MANUF. — Non metallic mineral products

1992

JANUARY — AUG
Volumes still falling

Activities: Cement and lime producer
Control: Barlow Rand 60.3%
Chairman: J C Hall, MD J E Hodgkiss
Capital structures: 40,3m ords Market capitalisation R1,65bn
Share markets: Price 4 100c Yields 4.2% on dividend, 6.9% on earnings, p/e ratio, 14.3, cover, 1.66 12-month high, 4 300c, low, 4 200c Trading volume last quarter, 309 000 shares

Year to Sept 30 '88 '89 '90 '91
ST debt (Rm) 8,1 7,9 2,5 1,7
LT debt (Rm) 16,1 2,0 30,0 36,0
Debt equity ratio — — — 0,04
Shareholders' interest 0,54 0,61 0,69 0,62
Int & leasing cover 16,83 6,84 8,46 15,88
Return on cap (%) 18,2 19,6 19,1 19,6
Turnover (Rm) 589 689 740 818
Pre-tax profit (Rm) 143 164 172 185
Pre-tax margin (%) 24,3 23,8 23,3 22,6
Earnings (c) 202 252,6 266,2 284,8
Dividends (c) 100 130 160 172
Net worth (c) 1 155 1 267 1 321 1 435

PPC was unable to shrug off the building industry depression in the 1991 year. Weaker demand for its products resulted in lower production volumes and thinner margins. A higher interest bill and lower investment income added to the pressures, but a reduced tax charge enabled a 7% advance in earnings.

The plants operated during the year at only 59% (1990: 61%) of capacity. Volumes fell most in the lime division, where output was down by 9%. The cement division saw a drop of 3%. Both are heavy declines for a group in this industry, where fixed costs are high. Cement volumes have now fallen to the 1985 level, lime output is the lowest since 1982.

Thanks partly to tight control of costs, and rationalisation of operations, the cement division’s operating profit improved by 8%, to R118.7m, amounting to two-thirds of the group total.

In the lime division, operating profit slipped slightly, to R50.8m, accounting for just over a quarter (1990: 30%) of the total. The rest was from packaging and various other interests.

As part of a strategy to stimulate demand for cement, PPC entered into a R20m joint venture with French cement manufacturer Saret International, to produce concrete building beams. In addition, a 49% stake was acquired in Betram (Pty), which makes and markets concrete door and window frames. Net investment income dropped by just over two-fifths, to R11.6m. Cash resources fell to R16.3m, mainly because a special dividend of R32m was paid to shareholders in January 1991.

Borrowings were slightly higher, at R38m (1990: R33m), but gearing remains negligible. However, R30m of the 1990 year’s borrowings were only acquired at mid-year. With a significantly higher average level of debt to be serviced for the full year, last year’s interest charge jumped from R4.9m to R8.5m. No major capital programmes are planned for the “foreseeable future,” and the R68m (1990: R116m) spending commitment may be adjusted to market conditions.

Chairman John Hall has predicted dull trading conditions for this year. At best, he says, sales are expected to remain stable. This is partly because of the country’s spending on housing and infrastructure, and the slackened demand for lime from the mining, steel and uranium industries. PPC has cut its price per ton of cement by R1.20, effective from September 30, 1991.

Volume throughput will remain a critical factor affecting the profit outlook, but Hall is confident that returns will recover rapidly once demand picks up.

The share, currently at a 12-month high of R43 and offering an earnings multiple of 14.2, remains the best rated of the cement producers. Anglo-Alpha, at R39.25, and Blue Circle, at R30, stand on multiples of 11.2 and 10.7, respectively. However, it is probably too early to expect a recovery in the sector.

PPC's Hall volume is critical
Control pool bows out

The shape of SA Breweries’ diversified manufacturing interests has altered considerably now that Plate Glass & Shatterpruf Industries (PGSI) has joined the stable. PGSI has about 50% more assets than Afric, Da Gama and Lion Match combined, and almost double their combined turnover.

By buying the controlling interest in pyramid Placor, SAB still effectively owns scarcely a quarter of PGSI, but chairman Meyer Kahn says this is just the first foothold. “It is out of keeping with our style to operate through pyramids,” says Kahn. “We are most comfortable when we own about two-thirds of the underlying company.”

