial operations under a heading yet to be decided on. It will comprise Forliser, Castor & Ladder and Saco, which deal in pneumatic, welding and lifting equipment.

Klipton has had two institutional shareholders since it was listed, each with 15%. The two did not want to be diluted when shares were issued for Access & Mobility, and took proportional amounts. Two new institutions also came aboard for shares.

More than 70% is held by the big boys, the founders and staff. The other Matthews jointly own 25%.

"We do not have any hang-ups about a controlling stake," says Nigel. "If we do bad, they'll do better. We don't want to be taken over and wouldn't welcome it. But while we are doing a good job we are confident of the current backing."

Gearing is 34%. Nigel says nothing will be bought if it means straining the balance sheet.
Tight margins lead to Unihold earnings drop

SQUEEZED operating margins saw industrial group Unihold posting an earnings loss of 16.7% to R11.2c (13.3c) a share for the six months to June 1990.

Contributing factors were a higher tax charge of 43% (35%) and a 5.4% increase in issued ordinary share capital to R29.7m from R28.6m last year.

Attributable earnings fell to R3.6m (R4.5m), while an interim dividend of 2.5c (3c) was declared.

Turnover increased by 22% to R89.8m (R73.9m) but difficult trading conditions, industrial unrest and delays in completion of new production facilities resulted in pressure on operating margins.

Operating margins contracted to 11% from 11.5%.

Commenting on the results, chairman James Haslam said Unihold, whose core activities were within the engineering, foundry and electrical industries, continued to invest in improved and expanded manufacturing facilities.

Thus, together with higher capital commitments and the prevailing high interest rate, resulted in a large increase in interest charges and long-term borrowings on the balance sheet by about R6m to R11m (R9m).

U-Control, the pyramid holding company of Unihold, which was listed on the JSE in April, reported an interim dividend and earnings of 2.25c a share for the same period.

Haslam said comparative figures could not be applied for the six months to end June in view of the change in status of U-Control from a private to a public company in February.

The company's only investment presently is its 76.8% interest in the ordinary share capital and its 91.8% interest in the 15% automatically convertible debentures of Unihold.

Unihold's share price closed unchanged at 150c yesterday.
Rembrandt dividends

Interim dividends for the four listed companies in the Rembrandt group were announced yesterday.
Dividends for ordinary shares are:
Rembrandt Group 10.5c.
Rembrandt Controlling Investments 7.78c.
Technical Investment Corporation 5.82c.
Technical and Industrial Investments 7.29c.
Market quick to mark up M&R

By Ann Crotty

It seems that not everybody was surprised by the sterling results reported by industrial group, Murray & Roberts. Yesterday, ahead of the release of the financial ’90 figures, the share firmed 175c to a close of R21.25.

The 27 percent advance in earnings to 543c (426c) a share, was ahead of most expectations. A final dividend of 92c a share was declared, bringing the total for the year to 125c a share – 20 percent up on the previous year’s 110c.

At the half-way stage – helped by an excellent performance from its construction division – M&R posted a sterling 38 percent hike in earnings. Analysts had felt that the slow down in the economy would be sufficiently sharp to pull the full year improvement back to around 20 percent. But for the fourth year in succession M&R managed to get ahead of market expectations.

The result is that the group has now achieved a convincing turnaround from the financial ’88 loss of 55c a share. And it has not been at the expense of the balance sheet. Year-end gearing was a comfortable 25 percent and the group had surplus cash resources of R167 million.

On yesterday’s price of R21.25 M&R is at a historic price/earnings rating of 3.9 times and a dividend yield of 6.2 percent. Which means that yesterday’s price increase compensated for the increase in earnings and dividend and leaves the market’s p/e and dividend yield unchanged on Wednesday’s levels.

Which reflects a fairly mean rating for a group that has produced solid figures for four consecutive years. It is no doubt a measure of the market’s unflagging view of the losses suffered in the early Eighties and also its concern about prospects for the construction and engineering sectors.

During the review period turnover increased 17 percent to R4 billion (R3.4 billion). Operating profit before interest rose 36 percent to R300.9 million from a restated R221 million (restated to take account of the changed management structure of the group).

The actual figure reported for ’89 was R216 million.

The group’s industrial division accounted for 32.3 percent of operating profit – down sharply from the previous year’s 64 percent. On the back of an excellent year, the construction division’s contribution shot up to 31.7 percent (18.2); supplies and services was down to 22.2 percent (27); engineering was slightly up at 7.8 percent (6.5) and, properties rose to 5.9 percent (3.6).

Management is looking for real dividend growth for financial ’91 which, given the sharp increase in ordinary shares (due to conversion of debentures) points to good earnings growth – assuming no significant change in dividend cover.
MD suspended over bugging, says union

By Brendan Templeton

The managing director and two senior employees have been suspended at Nampak's Rosslyn plant in Pretoria after a listening device, linking a trade union office with the MD's office, was discovered by workers earlier this month, union sources said yesterday.

Confrontation between workers and management over the issue burst into the open again at three Nampak plants this week.

About 500 workers at Nampak Corrugated, Boxcraft and Transvaal Box held a one-day strike on Wednesday, and demonstrations at 39 plants were held over the past week, the Paper, Printing, Wood and Allied Workers Union said.

The union demanded that a company-wide investigation into illegal bugging be launched by management to establish their "bona fide" concern.

An investigation was held, but according to the union, it was restricted to the corrugated division of the company.

Nampak said in reply that a smear campaign of misinformation was being waged against the company and it was shocked and dismayed by the union's allegations, "particularly in view of productive meetings we held with them on the matter."

All documents on the bugging issue had been made available to the union's lawyers.

The union also claimed to have in its possession reports by trained informants who were given specific instructions to spy on union activities.
Fraser Alexander group maintains good growth

Holding company Fralex announced it had achieved a 22% increase in attributable income to R14.8m, generating earnings of 91.8c a share.

A final dividend of 18c a share made the total for the year 26c (21c).

Fralex is 39% owned by the Rembrandt Group, which also had a 72.9% interest in Fraser Alexander.

Control was exercised by agreement between the Daly family, which had a 35% stake in Fralex and management, which held 18.5%.

Flack attributed the group's performance mainly to the fact that it operated in niche markets in which it had big market shares.

"We provide essential products and services in essential industries," he said.

Another factor was the high productivity achieved by a stable workforce.

Flack said 45% of Fraser's workforce had been with the company for five years or more.

"We also have a very settled management team. Senior management has been together for more than 10 years. Almost everybody they own is in the company."

Fraser's turnover rose 22% from R17.5m to R21.5m.

He said a fourth factor was the group's stable shareholding and its strength in strategic planning.

"We have never been in a better position to ride out tough times. Given half a decent hand of cards, we will do better.

"But in the coming year those companies which merely maintain their performance would be doing well."

Fraser's was looking at three possible acquisitions at the moment, Flack said, but he was adamant the group would not move out of its core business — "certainly not in the coming year," he said.

Fraser Alexander
Earnings and dividends per share (cents)

<table>
<thead>
<tr>
<th>Year</th>
<th>Earnings</th>
<th>Dividends</th>
</tr>
</thead>
<tbody>
<tr>
<td>90</td>
<td>40.3</td>
<td>5.0</td>
</tr>
<tr>
<td>91</td>
<td>49.2</td>
<td>6.8</td>
</tr>
<tr>
<td>92</td>
<td>66.6</td>
<td>8.0</td>
</tr>
</tbody>
</table>

Source: Fraser Alexander
PRETORIA. — Noristan Holdings, the Pretoria-based healthcare group, showed a 43% growth in attributable earnings of R10,5 for the year-ended June.

Turnover was up 54.9% to R97,9m (R62,6m) with profit before taxation increasing by 46.9% to R13,8m.

Earnings per share rose 12% to 19.6c (17.6c), after taking into account the issue of “A” ordinary shares for the acquisition of Norimed in June this year.

MD Hugo Snyckers said “In view of the long-term benefits which are expected to flow as a result of strategic moves during the year, the results for the period under review are considered satisfactory.”

“The pharmaceutical business, which accounts for 60% of turnover, showed good results in spite of difficult trading conditions and continuous pressure on margins.”

“The consumer products division turned in an excellent performance with profit contributions dramatically increased over last year.”

“Excellent progress has also been made with the development and registration of new generic products. A number of high-quality products, scheduled for introduction in the coming financial year, are expected to further improve Noristan’s mix of available products as well as contribute to the increased market share.”

“The acquisition of 79% of Norimed (formerly Aurochs Investment Co (SA) Ltd) constitutes our initial investment in the broader healthcare industry. Normed is well positioned to make significant progress in the year ahead.”

“Our entry into the manufacture and distribution of medical equipment through the acquisition of Crest Healthcare Technology by Norimed in October 1989 was one of the significant moves from which long-term benefits are expected to flow.”

“The balance sheet remains strong, with cash resources exceeding interest-bearing liabilities.”

“Noristan is the vehicle for FSI’s entry into the pharmaceutical and healthcare markets, in partnership with the Snyckers family, which continues to exercise control of Noristan.”

“With a sound management and financial structure, the group is now able to actively investigate and take advantage of opportunities in the broad healthcare market,” said Snyckers.

“Given reasonably stable trading conditions, and before allowing for deployment of liquid funds in deposit, the directors expect the earnings will show satisfactory growth in the year ending June 30, 1991.”

Dividends of 8c a share will be paid to ordinary shareholders.

A final dividend of 6.8c a share will be paid to “A” ordinary shareholders making a total dividend for the year of 13.6c.

After having paid the dividend for this year, Noristan will revert to its policy of paying dividends covered on average three times by earnings — Sapa
By Frank Jean

As the international community warms to the idea of South Africa being a key player in the global mining industry, the 500,000 visitors to this year's Electra Mining exhibition have shown their interest in the country's potential. The event, held in Johannesburg, is said to be the biggest and most successful of its kind in the country's history.

The 12th annual Electra Mining exhibition, which was held from 19 to 23 September, attracted over 500,000 visitors, breaking all previous records. According to the organizers, this year's event was a resounding success, with more than 1,000 exhibitors from over 60 countries.

Howard Selman, the managing director of South Africa's mining equipment manufacturer, described the event as "a major milestone in the country's mining history."

"The interest and enthusiasm shown by visitors to our stand were beyond our expectations," said Selman. "We've had a number of positive responses from companies looking to expand their operations in South Africa."
Anglovaal Industries repeats performance

By Ann Crotty

Reasonably solid second-half performances from its five business sectors enabled Anglovaal Industries (AVI) to sustain its first-half performance and report a 23 percent hike in attributable profits for the 12 months to end-June.

However, the improvement in share level was diluted significantly by the increase in shares in issue after the June '89 restructuring.

The increase in earnings per share was just 12 percent — up from 657c to 738c. The dividend is up 12 percent to 132c (120c) a share.

Management says trading conditions in the review period were tougher than had originally been expected, with second-half conditions showing a particular deterioration.

The business sectors include Grinaker Holdings, Diversified Holdings (textiles and engineering-related companies), National Brands (foods), Irvin & Johnson and Consol.

Group turnover was up 42 percent to R6,5 billion (R4,5 billion), with operating profit up 32 percent to R631 million (R476,9 million).

Income from investments increased 18 percent to R364,4 million (R48,8 million).

Interest payments more than doubled to R100,2 million (R44,8 million), which reduced the advance at pre-tax level to 22 percent — from R480,9 million to R587,2 million.

The sharp increase in interest charges is attributed to a higher level of borrowings and higher interest rates. But management says that despite the higher debt, the group's gearing is little changed at 31 (30) percent — reflecting the significant increase in shareholders' funds.

Income from associates was halved to R6,1 million (R12,5 million), due to the disappointing performance by Control Instruments Group.

Management says that a provision of R10 million has been made against the carrying value of this investment. This is part of the R17 million in extraordinary items which was not taken into account in earnings.

Group attributable earnings were R297,8 million (R164,5 million).

Although the group expects to meet exacting challenges in the current financial year, it is planning for a further improvement in earnings.
'Undemocratic' white union vote under fire

By SHARON SOROUR
Labour Reporter

THE National Union of Metalworkers of South Africa (Numsa) has proposed voting changes to weaken the influence of white-dominate unions at industrial council level, SA Labour News reports.

The union affairs digest said the 130,000-strong union wanted to abolish the present one-union, one-vote system and replace it with a proportional representation system on the National Industrial Council for the Engineering and Metal Industries.

The council was the largest in South Africa, comprising 14 unions and the Steel and Engineering Industries' Federation of South Africa (Seifsa) which represented about 70 employer bodies.

**DISPROPORTIONATE**

If the union's demands were met, they would have a ripple effect across the industrial council system, according to the digest.

The present voting system gave disproportionate power to the smaller, generally conservative and white-dominated craft unions which occupied most of the seats on the industrial council, the journal said.

Numsa national organiser Mr Alastair Smith said Seifsa and all 14 unions had equal representation regardless of their size.

He said, "This means that when it comes to important decision-making, all it takes is one of the 14 unions to vote with the employers to get a simple majority."

It was an undemocratic process as some of the smaller unions had only three or four thousand members.

"We demand representation on the basis of membership so that if 50 percent of the trade unions are not in favour of a particular decision, then it cannot be passed," Mr Smith said.

Numsa had raised the issue several times "with little success" as the council accepted the proposal "in principle", he added.

"We now have an agreement to pursue the discussion and we are hoping to make significant progress."

---

---
Multi-million rand losses from Duros

BY AUDREY D'ANGELO
Business Editor

MULTI-MILLION rand losses reported by the Duros Group — now in the process of being renamed the Tollgate Holdings Group — for the six months to June 30 stem from decisions taken before the change of control in midyear, joint chairman Julian Askin said yesterday.

"We have stopped all losses and now have a positive cash flow. The company has been turned around and is a very different creature," he said.

Holding company the Duros Group reported a pre-tax loss of R17.8m compared with a profit of R22.7m in the first half of last year. The after-tax loss was R15.3m compared with a profit of R16m. Losses to ordinary shareholders were R10.1m compared with loss of R7.1m.

Non-recurring losses on discontinued operations and the termination of long-term contracts were R15.6m. Net losses from the disposal of assets and shares in subsidiaries, discontinued operations, re-valuation costs and assets written down totalled R38.8m.

Turnover was R285.1m (R388.6m) and operating income R16.1m (R44.1m). The interest bill was R18.1m (R21.4m). The loss before abnormal items — the disposal of non-performing assets — was R1.9m.

Tollgate Holdings (TGH), holding company for the operating companies, reported an after-tax loss of R14.8m compared with a profit of R25.4m, and a loss to ordinary shareholders of R10.3m compared with earnings of R13.5m in the first half of last year.

**Enterco Holdings**, which, under a scheme of arrangement, would be demobilized and become a wholly owned subsidiary of TGH, reported earnings per share of 15.6c (14.6c).

Operating income rose to R4.4m (R3.9m) on a turnover of R44.2m (R59.3m). But an interest bill of R1.3m (R69.9m) reduced income to R3.1m (R3.9m).

Chairman Mervyn Key and director G C O'Leary say that although the operating results are "pleasing and in line with expectations" the disposal of "the non-performing cycling, public relations and advertising divisions" has resulted in an extraordinary loss of R6.1m.

**Gants Holdings** report an operating profit of R10.6m (R14.8m) on a turnover of R67.1m (R129.2m). The interest bill was R4.1m (R3.2m).

The loss to ordinary shareholders was R3.4m compared with attributable earnings of R5.5m. This translates to a loss of 5.7c a share compared with a profit of 9.2c.

"The comparisons are misleading because results for the first half of last year included those of the agriculture machinery division, subsequently sold to North's Industries. The directors say that unfavourable local trading conditions affected results. The effect was exacerbated by aggressive discounting and dumping of excess stock by competitors, and industrial action against major retailers.

They expect the market "and, in particular, share price levels" to improve in the last quarter. Management has now addressed the area of operating efficiency, which will also give rise to improved financial performance in the future, and greater emphasis will be directed to those products which are able to be exported.

"In addition, certain other strategies are being considered to increase performance."

**Creadell Investment Corporation** — formerly Arwa — is now a shell with the objective of acquiring Duros' insurance interests.

The assets of North's Industries have been sold to Chinnamco (Pty) in a management buy-out for R2m. Under a scheme of arrangement the cash shell will become a wholly owned subsidiary of TGH.

**Ruthless disposal of company 'dogs'**

THE new controlling shareholders of the Tollgate Group (TGH) have had to "absolutely ruthless" in disposing of non-performing assets and reducing the debt, joint chairman Julian Askin said in a television interview yesterday.

He said that by Christmas they would have had six months in which to "tidy up the mess. At the beginning of the year we hope to have a company that is extremely profitable."

The "tidying up" has included the disposal of all the bus companies except that in Cape Town, which is profitable.

Askin said this could result in improvements in the local transport services since management would now be free to give all their attention to these "instead of having to deal with all the dogs they had in the company."

Some of the buses from the companies which had been disposed of had been kept for use in Cape Town. The loss-making bus-building company had been closed down.

The group's employees had been reduced from 19,000 people to 12,000. Other companies disposed of, including Enfield and the division which had been sold to the group.

Askin, who is based in London, said he intended to spend a large part of the year in Cape Town attending to the group. The results for the first half of the year "do not present a happy picture, but those days are gone."

He said he intended to build up a strong base in SA before expanding operations in the UK.