Kahn says other elements in the deal will be announced this month, including a rights issue in PGSI to fund the R525m acquisition of Pilkington’s interest in Glass SA. (FM December 20) With SAB’s muscle behind it, the international arm Belron is poised to benefit from a substantial offshore investment programme.

Much depends on SAB’s offer to Placor minorities. Certainly, it is particularly attractive — ideally, SAB would like to delist Placor and hold its interest directly in PGSI. It is offering one automatically convertible preference share for every two Placor. The pref carries a fixed dividend of 255c — more than double the latest ordinary dividend of 118c. At current prices, the instrument offers a yield of 4.7%, compared with 2.2% on the ordinaries.

The instrument will convert into ords once the ordinary dividend matches or exceeds 255c. It is estimated that this will happen in about five years’ time. Kahn says a similar instrument was used to acquire control of Da Gama and was “very well received.” In that case, 8.9m preference shares were issued, which will be converted when the ordinary SAB dividend matches or exceeds 165c.

Though the Lubner and Brodie families have been bought out, Ronne Lubner remains chairman and CE of PGSI. Placor chairman Beatie Lubner says the Lubner and...
Italtile acquires Abacus listing

\*ROBERT LAING\*

AUDIOBUILD's listing has been sold by Abacus to Italtile, which will inject its manufacturing operations into the listing and rename it Ceramic Industries Limited.

Abacus director Martin Capper said the company had sold its Krugersdorp-based ceramics factory, Studio Ceramics, and the Audiobuild listing to Italtile for about R6m.

Abacus would retain its non-ceramic interests, including hi-fi manufacturing plant Audocor and door factory Doorcor.

"It is a good deal for us because the ceramics factory was not being fully utilised and the extra listing was getting expensive," said Capper.

Italtile offered Audiobuild's minority shareholders 1,08 Italtile shares for every two consolidated (100 ordinary) Audiobuild shares held.

The companies published a statutory request for approval of Audiobuild's capital reduction and distribution of its consolidated shares today.

Audiobuild sold its non-ceramic interests to Abacus for R40m.

Audiobuild will acquire Italtile's manufacturing operations and Titecor from Italtile, becoming a substantial producer of ceramic tiles and vitreous china sanitaryware.

Italtile acquired Abacus's 60% share of Audiobuild for the issue of Italtile shares at R6 a share.
proceed. This would be subject to the approval of major shareholder Rembrandt, which may not be overenthusiastic. Evertite’s performance in recent years has been noticeably weaker than that of Fraser Alexander. The cyclical building industry seems an awkward fit with Rembrandt’s other investments.

For D&H, funding will be easier as it will soon be wholly owned by Murray & Roberts (M&R). When it acquired a controlling stake in D&H from Malbak in October, M&R announced its intention to delist the company. The response from minorities must have surprised even them.

M&R bought 98.6% of the share capital. It paid just R350,000 cash. For the rest, shareholders were paid R182m in M&R ordinary shares. It is using section 440 of the Companies Act to acquire the rest of the shares.

Andre van der Colff, chairman of M&R Suppliers & Services, says Evertite would slot logically into D&H, though any bid might be made by M&R itself rather than through D&H.

But, he says, before there is a bid, two main obstacles have to be considered. One is that Nueva is offering shares in the pyramid Evertite Holdings, which will give M&R a relatively small stake in the underlying company. M&R would be unable to rationalise, say, Evertite Pipes and Rocla, until it owned a far larger stake.

M&R does not like operating through pyramids. This may pose fewer problems for Fraser Alexander — which is itself controlled through pyramid Fralex — though it, too, would presumably be seeking synergies.

More importantly, Evertite’s performance has been poor. Nobody in building supplies has done well in the past couple of years, but Evertite has performed even worse than most. Still, it would not be the first time that M&R, nor for that matter the team which Rembrandt installed at Fraser Alexander, have tried to turn around an underperformer.

Stephen Crockett
EXPLORE SUPPLIERS TO MORE COMPETITION

THE building supply market should be subject to greater competition, and the entire policy of tariff protection on general imports and building materials should be urgently reviewed, says SA Building Industries Federation (Bifsia) economist Charles Martin.

"The raison d'etre for introducing or increasing tariff protection when sanctions were the order of the day is no longer appropriate or valid, especially now that the improvement on the balance of payments allows more scope for selective imports."

"However, any reduction in tariffs should occur on a gradual basis to prevent major disruptions in that market," Martin says in Bifsia's latest building review.

While prices of building materials have been reported mostly lower in recent months, this is largely a statistical phenomenon with sharp increases in certain materials still being reported by contractors and sub-contractors, he adds.

Building materials should remain freely available during 1992 and Bifsia expects prices to rise by 15.5% this year.

On the labour front, further major reductions in the industry's labour force are unlikely, although isolated retrenchments are still possible in the short term.

A Bifsia analysis indicates that the labour force has stabilised around the 244,000 level in recent months.

The rise in the cost of labour is also expected to slow down marginally in the short term, and should increase by 13.5% in 1992, as total labour costs continue to increase in line with inflation.

The anticipated upturn in the building cycle during the second half of 1992 should see a noticeable increase in job opportunities in the industry from 1993," he says.

The drop in building activity during 1991 had ended shortages of materials.

"All materials are currently freely available, but we expect this situation to reverse during 1993," Martin says.

PROPERY

SUE ENERGY IN BUILDINGS

TRUE energy efficiency in SA building construction will come only when it is considered in the initial design stages and not an afterthought, says Staub Vorster, architect at Derek Volavsek Architects.

"There is a growing awareness of the opportunities for greater energy efficiency in office buildings.

"Although electricity is cheaper locally than abroad, building owners are still starting to look more closely at heating and cooling as a component of running costs."

While speculative developers were less concerned about this as they simply passed costs on to the tenant, owner-occupiers were starting to address the issue, he said.

Where a building was without air-conditioning, and other devices were used for heating and cooling, it was often difficult to achieve the same comfort level.

"Alternative temperature devices include reducing the openings in the exterior walls to a minimum, and considering external shading methods like awnings, louvered slats and the use of double glazing," he said.
Everite’s restructure pays off

By Sven Luusche

After an extensive rationalisation exercise, which included the retrenchment of 20 percent of the workforce, building supplies group Everite has bounced back with a 90 percent surge in interim earnings.

Managing director George Thomas expects the group to continue its earnings growth for the full financial year even if, as expected, there is no pick-up in the economy.

Mr Thomas does not disclose details of negotiations involving the sale of the controlling stake in Everite by Swiss-based Nueva Holdings, which was announced last November.

The group’s turnover was up by 10 percent to R188,3 million (R165,8 million).

Operating income increased by 33 percent to R26 million (R19,5 million).

Everite’s conservative replacement-cost depreciation policy knocked R13,8 million (R12,2 million) off operating income, but higher investment income lifted net income by 91 percent to R7,3 million (R4,1 million).

After additional costs of R1 million relating to the restructuring, attributable earnings rose from R4,1 million to R6,9 million.

Earnings per share were up from 4,7c to 8,3c.

Mr Thomas says that historical cost depreciation would have pushed earnings to 16,2c (10c).

The interim dividend has been raised by 25 percent from 4c to 5c.

The restructuring has also seen a substantial improvement in the balance sheet.

Mr Thomas says Everite will enter the upswing with no debt on its book and gearing of less than 10 percent.

Furthermore, the group can easily boost output as capacity utilisation at its factories is running at only 50 percent.

"On balance, it is unlikely that long-awaited spending on affordable housing and infrastructural development will materialise in the current financial year," he says.

Nevertheless, he expects a repeat of first-half results for the full year, adding that a pick-up in the economy would result in a further meaningful improvement in earnings."
Granite rumblings follow talks on Quagga's future

MORE rumblings are likely in the local granite industry after today's announcement by Quagga Holdings cautioning shareholders that it was currently involved in negotiations which could result in a change of control at the group.

Only two months ago SA's major granite producers entered negotiations which analysts predicted would see the establishment of a local granite cartel. But nothing further has come from the groups involved. They were the Keeley Group, Kudu Granite, unrelated producer Impala Granite and Transkei Pioneer Minning company.

But today's announcement from Quagga will fuel speculation of further rationalisation in the troubled granite industry.

Marlin Holdings was initially cited by analysts as the candidate most likely to take control of Quagga, but this has been strongly denied by Marlin's executive chairman, Peter Gain.