He hoped to make an acquisition in the UK within the next six months. "But I don't want to start on overseas activities until we have straightened things out here."

"I do not want people to regard this as a rand hedge share to be bought for speculative reasons. The group is a very good base. I don't intend to sit on our SA assets and not make them work."

He was optimistic about the future for SA. "This is why I had bought his stake in the group."

"You have to buy at the right time. I had waited for things in this country to improve. It would have been too late."

Askin said the disposals and a 145m rights issue had reduced group debt by 53% from R374m to R176m. "Of these borrowings, some R120m reflects the group's investment in the consolidated borrowings of Gant."

"We have stopped all losses and now have a very positive cash flow. The company has been turned around and is a very different creature," he said.
Nampak ordered to pay court costs
By Cathy Stagg

Nampak Products Ltd should not have brought an urgent application for repayment of R2.3 million which was allegedly obtained fraudulently, because it should have expected a "massive dispute fact", a Rand Supreme Court judge ruled yesterday.

Mr Justice P J Streicher said three men, accused by Nampak of fraud, had replied to the allegations and had therefore incurred "substantial unnecessary costs which they should not have to pay no matter whether they were honest or dishonest".

He ordered Nampak to pay their costs.

Give evidence

The dispute is to go to trial in the ordinary way. Both sides will give evidence instead of attempting to resolve the matter on papers, as is done in motion proceedings.

The urgent application first came to court on July 2.

The respondents were Corrugating Machinery Services CC (CMS), A H Barker, a Nampak director and Nampak managers R L Webb and G Germans.

A strike by more than 3 500 workers at Nampak outlets over their demand for centralised bargaining has spread to 27 factories in the Transvaal, Natal and the western Cape, a union spokesman said yesterday.

Workers are demanding a single bargaining forum for wages and working conditions.

Management said yesterday they believed the interests of employers and employees were best served by plant-level bargaining.
Scharrig on-target to beat forecast

By Derek Tomney

Earth-moving and open-cast mining operator Scharrighusen reports earnings of 17.5c for the six months to June and 34.8c for the 12 months to June, and expects to beat its profit forecast of 45.3c for the 12 months ending December. Its directors report a 5c dividend has been declared making 10c for the 12 months ended June.
Police act to disperse strikers

By Brendan Templeton

Tension between Nampak management and workers boiled up yesterday when police used teargas and rubber bullets to disperse strikers gathered outside the company's Polyfoil plant in Nancefield.

The Printing, Paper, Wood and Allied Workers' Union said several workers were injured, but this was denied by Soweto police liaison officer Colonel Tienie Halgren.

The union has gone on strike at 29 plants nationwide, demanding that Nampak submit to its call for centralised bargaining. The firm has refused to do this.

Nancefield strikers were fired when they ignored a court order to return to work.
**OFF COURSE**

Activities: Exploration, geographical, horizontal and water well drilling, micro tunneling and pump and irrigation installation

**Control:** Directors 37%

**Chairman:** W H P Rawson, MD

W J Davies

**Capital structure:** 13.6m ords Market capitalisation, R2.7m

**Share market:** Price: 30c Yields 17.3% on earnings, p/e ratio, 6.8 12-month high, 118c, low, 20c Trading volume last quarter, 2.14m shares

<table>
<thead>
<tr>
<th>Year to Feb</th>
<th>'88</th>
<th>'89</th>
<th>'90</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST debt (Rm)</td>
<td>0.14</td>
<td>0.14</td>
<td>0.14</td>
</tr>
<tr>
<td>LT debt (Rm)</td>
<td>0.22</td>
<td>0.22</td>
<td>0.22</td>
</tr>
<tr>
<td>D/E ratio</td>
<td>0.54</td>
<td>0.54</td>
<td>0.54</td>
</tr>
<tr>
<td>Int &amp; leasing cover</td>
<td>115.1</td>
<td>115.1</td>
<td>115.1</td>
</tr>
<tr>
<td>Return on cap (%)</td>
<td>23.4</td>
<td>23.4</td>
<td>23.4</td>
</tr>
<tr>
<td>P/E ratio</td>
<td>3.3</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>P/NAV (Rm)</td>
<td>19.8</td>
<td>19.8</td>
<td>19.8</td>
</tr>
<tr>
<td>EPS (c)</td>
<td>24.6</td>
<td>24.6</td>
<td>24.6</td>
</tr>
<tr>
<td>Dividend (c)</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
</tr>
<tr>
<td>Net worth (c)</td>
<td>71.3</td>
<td>71.3</td>
<td>71.3</td>
</tr>
</tbody>
</table>

**Masterbore says** its strategy has always been to achieve technical excellence and leadership in each of its operating subsidiaries. Unfortunately, the same has not been achieved in the financial and administrative spheres. This contributed to dismal 1990 results.

**Chairman Peter Rawson concedes** "Much of our management emphasis has been centred on technical and operational aspects and has not always been complemented by the necessary administrative skills in the subsidiaries."

Turnover growth of 39% over the past year and a tenfold increase, since 1985, strained management and financial resources. The first nine months were encouraging, according to Rawson, but then matters deteriorated rapidly. The major subsidiary, Universal HS Drillers, experienced technical problems with excessive wear and collapse of drill rods at depth and some expensive retrilling had to be undertaken at the firm's own cost.

Many wrong decisions which had been taken earlier also helped bucke the latest figures. Masterbore's investment in Prinsloo drilling, "which proved to be a greater drain on capital resources than the most pessimistic assumptions," was sold at year-end, for a R1m loss. Irrigation engineering company Masterbore Borehole Engineers stopped operating. Its closure costs and the provision for bad debt arising from the failure of a Cape retirement village scheme, was treated as an operating loss of R681,000.

Operating income swung from R525,019 to a R764,807 loss. Attributable income remained in the black only because of a R1.3m abnormal item consisting of a profit on sale of rigs which have been rented back by subsidiaries, the previous year's pre-tax profit was boosted by a R1.2m abnormal profit on the reorganisation of operations.

Long-term assets had been financed with short-term money, making the group vulnerable to rising interest rates. Steps have been taken towards reducing the interest burden and lengthening the maturity of some loans. Since year-end the group decided it would issue 10m convertible rate redeemable prefs, the effect on the balance sheet has yet to be clarified.

Senior management appointments were made to improve financial reporting and controls. However, MD Tony Hobbs resigned in July because "he was not able to reconcile his perception with regard to the future group strategy with that of the other board members." Two other directors also resigned.

The share has fallen steadily over the past two years from 240c to 20c, about two-thirds below net worth. Near-term prospects remain dull.
M & R hoping to lift dividends

By Derek Tomney

Construction and industrial
giant, Murray & Roberts,
expects to beat inflation
with its dividend increases
in 1990-91, even though
turnover may not grow in
real terms.

Last year it increased
dividends by 20 percent
from a 25 percent increase
in earnings a share.

Murray & Roberts chairman
Marinus Dalig says
the conversion into shares
of 7.4 million debentures
will increase the issued
share capital by 26 per-
cent.

This will make it difficult
to achieve real growth
in earnings per share in
1990-91.

"However, further
growth in earnings a unit
of permanent capital is
possible and we certainly
expect to increase our divi-
dends in real terms," he says.

Chief executive Dave
Brink says the company
should achieve growth in
profits through quality and
productivity improve-
ments.

The engineering, prop-
ties and industrial operat-
ing groups are all budget-
ing to increase their con-
tributions to June 1991.

Construction expects to
maintain its large contri-
bution, but supplies and
services forecasts a de-
crease.

The group will be well
sheltered against high inter-
est rates because of its low
gearing, he says.
Birdshot hits
six strikers

Nampak strike tension showed no signs of abating when six Western Cape strikers were hit by police birdshot, a union spokesman said yesterday. The shootings followed police action at Nampak's Nancefield plant earlier in the day.

Cosatu structures would be discussing the strike soon, the Printing, Paper, Wood and Allied Workers' Union said. — Labour Reporter.
Barlow Rand sit-in

The head offices of Barlow Rand were yesterday occupied by about 50 unionists to highlight an eight-week strike by 600 workers in Brits.

The strike is being waged at the Barlow subsidiary African Telephone Cables (ATC) where three National Union of Metalworkers (Numsa) shop stewards were dismissed after workers went home early, apparently to protect their families during the recent violence.

But also at stake is a precedent-setting ruling by the industrial court in August that it was unfair to strike where mechanisms to resolve disputes have been offered.

ATC accused the union of breaking a pre-negotiation agreement that it would not follow unprocedural action and would abide by due process. The sit-in placed the settlement in jeopardy and the talks were suspended, ATC said.
Cutting costs has become a habit

As SA's economy slows down, companies have been tightening their belts and streamlining their operations.

Basil Read has the edge in that it has been looking at cutting costs for the past 10 years.

The group has become highly innovative in providing itself with a cost-saving infrastructure.