Impala Granite, held about 40% by Anglo American, and the Keeley group, in which Gemmin has a stake, have been mentioned as other likely candidates.

Taking over Quagga would help the Keeley group regain control of the African red granite market.

"As the Keeley group already has extensive reserves of African red, the group's motivation for taking over Quagga would be to increase its influence over the pricing of African red," said analyst Keith Bright of Edey Rogers.

Kudu Granite is the only other group which has large reserves of African red.

As Impala Granite does not have any large exposure in the African red market, it has also been cited as a likely candidate to take over Quagga.

Marlin had been noted as the most likely candidate as it had been quarrying and marketing Quagga's African red operations at Leyden - in Lebowa - on a profit-sharing basis since 1990.

And analysts believed it was probable that Marlin would have entered into an agreement with Quagga, giving Marlin a preemptive right if Quagga's controlling shareholders sold out. Marlin does not have its own African red reserves.

Although Quagga has other granite reserves - including black and green granite - the only successful quarry in the African red operation in its 1991 renewal, Quagga chairman Rudolph du Brie said the group had experienced strong demand for African red.

Shares in Quagga, which was listed on the JSE in May 1990 at 75c a share, yesterday closed up 1c at 3c a share.
PGSI seals deal for Glass SA takeover

PLATE Glass and Shatterprufe Industries (PGSI) has finally signed the agreement to acquire a 48.4% stake in Glass SA from Pilkington, thus raising PGSI's effective interest in Glass SA to 96.6%.

PGSI will finance the R325m acquisition by the issue to Pilkington of 10.9-million automatically convertible preference shares, it announced yesterday.

Pilkington has made independent arrangements to renounce the rights to the convertible preference shares for a cash settlement of R325m. The preference shares will be placed with SAB which, in turn, will place its own securities with major financial institutions to fund the acquisition of the PGSI preference shares.

SAB recently announced it would be acquiring 54.5% and that in due course it intended to make a similar offer to shareholders in Placor.

The PGSI preference shares will carry an annual dividend of 27c and full voting rights. They will automatically convert to ordinary shares when the PGSI ordinary dividend — static at 22c for the past three years and expected to drop this year — reaches 27c.

The issue of the preference shares is due for approval at a general meeting of ordinary shareholders on February 27. The shares and SAB securities are expected to be issued around March 31.

PGSI directors said in a statement yesterday that, had the Glass SA deal been effective throughout the year ended September 30, 1991, earnings a share on a fully diluted basis would have increased from R7.0c to R7.1c. However, they caution that the cautious tone of the September 1991 interim statement by stressing the continued weakness in PGSI's markets and that as a result earnings for the second half will be down.
Still no buyer as Everite lifts profit

RESTRICTING and rationalisation benefits helped building materials group Everite show an increased profit for the six months to December.

But there is still no word on who will buy the controlling interest in Everite from ultimate Swiss parent Nueva Holdings MD George Thomas would say only that negotiations were still in progress.

However, market sources said yesterday that tenders for Nueva's stake in Everite had closed on Monday. Acceptances Limited was in the process of selecting two companies which would do a due diligence test on Everite until February 29. Nueva was expected to announce the successful bid around March 6, sources said.

During the review period Everite's earnings after additional depreciation increased by 91% to 8,9c (4,7c) and dividends rose 25% to 5c a share.

Thomas attributed the performance to a reduction in fixed costs which resulted from the rationalisation and restructuring programme begun in July. The full benefits of the programme were still to be felt and would further increase group profits in the second six months to June.

Turnover increased 10% to R183,3m. Selling prices increased by 6% and sales volumes rose 2%, indicating that Everite had regained some lost market share.

A reduction in fixed costs boosted operating income by 33% to R25,956m and margins improved from 11,7% to 14,2%.

After historical and additional depreciation, net operating income rose 68% to R12,213m. Investment income was up to R3,5m from R2,6m, largely because of higher payouts from endowment policies.

Finance costs rose sharply to R2,2m (R992,000). Thomas said that towards the end of last year, Everite had to pay tax which depleted the group's cash resources.