From car batteries to truck cabs, from fixing torn seats to developing specialised plant, Basil Read has learnt to stand alone, says director of plant Hector Salzwedel.

"We accumulate the bits and pieces to put together replacements and repairs," Salzwedel says.

"Things which cost us in the order of R30m, would cost R220m to replace with new items."

This is special work and requires a fair amount of innovation - playing the used market, looking for bargains, training staff, upgrading and improving.

"We would spend between R0m and R10m a year on new equipment which is now covered by our own production."

Cutting away unnecessary costs included standardising machinery to limit the amount of skills and technicians needed.

"Most of our equipment is interchangeable. We use the same type of truck, the same kind of earth-moving equipment," Salzwedel says.

"When I need a clutch plate on site, I no longer have to worry about which kind it is - or whether we have spares in stock."
3 000 march on Barlow Rand

In the biggest Cosatu demonstration yet against company practices of the Barlow conglomerate, about 3 000 workers from Barlow Rand-owned companies marched on the company's head office in Sandton yesterday.

Nampak shop steward Peter Moeketsi handed over a memorandum of demands to Barlow Rand public affairs general manager Ken Ironside.

Dismissed and striking workers belonging to the National Union of Metalworkers and the Paper, Printing, Wood and Allied Workers Union (Ppwau) demanded their reinstatement. Mr Ironside refused to open the office gate to workers.

The memorandum included demands that Barlow Rand intervene in the current Nampak strike and ensure that management there negotiate with Ppwau, the reinstatement of four workers dismissed by African Telephone Cables in Brits, and reinstatement of 415 workers dismissed at Barlow Kew.

Mr Ironside promised to respond to Cosatu next week.
MURRAY & ROBERTS

STAYING AHEAD IN TOUGH TIMES

Activities: Diverse group involved in industrial activities, construction, engineering, supplies and services, and properties

Control: Sankorp 36%

Chairman: M Deloit, CEO D Brink

Capital structure: 28,5m ords Market capitalisation R628,2m

Share market: Price 2.200c Yields 6% on dividend, 24.7% on earnings, p/e ratio, 4.1, cover, 4.1, 12-month high, 2.626c, low, 1.625c Trading volume last quarter, 339,000 shares

Year to Jun 30 '87 '88 '89 '90
ST debt (Rm) 60 46 48 46.3
LT debt (Rm) 48.7 76.4 86.4 101.6
Debt equity ratio 0.49 0.30 0.26 0.24
Shareholders' interest 0.36 0.42 0.41 0.41
Int & leasing cover 6.4 6.6 6.7 11.1
Return on cap (%) 11.7 16.8 19.3 20.4
Turnover (Rm) 2,447 3,039 3,445 4,014
Pre-tax profit (Rm) 883 140.6 221.3 301.0
Pre-tax margin (%) 36 4.6 6.9 7.5
Earnings (c) 360 303 426 542
Dividends (c) 42 80 110 132
Net worth (c) 786 1,028 1,368 1,710

Profit pillars

EBIT Contributions

<table>
<thead>
<tr>
<th>1989</th>
<th>228,7m</th>
<th>1990</th>
<th>R298,6m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>44%</td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>22%</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>Suppliers &amp; services</td>
<td>11%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Engineering</td>
<td>6%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Properties</td>
<td>9%</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>

Conversion of 7,4m debentures on top of a tough economic climate could make it difficult for Murray & Roberts to increase EPS this year. CE David Brink is, however, confident that dividends will beat inflation. "We may experience negative real growth in turnover, but still achieve growth attributable to profits through organic quality and productivity improvements."

The conversion raises issued equity by 28.5%. Last year's earnings would have been diluted by 18.1% after adding back the cost of servicing the debentures. Despite this, the group should manage 15% dividend growth but at the cost of reducing cover to last year's 4.1 times. Stated policy is dividend cover of between 2.5 and 4 times, even with static EPS dividends could beat inflation without taking cover below 2.5.

EPS growth of 27% last year surprised the market, but would have been less impressive without acquisitions in the industrial division. This year remained the biggest contributor to operating income. Brink says a 4% decline in its profit does not reflect recession in its markets, excluding acquisitions, in their profit slumped by about 25%.

The second largest contributor was construction, 12.9% up on the previous year at R38,5m. Long-term civil engineering contracts helped to keep trading buoyant. Brink says the division has been successful in finding profitable work to replace power station contracts, a feature of the past 25 years.

M&R spent R86m on acquisitions last year and still had R167m cash at year-end (R19m net of borrowings). So the balance sheet is healthy and could accommodate substantial takeovers. Brink says all operating divisions are pursuing interesting growth opportunities, both organic and through acquisition. However, any significant development will be financed from cash and borrowings, so additional earnings will more or less be nullified in the short run by additional interest charges.

Capex also drain cash this year, with R184m (R155m) budgeted for renewal and expansion of plant and equipment. Of significance is the Founders' R20m programme in Port Elizabeth, including the aluminium rolling mill project, and the Cosworth Process. The plant will come on stream this year. Once test proving by overseas parent manufacturers has been completed, the mill is expected to be supplied to numerous SA manufacturers and export opportunities, including Safrica, are being investigated.

Murray & Roberts is an active player in the market for sales and property transactions. The group has previously been involved in the disposal of various assets and properties, including land and buildings. The group has also been involved in the acquisition of various companies and businesses, including in the pharmaceutical and engineering sectors.

M&R's Brink - getting things right the first time

improvement in the quality of earnings, and this is addressed in the three-year plan.

Despite economic slowdown, and though high interest charges may offset additional earnings from acquisitions, M&R should do better than average.

GERHARD SCHULZ

WILL IT SHINE?

Activities: Owns and operates the Wild Coast Sun and other gambling outlets in the Transkei.

Chairman: K A Rosewater, MA Chartered

Capital structure: 145m ards Market capitalisation R340,8m

Share market: Price 2.35c Yields 10.9% on dividend, 14.5% earnings PE ratio, 6.9, cover, 1.3, 12-month high, 4.25c, low 1.90c Trading volume last quarter, 288,000 shares

Year to June 30 '87 '88 '89 '90
ST debt (Rm) 3.8 3.2
LT debt (Rm) 14.5 38.0 38.4 38.4
Shareholders' interest 0.57 0.47 0.47 0.51
Return on cap (%) 27.1 28 30.1 25.9
Turnover (Rm) 81.5 118.7 146 163
Pre-tax profit (Rm) 35.6 49.8 62.5 64
Pre-tax margin (%) 44.2 47.7 43.9 52.2
Earnings (c) 22.8 26.1 31.1 34.1
Dividends (c) 19 20 23.5 25.5
Net worth (c) 18.5 36.7 51.8 86.3

Feeder-day trippers to the Wild Coast Sun and lower average spending hit results but haven't deterred the group from R100m ex-

FINANCIAL MAIL • OCTOBER • 19 • 1990 • 109
Despite loan, Abercom declares a R15.4m loss

ABERCOM, despite receiving a R61m interest-free loan from parent Malbak earlier this year, has declared a R15.4m (R4.4m) loss for the year to end August and issued a warning to shareholders that a rapid turnaround for the group was unlikely.

Directors in the group, the sole investment of which is its 80% interest in packaging group MY Holdings through wholly owned Tawneydown, toned down the loss. Chairman Ian Willis said it was actually a sign that the recovery process was well under way, in view of the group’s R10.6m loss at the interim.

Willis, who spent 12 months in the UK setting MY back on the recovery path, said the company should now progressively reduce its losses. “A number of corrective actions were taken in the past year which should combine to put the company back on the road to profitability”, he said.

Those actions included the appointment of John Monks as CEO and John Grainger as chairman, both from Norton Oppax plc, and the rationalisation of 27% of the workforce with a subsequent increase in productivity.

In addition, MY’s debt was reduced by R63m and interest charges by R35m with the sale of surplus properties and the consumer goods division (consisting of Dixwen Cycles and MY Sports and Games), while stocks were reduced by 13% (not including stocks held in businesses sold).

Total borrowings for the group have been shaved from R133.6m to R63m, reducing gearing to 99% from 209%. “However, because interest rates remain high in the UK and we only reduced borrowings towards the end of the financial year, there has not been a marked decline in the interest bill but we should see the benefit of our lower gearing and lower interest rates in the year ahead,” said Willis.

Malbak’s interest free loan had the effect of slashing R8.5m from Tawneydown plc’s interest bill, although interest paid for the group rose 40.6% to R19.8m (R14.1m), contributing to a loss before tax of R19.2m (R4.8m) from sales of R233m (R223.4m).

The results come in the wake of assurances made last year by directors that Abercom would be back in the black by the end of this financial year. Willis said endeavours during the past year had been focussed on getting the business into better financial shape and all operations, bar one, are now profitable.