As a result the group increased short-term borrowings from R20,5m to R35,35m. Since these borrowings were made in the November/December period, finance costs would be significantly higher during the second six months, Thomas added. Everite Holdings, which holds 56% of Everite Group, reported a 91% rise in earnings after additional depreciation to 25,6c and dividends increased by 22% to 14c a share.
Anglo Alpha waiting patiently for better times

By Derek Tomney

If there is one organisation that would dearly like an improvement in the economy it must be Anglo Alpha, one of SA's largest industrial undertakings, with net assets of R3.6 billion and a workforce of 4,000.

Poor conditions led to earnings in historic terms declining again last year from 349.8c to 232.6c — their lowest level since 1987.

Earnings based on current costs (that is, after partly adjusted for inflation) fell from 200.1c to 192.9c a share. However, this was better than expected.

It is company policy to maintain the dividend in line with inflation.

The result is that the final dividend has been lifted from 80c to 106c a share, making a total payout of 152c — 15.2 percent more than the 132c paid last year.

Johan Pretorius, group MD, says 1991 was tough and that the company hasn't seen the last of the bad times.

Turnover rose 4.4 percent to R128.2 million, but net operating income fell 12.1 percent to R135.7 million.

This was partly the result of major maintenance in the cement division and a substantial one-off increase in historic depreciation in the stone division.

Income from investments rose 37.4 percent to R15.1 million. However, finance charges took R21 million (year ago, R13.6 million)

After taking all these factors into account, net income before tax fell 22 percent from R165.7 million to R127.8 million.

Tax dropped sharply, from R38.6 million to R24.4 million. As a result, tax paid income dropped from R16.9 million to R10.9 million.

A current cost adjustment of R45 million (R45 million) reduces net income to R84 million (R50.2 million).
Drop in tax rate aids Anglo Alpha

A SHARP drop in the tax rate helped cement, stone, lime and industrial minerals producer Anglo Alpha limit the decline in earnings to only 3.8% for the year to December 31, 1992.

At interim stage the directors had forecast that earnings for the full year would be down by 5%. But the fall in the effective tax rate from 36% to 15% saw earnings after current cost adjustment down to R20,986m from R22,208m. Dividends have been increased to 18c (15c) a share.

Financial director Trevor Wagner said last night the drop in the tax rate was owing to lower profitability and higher capital expenditure allowances. These two factors helped reduce Anglo Alpha's tax charge by R34m.

Wagner added that although capital expenditure would continue in the current financial year, the effective tax rate was expected to rise closer to the 35% level.

During the review period Anglo Alpha increased turnover by 4.4% to R72,922m. Sales volume drooped 16% with the stone division showing the sharpest decline at 13%. Volumes in the cement division were above its cement quota.

Net operating income dropped 19% to R135,655m, the operating margin falling to a new low of 18.6%.

Preorders attributed this to the shut-down of the cement division's Dudfield operation for major maintenance which had pushed up variable costs. Another factor was that last year's acquisition of stone quarries resulted in a substantial one-off increase in historical depreciation in the stone division.

Cash flow from operations declined 49% to R75,3m because of lower earnings, the payment of R56m tax deferred the previous year and increased working capital. As a result group borrowings rose R64,2m and interest payments soared 54% to R20,986m. Wagner said the increase in working capital resulted from the refurbishments in the cement division where stocks had to be built up to meet market demand.

Pre-tax net income dropped 22% to R127,761m and the low tax charge reduced the drop in net income before current cost adjustment to 2.1% to R103,046m. Current cost adjustment was static at R45,621m (R45,840m) and attributable income down 3.6% from R60,18m to R58,021m.

Wagner said the introduction of VAT last year was the major factor for the static current cost adjustment. Since VAT inputs on capital equipment could be claimed back, the replacement value of the group's assets had been reduced.
Client guarantee fund to protect new pool owners

By John Miller

The South African Fibreglass Pool Builders Association (SAFIBPA) has introduced a client guarantee fund which will protect new pool owners against those members who have been suspended, expelled or declared insolvent.

Newly appointed SAFIBPA chairman Hugh Temlett said the association’s guarantee fund would cost pool buyers R125, and unlike that of the National Spa and Pool Institute would be payable by the client and not the builder.

“The once-off payment which must be made before building starts will cover the client for the period of guarantee. The fibreglass lining and any water leakage is guaranteed by all our members for five years and paving, pump, motor, filtration and any other building work is covered for six months.”