“Stocks have been reduced and as the UK economy starts to recover and inflation and interest rates start to decline, so the results from MY will improve,” said Willis.
Nampak strikers seek European company help

By Shareen Singh

As the strike over centralised bargaining by 4,000 workers at Nampak outlets enters its 35th day, a Cosatu union has approached several companies in Europe to boycott the company's products.

The Paper, Printing, Wood and Allied Workers' Union (Ppwwau) said the action had been taken after repeated attempts to resolve the strike had failed.

"Nampak has refused to meet us. Despite our firm commitment to centralised bargaining we are prepared to meet Nampak divisions separately," union spokesman Rob Rees said.

Only one Nampak division had met the union.

Head office management said Nampak companies were willing to meet Ppwwau, "but meetings so far, for example with Business Forms, had not taken the matter further."

The strike is seen by Cosatu as part of its broad campaign for centralised bargaining.
Fenner boosts profits

The Fenner Group's turnover for the year ended August rose by 19 percent to R299,28 million while net operating profit grew by 22 percent to R24,71 million.

The group reported a 22 percent increase in operating profit which translates into earnings a share of 60,7 cents, an increase of 30 percent.

A total dividend of 20 cents a share has been declared for the year which is 21 percent higher than last year.

Taxation rose in line with pre-tax profits and post-tax income was up by 22 percent at R10,59 million.

Attributable profit was R5,1 million or 26 percent up after deducting extraordinary items in the previous year.

Fenner shares are currently listed at an earnings yield of 22,3 percent and a dividend yield of 7,3 percent which compares with 15,2 percent and 5,0 percent for the engineering sector — Sapa.
Nampak workers protest

About 200 dismissed Nampak workers picketed in Commissioner Street yesterday in protest against their dismissal by the company. This follows a dispute with Nampak, a Barlow Rand subsidiary, declared by Paper, Printing, Wood and Allied Workers Union in August after about 4000 workers nationwide went on strike — Staff Reporter
Radio strike ends

The strike by more than 100 SABC employees over a "racist" appointment at the Pretoria studios ended yesterday. The Media Workers Association of South Africa said SL du Toit, whose appointment as production organiser on Radio Ndlebele had led to the strike on Thursday, had resigned.
Troubles at Nampak give investors pause

Hit by a strike involving over 20 percent of the workforce and an alleged fraud at one of its divisions, investors are re-thinking Nampak's market rating.

From the end of July to mid-October, Nampak's share price fell more than 23 percent from R45.75 to R35, compared with a decline of just over 12 percent in the paper and packaging sector's index.

At R35, the market is placing Nampak's P/E at 7.8 and dividend yield at 4.7 percent, compared with 10.1 and 5.6 percent at the end of July.

Nampak's share price has since recovered 200c to R37 where it is trading on a P/E of 8.2 and dividend yield of 4.5 percent.

Nampak's problems started at the beginning of August, when rumours of over-invoicing of equipment sold by an engineering company to the corrugated division started surfacing in the market.

Initial estimates were that R40 million was involved, but this was dismissed by Nampak managing director Don McCarty.

He said indications were that no material sums were involved and that the irregularities would probably not affect Nampak's earnings performance.

At about the same time, un prominists found a bugging device at Nampak's Rosslyn paper and corrugated cardboard plant, which set off a chain of events leading to the current strike by an estimated 5,000 employees. (At the end of financial 1989, the Nampak group had a total of 22,027 employees.)

Impact

Analysts attribute Nampak's negative re-rating to the alleged fraud at the corrugated cardboard division and the expected impact of the strike.

Davis Berkum analyst Cal Carter is now revising his initial forecast of a three percent decline in earnings for the full financial year.

He thinks a fall of five to six percent is more likely.

But he adds that Nampak, being a big company, might maintain the dividend. The current Nampak rating in terms of dividend yield appears to back this view.

Nampak is currently trading on a dividend yield of 4.5 percent, compared with an average of 4.7 percent for the sector.

In contrast, Frankel Kruger

Vodorne analyst Payne forecasts unchanged earnings in financial 1990.

He reckons that the strike won't impact a lot on Nampak's performance.

But should the strike continue longer, some of Nampak's competitors might benefit in the short term.

The strike started towards the end of August, which means that it only had an impact in one month of financial 1990.

Also, Nampak has contingency plans for a strike situation. In fact, Nampak management reported that the strike-hit Rosslyn paper mill showed record production for September, despite the absence of its shiftfloor staff.

Mr Payne says Nampak's customers have been de-stocking, while unrest has been an added negative factor. The effect of this on Nampak will be a cut in turnover and depressed margins.

The strike should also see production fall by at least 8 percent, he says.

In the six months to end-March, Nampak showed a decline of three percent in attributable earnings to R36.6 million and directors made a forecast that earnings for the full financial year would decline by the same three percent.

The drop in earnings was attributed to lower turnover from the Foodcan and Divpac divisions. Foodcan was hit by significant de-stocking in the food canning industry and retail chain.

Also expected to have an impact on Nampak's performance is the change in the wear-and-tear allowance from the "50/30/20" formula to a 20 percent straight line per year method.

Nampak chairman David Brown told the annual general meeting in January this year that the change was likely to increase Nampak's tax charge by about R10 million, reducing earnings by 21c per share.

Overall, analysts think Nampak is in oversold territory and forecast an improved performance - depending on when the labour dispute is resolved - in financial 1991.
Judgment soon on lock-out of strikers

Supreme Court Reporter
JUDGMENT will be handed down in the Supreme Court tomorrow in a lockout dispute between the Metal and Electrical Workers Union of SA and National Panasonic.

This follows an application by the union against National Panasonic (Parow), after 197 of its striking members were locked out of the National Panasonic premises on September 3.

Mr A P Blignault SC, for the union, told the court the lock-out was invalid and unlawful because National Panasonic's reference of the dispute to the Industrial Council was in breach of the Labour Relations Act.

A deadlock had not been reached on the date of the lock-out and further dispute-settling procedures, agreed to between the parties, had not been attempted.

National Panasonic contended that the lock-out was legal and raised several technical points in its defence.

Mr Justice J H Grootaers presided. Mr S J Egan, instructed by Bernard Volks and Partners, for National Panasonic (Parow).
Nampak has its problems

By Ann Crotty

Nampak's eight percent decline in earnings to 422c (458c) a share for the 12 months to September was a little worse than the market had been expecting.

There was very little impact from the strike which hit the company in August and has yet to be resolved.

The final dividend is unchanged at 98c a share, which means the total payout remains at 186c a share.

Given that most of the recent industrial company results have been lower than market expectations, it seems that investors and analysts had not realised the extent of the deterioration in economic activity in the six months to September.

By the time that Barlows and SAB have finished reporting their subsidiary results for end-September there will be a far keener appreciation of the extent of the weakness in the economy.

In Nampak's case (as with a number of industrial suppliers) the impact of this weakness has been aggravated by the widespread destocking by customers. This is the result of customers' efforts to tighten up working capital management.

Nampak MD Mr Don McCartan believes most of the destocking has now worked through the system and that group sales will in future more accurately mirror the level of economic activity.

This is the chief reason why management is holding out some hope for an improvement in earnings in financial '91.

Mr McCartan says they are budgeting for "some mild stimulation" that will support earnings performance.

Looking at financial '90, bottom-line performance was hit badly by the increased tax rate—up from 35 percent to 42 percent—following the changes in depreciation allowances.

The change added R20 million to Nampak's tax bill—equivalent to about 42c a share.

Strong demand at the divisions servicing the beverage sector enabled the group to produce a 14 percent hike in turnover to R3.5 billion (R3.1 billion).

But this overall increase in nominal sales, which represents a one percent drop in sales volume, hides a sharp drop in sales in some divisions—Foodcan and Divpac were both well down on the previous year.

A squeeze on operating margins (down from 12.67 percent to 11.87 percent) meant that operating profit was up by just five percent to R410.4 million (R391.7 million).

Again, the Foodcan and Divpac divisions were particularly hard hit, with operating profit down 48 percent at the former and 20 percent at the latter.

Group interest payments were up at R62.2 million (R58.4 million).

Pre-tax profit was up three percent to R352.7 million, but the increased tax rate meant a much higher tax bill—up at R162.2 million from R120.1 million.

Mr McCartan says the tax rate will gradually increase to around 47 percent.

Attributable earnings were down eight percent to R204.5 million (R222.2 million).

Gearing is down to 37 percent (43 percent), with cash outflows during the year held at R121 million, compared with R79.9 million in financial '89.

This improvement represents the benefits of much tighter asset management within Nampak.

Referring to the investigation into alleged irregularities in the corrugated container division and the pending litigation, Mr McCartan says "Full provision (of less than R2.5 million) has been made and had had no material effect on group profits."

At this stage, and assuming a resolution of the strike within the next few weeks, Mr McCartan believes the industrial dispute will, at most, only have a minimal effect on earnings in financial '91.
Union's plea dismissed

AN application by the Metal and Electrical Workers' Union of South Africa for an order declaring a lockout by National Panasonic (Parow) illegal, was dismissed in the Supreme Court yesterday.

The court, however, did not rule on the legality or otherwise of the lockout.

Mr Justice J H Conra-die said he would give reasons later if necessary.

National Panasonic had contended that the lockout was legal.
Rationalisation shifts Spicer into profit mode

DCM-listed group Spicer-Mitchell Holdings (Spicer) has produced a R399 000 turnaround from loss into profit for the six months to August as a result of rationalisation and the completion of unprofitable contracts.

The industrial holding company — whose subsidiaries are involved in construction, engineering, manufacture of chemical products and cleaning services — reported a net profit of R435 000 compared with a loss of R239 000 last time around.

This translated into earnings a share of 7.9c (loss a share 1.3c).

Financial director Peter Wheeler attributed the turnaround to the group's rationalisation over the last year. He said unprofitable contracts have been completed and the group is now involved in ongoing contracts which will continue to be profitable.

The trend over the previous six months would continue for the remainder of the year, he said.

SSS Engineering — "which was a thorn in our side" — had returned to profitability.

During the six months, shares in Edentec and fixed assets were sold, resulting in a profit on extraordinary items of R399 000.

Last year's results saw a net loss of R1.5m despite a 66% increase in turnover to R15.6m. Earnings fell to 7.5c (6.2c) a share.
Major bodies pressure Nampak

By Brendan Templeton

Major political bodies are bringing pressure to bear on Nampak and its parent body, Barlow Rand, to accept a union offer to end a seven-week strike at 29 Nampak plants.

An ANC-Cosatu-South African Communist Party (ACS) statement yesterday said it would take "concrete action" if Nampak did not resolve the strike by November 13.

About 4,000 members of the Printing, Paper, Wood and Allied Workers Union (Ppwawu) are demanding centralised bargaining rights.

Instead, it challenged the union in full page advertisements today to submit their dispute to independent arbitration.
Metal-industry grants

By SHARON SOROUR
Labour Reporter

GRANTS for metal industry employers training apprentices have been increased by 33 per cent in a bid to stimulate intake, the Steel and Engineering Industries' Federation of SA (Seifsa) has announced.

The increase, with effect from October 1 this year, will entitle employers to be granted payments of up to R4 400 for every apprentice trained to artisan status, said Seifsa executive director Mr Brian Angus.

But he warned that the considerable increase in metal industry apprentices during the past year should not be cause for complacency.

"Many companies have been obliged to work short time as a result of deteriorating economic conditions. This, and the withdrawal in July 1990 of State tax concessions for training, will no doubt impact negatively on apprentice training," Mr Angus said.

"The grant increase has therefore come at an opportune time." The grant to employers for an apprentice qualifying by passing a trade test increases from R7 200 to R9 600 while that for an apprentice qualifying by effluxion of time increases from R2 400 to R3 200.

The additional grant for apprentices who complete 24 weeks' institutional training is still R4 800.

Mr Angus said the levy-grant scheme, funded entirely by employers, had operated for more than 20 years and made a "very substantial" contribution to assisting employers with financing apprentice training.
be losers if Ireland goes...
Nampak workers end strike after 2 months

By Shareen Singh

About 4,000 Nampak workers are expected to return to work this week after management and the union signed an agreement ending the eight-week-long national strike.

In terms of the agreement worked out by Nampak, Cosatu and the Paper, Printing, Wood and Allied Workers Union, workers would return to work within the next three or four days and management would reinstate most of the 1,000 dismissed workers.

But the issue that sparked off the strike — centralised bargaining — was one that the union made a major compromise on. The parties agreed that no discussion and negotiations on centralised bargaining would take place for the next nine months.

Although workers did not win the demand for centralised bargaining, the strike was not a total loss, union spokesman Rob Rees said.

"If anything, it highlighted Cosatu's campaign for centralised bargaining throughout the federation and focused every Cosatu and Nactu union's attention on the Barlow Rand conglomerate," he said.

Nampak spokesman Tony Mercer said about R10 million had been lost in wages. He could not estimate production losses.
JSE suspends
Norvic, Osprey, and Lanchem
By Ann Crotty

Three listed companies were suspended by the JSE yesterday in the interests of investors following alleged foreign exchange irregularities.

They are Norvic Manufacturing, Lanchem, and Osprey Gold Mine.

These companies have undergone significant reorganisation in recent months but the shares have shown a sharp decline.

Ahead of its suspension Lanchem, now listed on the DCM, was trading at 3c — down from a 12-month high of 70c.

Norvic, which was listed on the DCM in January, was trading at 11c compared with an issue price of 80c.

Back in August, control of Osprey switched from Golden Osprey to Garditex International Finance at 10c a share.

Garditex subsequently sold 6.2 million Osprey shares to an unnamed foreign investor and a further 2.3 million were sold to Garditex's own Swiss holding company.

Ahead of the suspension Garditex was trading at 26c compared to a 12-month high of 82c.

Former Mercabank MD Dr Charles Ferreira is executive chairman of Lanchem and a director of Norvic.

The only apparent connection between all three companies was the speculation a few months ago that holdings in Osprey, Lanchem and Norvic might be injected into the Manserv cash shell which was acquired from Colfin in February.

A company called Financial Ltd, which is headed by Mr Naas Ferreira, was behind the Manserv acquisition.

Mr Ferreira was not available for comment yesterday.

Minority shareholders in Manserv, which is already suspended from the JSE, were given an undertaking by Financial Ltd in February that they would be paid out. They have yet to receive payment.
Safex closes trading floor

By Magnus Heystek

The South African Futures Exchange (Safex) has decided to close its troubled R3.4 million floor-trading operation. Safex director Stuart Rees said yesterday a lack of volume and a reluctance on the part of several key players in the futures markets led to this decision.

Screens

However, futures trading would continue on screens and it would make no difference to the market.

The costs of the attempt to establish a dual-market would be borne by Safex members, Mr Rees said.

Safex, in conjunction with the Bond Market Association (BMA), has been trying unsuccessfully for several months to get major players to use both the screen-trading system as well as the physical futures floor.

Several technological innovations were made to upgrade the communication links between screens and the floor, but the response from members was unsatisfactory.

According to Mr Rees, stockbrokers also preferred to deal in futures on screens from the equity market, where they had the advantage of live prices. It is not known what the JSE intends doing with the area in the annex at present occupied by Safex.
Trading income dropped 19 percent from R279 million to R228 million mainly owing to the fall in Anglo American Coal Corporation's (Amcoal) operating profit. Thus was the result of lower export sales, increased unit working costs and the strengthening of the rand against the US dollar.

with the continuing difficult economic conditions, the slow down in demand for exports and a former rand, together with reduced profit margins in the gold mining industry, the results for the year ending March 31 1991 are likely to show a similar trend to that recorded for the period under review.

Safex closes trading floor

By Magnus Heystek

The South African Futures Exchange (Safex) has decided to close its troubled R34 million floor-trading operation.

Safex director Stuart Rees said yesterday a lack of volume and a reluctance on the part of several key players in the futures market led to this decision.

Screens

However, futures trading would continue on screens and it would make no difference to the market.

The costs of the attempt to establish a dual-market would be borne by Safex members, Mr Rees said.

Safex, in conjunction with the Bond Market Association (BMA) has been trying unsuccessfully for several months to get major players to use both the screen-trading system as well as the physical futures floor.

Several technological innovations were made to upgrade the communication links between screens and the floor, but the response from members was unsatisfactory.

According to Mr Rees, stockbrokers also preferred to deal in futures on screens from the equity market, where they had the advantage of live prices.

It is not known what the JSE intends doing with the area in the annexe at present occupied by Safex.
The short-term outlook for the manufacturing sector is not good, making it difficult to forecast an improvement in profit for the forthcoming year," says Reunert chairman Clive Parker in his annual review.

High interest rates are likely to continue, government expenditure is expected not to increase in real terms and internationally the outlook is uncertain.

Parker says all Reunert's divisions continue to make headway.

The acquisition of Sandock Austral has added to the group's specialised capabilities in the mechanical engineering field.

- Reunert's taxed profit rose by 18% to R50.5m (the dividend was raised by 16% to 81c) and turnover increased by 23% to R1,4bn.
CMI boosts Dabi’s profit

MINING investment company DAB Investments (Dabi), a JCI subsidiary, posted a 28% rise in attributable profit to R2.78m (R2.15m) for the six months to end-December.

A JCI spokesman said this increase was due to the receipt of Consolidated Metallurgical Industries’ (CMI’s) final dividend for its 1990 financial year during this period.

CMI, in which Dabi has a 4.4% holding, had changed its dividend declaration date to July from June and, as a result, this income was included in Dabi’s results to end-December.