To make sure that its members adhere to various specifications, the association has also appointed an inspector who will visit sites on a random basis.

Similar inspections will also be carried out by the fibreglass manufacturers who also intend future blacklisting of unscrupulous companies.

At its meeting last week, the association also agreed to a disciplinary code.

“If a complaint is not attended to, the association will send a written warning giving the member seven days to respond and repair any problems.”
PORTLAND HOLDINGS

**Capex benefits?**

On the face of it, a one-third fall in share price since last January suggests shareholders had a tough year. But the bugbear was the rand-Zimbabwe dollar exchange rate. In the local currency, the Bulawayo-based cement producer turned in record results.

Subsidiary Fort Concrete Holdings (Pty) was at last awarded realistic price increases, which raised group net surplus by 112% from Z$6m to Z$12.7m.

In 1990, both Zimbabwe cement producers worked to full capacity, producing in total about 800,000 t, of which Porthold produced about 60%. Clinker imports allowed Portland to gain a further 7% of national production, making its total share 67%.

Sales were little changed at 630,000 t (1990 622,000 t). Lime production was low, around 1,000 t a month. The group still has difficulty in controlling massive input costs. Consequently, net profit on cement products was only 10% of the factory cost of sales.

A new kiln being installed at Colleen Bawn plant is well under way to improving output to 1,000 t of clinker per day, equivalent to 750,000 t of cement a year by end-1993. Estimated cost is Z$100m. The initial development still requires clinker imports to use spare grinding capacity.

Further capex of Z$75m is being reviewed in the light of foreign exchange availability, to raise production to 2,000 t of clinker a day. This would increase output to 1.1 Mt a year. The eventual output should go a long way towards easing the national cement shortage.

**Companies**

year will be much higher than expected because interest payments, totalling DM 14.5m, are over-exposed. But chairman Richard Sly is confident that the lifting of price controls in August will allow all companies to make some profit. He says that the Z$2013 rate is an operational performance benchmark, not a commodity rate, and the group can cover its DM debt at an annual rate of Z$4.3m.
Another step in SA Breweries (SAB)'s plan to increase its stake in Plate Glass (PGSI) took place this week. SAB has bought R525m automatically convertible PGSI preference shares and will place its own instruments with institutions to finance this. PGSI needed the finance to buy the 48.4% of Glass SA held by Pilkington Plc.

SAB acquired effective control of PGSI in December when it acquired 54.6% of pyramid Placor from Liberty Life and the Lubner and Brodie families (also financed with convertibleprefs). SAB chairman Meyer Kahn, however, said recently (FM January 3) that Breweries would prefer to hold its stake directly in PGSI and to dismantle Placor as soon as possible.

The prefs will convert into ordinaries when PGSI's dividend reaches 27.5c. On conversion, they will represent about 35% of the ordinary capital.

But that is unlikely to happen until at least March 1993. This year's dividend is expected to be somewhat lower than the 22.2c for the year to March 1991.

The pref issue means that PGSI will not need a rights issue specifically to finance the Pilkington deal, but spokesman Brian Gibson says there will be an offer to reduce debt and, if possible, finance the expansion of foreign operations.

Stephen Camenzul
Group Five buys control of Eythold for R87m
Group Five pays R86m for Evoke

GROUP Five's successful offer of R86.7m for a 51.6% stake in Evoke Holdings (Evoke) was R25m higher than the two closest bids, market sources said yesterday. Evoke owns 56% of building materials group Evertite, 56% of building materials group Evertite.

The acquisition would reverse Group Five's cash-positive situation into gearing of up to 30%, chairman Peter Clogg said.

However, he said that by the end of the financial year to June, Group Five could have returned to a cash-positive position.

It was announced at the weekend that the due diligence exercise was completed. On Wednesday, Group Five would acquire 8.8 million shares in Evoke from Swiss group Nueva Holdings for R5.50 a share.

Group Five will extend a similar offer, underwritten by First Sure Assure, to Evoke shareholders.

In the second leg of the deal, Nueva has sold its 8.9% direct stake in the Evertite group.

Group Five (50%) 10/12

"This was expanded into the operation of maintenance and repair of water and sewage treatment plants and road and wall cladding and more recently into ready-mix concrete."