Income from this source was R0.65m or 18.7c a share higher than for the corresponding period last year.

The spokesman said little growth was expected in Dabi’s portfolio, with most of the companies at best likely to maintain dividends.
IRON, STEEL
+
ENGINEERING

GENERAL EXPORTS
1990
BATMAN E\^{1}H3\^{1}90

**Going strong**

Excessive secrecy, long a characteristic of E L Bateman, is sadly still reflected in the report for the half-year to December.

Since December 1988, when the group hived off two divisions into separate companies, Bateman Industrial (which supplies capital equipment to various industries, particularly mining) and Bateman Project (engineering and project management), with a view to later listing, it's taken a more open approach, even employing PR consultants.

But this is not reflected in the interim report, which shows only interest earned, not interest earned. As there was about R700m net cash at June year-end, compared with R500m at June 1988, much of the 28% increase in interim earnings could come from interest. However, cash balances fluctuate through the year. Also, some interest earnings can be seen as part of operating income — some contracts are apparently paid for in advance in return for price rebates.

Bateman also always stresses that because of the phasing of some large projects, the relationship between turnover and profits varies between accounting periods. Thus, for instance, turnover was 31% lower in the latest half-year.

The tax rate more than doubled to 10%, but is unlikely to be any higher for the full year because of strong exports. The group claims to be SA's largest exporter of capital equipment. Last full year, Bateman Industrial and Batupro contributed 31% and 69% respectively of attributable profit.

Executives say the hiving-off and accompanying complex "golden handcuffs" management share scheme concentrated their minds wonderfully. This seems to be supported by the latest results. Apart from whatever may be happening to interest received, the group is apparently continuing to steam ahead following strong results in the last full year. It's also likely that "conservative accounting" at interim stage will mean even stronger growth for the full year.

Following lower earnings in the 1987-1988 year, the share hit a nadir of about R17 in mid-1988. Since last year's results, it has risen steeply to R33, where it yields slightly less than the engineering sector average. In anticipation of higher growth in full-year earnings, it could go higher.  

*Teague Payne*
AMIC

Growth from within

Activities: Diversified industrial group
Control: Anglo American 44.9%, De Beers 27%,
Chairman: W G Bousted, Deputy chairman: L Boyd
Capital structure: 53.9m ords, 1m cum 1st
preference, 3m 12.375% cum red sec prefs
Market capitalisation: R4,99bn
Share market: Price 1989: 250c. Yields 3.8% on
dividend, 13.1% on earnings, PE ratio, 7.6,
cover, 3.5, 12-month high, R112, low, R80
Trading volume last quarter, 211,556 shares
Year to Dec 31
ST debt (Rm) 203 191 433 365
LT debt (Rm) 710 344 303 450
Debt equity ratio 0.40 0.30 0.24 0.16
Shareholders' interest 0.64 0.49 0.51 0.49
Int & insuff cover 5.8 6.0 24.9 34.1
Return on cap (%) 11.5 14.9 22.5 23.5
Turnover (Rm) 3.14 3.55 4.73 5.78
Operating profit (Rm) 328 399 771 1,057
Investment income (Rm) 169 233 239 355
Pre-tax margin (%) 10.6 11.2 16.3 18.3
Earnings (c) 516 673 953 1,211
Dividends (c) 190 225 290 350
Net worth (c) 4,635 4,067 5,074 7,071

Unless business conditions improve sharply, Amic appears to be nearing the end of a growth phase that has seen EPS rise 250% and dividends by 94% over the past four years.

Growth has been primarily organic, with few large acquisitions made in recent years, and that approach may remain the basis of expansion. The group has maintained hefty capital programmes in major subsidiaries, while strengthening the balance sheet.

Export activities have been built up in subsidiaries, particularly Highveld Steel, Mondi, SCAW, Steel and Boart. Aided from the need to expand capacity and broaden product ranges, chairman Graham Bousted has noted that he is confident that exporting will continue to involve continuous capital investment and maintain quality at competitive levels.

A number of capital projects have been nearing completion and authorised capex at end-December was R516m against R683m.

Amic's Bousted... large spending programmes

at the 1988 year-end

SCAW commissioned four projects with a total cost of R67m. These comprised the second reduction plant, upgrading of the Morgan mill, the finishing end of the Hille mill and additional heat treatment facilities for the foundry division. Modernisation of SCAW's main melt shop is due for completion this year. SCAW's earnings rose 24% but the company is facing weaker export prices and an increase in earnings may be difficult.

Highveld commissioned the new kiln at Vanka in December and the fifth silicon manganese furnace at Transloefs came on stream in February. However, after a year when Highveld's attributable earnings rose 164% and contributed 25% of Amic's equity earnings (see table), a decline is forecast.

Mondi has commissioned its R200m BM6 board machine at the Springs mill, which should reach design capacity of 80,000 t/year by mid-1990. The R727m re-build of the paper division's No 1 paper machine, for completion in the third quarter, is to improve product quality and operating efficiencies and will increase output by some 50% to 120,000 t/year.

Mondi's borrowings have risen and that contributed to static earnings. For this year the group expects reduced operating margins and higher finance costs, with lower earnings.

NTE, the pulpwood and tannin extract producer, has remained a steady performer. With earnings at R9m (R9m), the return on the R103m equity was only 8.7% and considerably lower earnings are expected.

Boart International expects benefits from the recent rally in the gold price, with further improvements from the industrial and geotechnical business.

Amic extended its interests in the motor sector with the acquisition in October of 100% of Karl Schmidt, which makes piston rings for vehicle manufacturers, the component aftermarket and for export. It also holds agencies for various imported components. Expansion of the plant is being investigated.

Among the managed associates, 19% held Samcorp exceeded its budgeted profit objectives in 1989 and paid its second dividend, in 1990 it will benefit from availability of new products over the full year.

In the next five years, "significant investments" may be needed to lift the value of local content and ensure improvements in product quality. These will be funded internally.

Though Amic's overall spending will ease this year, there are large projects in the pipeline, particularly Highveld's joint venture stainless steel plant, and the pulp mill being considered for Mondi at a likely cost of

EQUITY EARNINGS (%)

<table>
<thead>
<tr>
<th>Company</th>
<th>1988</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highveld Steel</td>
<td>12.2</td>
<td>25.4</td>
</tr>
<tr>
<td>AEO</td>
<td>19.4</td>
<td>19.0</td>
</tr>
<tr>
<td>Mondi Paper</td>
<td>19.9</td>
<td>15.9</td>
</tr>
<tr>
<td>Boart International</td>
<td>18.7</td>
<td>13.3</td>
</tr>
<tr>
<td>SCAW Metals</td>
<td>12.1</td>
<td>11.9</td>
</tr>
<tr>
<td>Tongaat-Hulett</td>
<td>6.4</td>
<td>6.0</td>
</tr>
<tr>
<td>Other</td>
<td>11.3</td>
<td>8.5</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Rihn

Management is targeting maintained group earnings for 1990. However, Bousted notes that the group determines earnings using the comprehensive method of providing for deferred tax, and a change to the partial method is being considered. That could give an additional, once-off boost to EPS.

Assuming earnings are maintained, the share offers an historical and prospective yield on the R2,50 price, which is down 17% from the 12-month high. The group is sensitive to exchange rates and any renewed weakness in the rand — which is looking more likely — would be bullish.

Andrew McNulty
Rand rally puts squeeze on exporters' margins

THE rand's recent rally against the dollar, and depressed commodity prices on overseas markets have had an adverse effect on exporters, whose margins are suffering as a result.

The rand has strengthened by over 3% in two months against the dollar and depressed overseas markets have seen some commodity prices fall by over 50% since their highs in mid-1989.

SA Foreign Trade Organisation (Safto) CE Wim Holtes said the rand's appreciation was having a negative effect on all exporters but mainly on primary producers who were not covered by the export incentive scheme.

He said the Reserve Bank had indicated it would attempt to keep the exchange rate at around the R2.60 level, adding that he expected they would keep to that policy.

A possible means of countering the negative effects of the appreciating rand was to enter the new markets in Eastern Europe, he said.

Sappi International GM Rob Hope said the firmer rand made life difficult for exporters although some overseas markets had picked up during the year.

He said the rand's appreciation against the dollar had to some extent been balanced out by the weaker position against other currencies like the pound and Deutsche mark.

"However the rand is stronger than we would like to see it," he said.

An AEFI spokesman said the rand's appreciation against the dollar exacerbated the effects of the depressed international markets.

"Some commodities have fallen over 50% since their late-1988 highs and the stronger rand has contributed further to exporters' problems," he said.

An upturn in the overseas markets was not likely, he said, "but with the Middle East crisis being an unknown, anything can happen."

A Middelburg Steel & Alloys spokesman said the strengthening of the rand aggravated the disparity between domestic and international inflation rates and was hitting exporters' profitability.
Activities: Diverse engineering group supplying particularly to motor manufacturers, the mining and refining sectors, building and construction, power generation, oil exploration, shipbuilding and transport.

Control: Metkor is the ultimate holding company

Chairman: F P Kotze, MD D B Mostert

Capital structure: 31.9m o/s of NPV Market capitalisation R702m

Share market: Price R22 Yields 4.6% on dividend; 16.3% on earnings, PE ratio, 6.1, cover, 3.5 12-month high, 2.2000c low. 1 300c Trading volume last quarter, 158 000 shares

Year to Sep 30 86 87 88 89
ST debt (Rm) 84.9 61.2 89.7 53.3
LT debt (Rm) 80.8 80.1 72.7 76.5
Debt equity ratio 0.28 0.33 0.39 0.19
Shareholders' interest 0.56 0.51 0.49 0.57
Int & leasing cover 3.1 5.8 6.3 6.1
Debt cover 0.56 0.68 0.92 0.96
Return on cap (%) 8.4 10.7 6.0 14.5
Turnover (Rm) 1 544 1 728 2 077 2 506
Pre-int profit (Rm) 88.7 117 129 186
Pre-int margin (%) 5.8 6.9 6.2 7.4
Earnings (c) 18.1 180.4 281.8 351.4
Dividends (c) 5.5 62 77 100
Net worth (c) 1 687 1 765 1 954 2 210

* Based on comprehensive deferred tax

while last year's growth will be hard to match, he expects earnings growth to be well above inflation this year. The group's tax rate should stay below 30% (25%).

Last year, trading conditions were generally better and the marine, heavy engineering and transport products divisions turned around. Their improvements should continue this year.

The first shipbuilding contract in five years was landed after year-end, and with the accounting for financial year's profit, more contracts are expected. The old Tosa seamless tube mill was closed in the second half of last year, and the commissioning this month of the new 250m mill, a 60 40 Dorbyl/Iscor venture, will result in a strong improvement in the second half. Massive provisions made for losses in the transport products division because of difficulties with production of the stainless steel suburban trainset will no longer be necessary. This should contribute to another improvement in the group margin.

Some major contracts, including Mozgas, will be closed and brought to account this year. These should more than compensate for expected moderate declines in demand in some of Dorbyl's other sectors.

Auto components make up the largest slice, at 18.8% of group sales. Building and construction accounts for 13.8%, gold mining and refining 8.9% and iron and steel 7.6%.

Dorbyl supplies vehicle components only to original equipment manufacturers. Mostert projects new car sales at 210 000 this year, down slightly from 220 000 last year, and is optimistic about demand longer term. Phase six of the local content programme must improve demand and is resulting in more exports.

Exports comprised 5.1% (4%) of group turnover and Mostert believes they will increase by at least 50% this year. The new export incentives provide a "powerful motivator" for industrialists, he says.

He sees no flattening of Dorbyl's growth though, in the longer term, it will come from fine tuning and other opportunities which can be developed without acquisitions.

Tinger Payne

DORBYL F M 1 9 9 0

No plateau yet

(189)

Though Dorbyl's turnaround is to all intents and purposes complete, management expects further strong earnings growth despite the economic slowdown.

Last year, EPS were up by 40% higher on 21% higher turnover and a 19% better pre-interest margin, while gearing improved to 0.19. This followed two strong years of recovery. Group CEO Dawid Mostert says that,
Market gives sigh of relief over Barlows

The market was apparently cheered by the ability of Barlows to hold its drop in earnings to 15 percent in the 12 months to end-September.

Yesterday afternoon the share price firm ed 5c to R32 as news of the 15 percent fall in earnings to R37.3c (R43.6c) a share filtered through. That the dividend was held at 17c also seemed to support investor sentiment.

Analysts were expecting an earnings drop of from 15 percent to a collapse of 40 percent.

At R32 Barlows is now on an historic price/earnings rating of 6.9 times and a dividend yield of 5.3 percent which looks fairly cheap for a counter of Barlows' quality.

Indications at this early stage are that, in the absence of any major unforeseen developments, any fall in earnings should be held at 5 percent. Chief executive Warren Clewlow says he would be disappointed if there was another drop.

The wild cards in '91 will again be Middleburg Steel and Alloys (MSA) and the international activities.

During the review year an unexpectedly strong performance from the international operation helped to counter the impact of a weak contribution from MSA. Boosted by a strong sterling, the rand increase in earnings from international activities (including Bibby) were up by around 25 percent.

By contrast MSA contributed only R52 million attributable profit for the 12 months - a drop of 76 percent on the previous year's contribution of R246 million. At the half-way stage MSA had already provided R50 million - so the second six months were particularly grim with attributable earnings of just R2 million.

If this is continued into financial '91, there is scope for MSA to again dent Barlows' earnings but Mr Clewlow states that the group's earnings are now not reliant on MSA.

The group's foreign earnings (which come from Bibby, a wholly owned international subsidiary and, exports from the group's various divisions) accounted for R275 million or 32 percent of total earnings of R859 million.

This was an excellent performance given that MSA made relatively little contribution to exports in financial '90 compared with '89 (the bulk of MSA's output goes overseas).

Looking to the group figures, turnover in financial '90 was up 10 percent to R26.1 billion, (R23.4 billion), operating profit was down 8 percent to R2.47 billion (R2.7 billion), interest payments were up 39 percent to R536 million (R432 million), pre-tax profit was down 14 percent to R2.5 billion (R2.6 billion). The tax rate was lower at 31.5 percent.

(34.7 Percent) which meant that taxed profit showed a drop of 9 percent to R1.57 billion (R1.72 billion).

After allowing for minorities, the drop at attributable level was 14 percent - down from R1 billion to R859 million. That, the drop at attributable level was greater than at taxed level reflects the impact of the poor performance at wholly-owned MSA and other wholly owned interests such as building materials, steel and paint.
Tough times now will pay off later

By Ann Crotty

As economic activity continues to shrink with little prospect of any significant improvement within the next 12 months, businessmen seem mixed in their response to government's tough economic stance.

Some are demanding a relaxation before an overkill situation sets in. Others believe that the government is on exactly the right track and that more of the same is needed to ensure the viability of the economy in the longer-term.

Significantly, it tends to be the chief executives of conglomerates that fall into the latter category.

Although tough local economic conditions contributed to Barlows' 15 percent drop in earnings for the 12 months to end-September, the group's CEO Warren Clewlow is not dismayed by the difficult trading conditions.

"The country has to be internationally competitive. It is not enough to be able to compete in the South African market. We must be able to cope with international competition. To do this we must knock inflation and increase productivity." For this reason Mr Clewlow does not seem too perturbed by the current tough stance that the authorities are taking to curb inflation. "Economic management is in sound hands — a cohesive strategy is being pursued."

Noting "in financial '90 we faced extremely difficult trading conditions but this is the only way we can get economic conditions right."

While the share market may be currently focusing on financial '90 figures and the prospects for financial '91, Barlows' management is taking a longer-term view. "I hope the year ahead will see a continuation of the authorities' tough policies. This means that we would have a difficult year but it also means that the groundwork would be laid for good growth in the medium to longer-term."

Also reflecting the commitment to long-term growth is the group's heavy capex plans. Despite pressure on cash flow this is expected to be again in the region of R1.7 billion in financial '91. As Mr Clewlow points out: "We've got to know where we're going to be in five years time which means we've got to take long-term decisions and stick by them."

In financial '90 Barlows was hit by trade union difficulties. Indications are that these difficulties reflected a test of wills between capitalism (represented by Barlows' management) and labour (represented by the trade unions). Most of the issues were in the nature of bread principles.

Mr Clewlow sees the situation with the trade unions as part of the development into a new era and accepts that "it is part of the cost of change."

Fortunately for Barlows, a strong performance from the group's overseas interests (Bobby, a 100 percent held subsidiary and exports from various divisions) managed to cushion the impact of the weak local economy. In financial '90 these sources generated R273 million — equivalent to 32 percent — of total attributable earnings of R859 million.

Although this represents a drop of 17 percent on the R339 million earned in financial '99, it is a commendable performance given the fact that the contribution from Middleburg Steel & Alloys was down from R216 million in '99 to R62 million. Most of MSA's output is exported.

In financial '90, the strong performance from the international side and the food interests meant that the group was able to hold the drop in taxed profit at nine percent. Mr Clewlow's target was for a fall of no more than 10 percent.

At this stage, he is hoping that earnings will be sustained in financial '91—a poor performance from MSA will not have the same adverse impact on the figures.

On the running side, the extensive rationalisation at Rand Mines should see some improvement in performance.

Although the share price has enjoyed some recovery since the results were published on Tuesday, its price/earnings rating and dividend yield indicate that the market is anticipating a fall in earnings in '91.