Group Five's ultimate intention is to increase its holding in Evoke. One possibility would be for Group Five to do a deal with Old Mutual, which now holds 15% of the 50% shares. In the second largest stake in Group Five, Old Mutual also owns 18% of Evoke and a direct 5.5% stake in the Evertite Group."
M&R buys as Blue Circle quits SA

IN THE third disinvestment move in three months, UK group Blue Circle Industries plc is selling its 42.3% stake in local cement and building materials producer Blue Circle to Murray & Roberts (M & R) for more than R800m.

M & R, which has already spent more than R700m on acquisitions in less than six months, already owns 42.3% of Blue Circle through wholly owned subsidiary Darling & Hodgson. D & H has the first right of refusal on Blue Circle Industries plc's stake in the local company.

The deal leaves Anglo Alpha as the only cement producer still with an overseas principal. Swiss group Holderbank Financiere Giannis and its associate own 34.1% of Anglo Alpha. The other cement group, PPC, is controlled by Barlow Rand.

A Blue Circle Industries plc spokesman said an announcement would be made shortly.

In other recent disinvestments, UK-based Pilkington plc sold its 45.4% interest in Glass SA to Plate Glass & Shutterlufe for R325m, and Swiss group Nuera Holdings sold holdings in Evertte Holdings and its subsidiary, Evertte Group, for R116m to Group Five and the French Bank of Southern Africa.

M & R and Blue Circle published a joint cautionary notice yesterday warning shareholders that negotiations in progress could affect share prices.

Market speculation is that M & R would buy out Blue Circle Industries plc, increasing M & R's stake to 91.5%. M & R would make an offer to minorities and then delist Blue Circle.

Frankel, Max Polak, Vadderine analyst Mike Howarth and Blue Circle Industries plc had been rationalising operations and selling peripheral businesses in other countries. It was a “natural consequence” of the world recession.

Blue Circle

The Blue Circle share price is R34.50.

Market sources said the UK company had always asked for a premium, which was the mark-up M & R or its former parent Malaya made when buying its stake in the local company.

The deal was based on future earnings rather than the net asset value. And everybody knows that when the economy turns, those cement companies will start running,” Howarth said.

He suggested M & R might use equity financing for the deal, issuing new shares to institutions. A rights issue was also a possibility as M & R's cash needs might be greater when the economy improves.

The acquisition of control of Blue Circle would make sense for M & R, analysts said.

Blue Circle accounts for a large chunk of D & H's business. In financial 1991 Blue Circle contributed 63.5% of D & H's turnover and 58.7% of operating income.

The biggest benefit, however, would be in the rationalisation of operations, analysts said. Blue Circle has an engineering division which could easily be moved into Genrec or M & R's industrial division.

In the building materials division, M & R and Blue Circle already have a joint venture in Ready Mixed Materials, in which Blue Circle holds 40%.

In the past six months M & R bought the remaining shares in Unitrans’s holding company, United General Investments, from its ultimate parent Sankorp for R131m, acquired control of D & H and 35% of Standard Engineering for about R399m.

M & R shares rose 10c to close at R58 yesterday.

JOHN CAVILL reports from London that Blue Circle Industries plc has been streamlining its operations and trying to reduce costs for the past 18 months. At the same time its net debt has risen sharply.

In 1990 (to December 31), sales dropped 5% to £1.2bn while pre-tax profits fell by 16% to £195m. In the first six months of 1991 turnover was down by 15% to £231m while earnings before tax slumped by 36% to £375m. Net borrowings climbed by nearly £54m to £316m.
Saficon raises stake in Boumat

Saficon Investments is increasing its holding in Boumat from 32 percent to 51 percent.

It signalled the possibility last June when, in its annual report, chairman Sidney Borsook said:

"In view of the retirement of Irvine Brittan as executive chairman of Boumat on March 31, 1992, we believe that we should play a more active role than in the past in the management of this group."

Saficon Industrial Holdings, a wholly owned subsidiary of Saficon, has acquired 1.267 million Boumat shares from Sanlam, representing 27 percent of Sanlam's holding. — Sapa.
VAT was the ‘death blow’ for Cashbuild

By Sven Lusche

The building supply industry, already hard hit by the slump, has been dealt a “death blow” by the introduction of VAT, says Gerald Haumant, chief executive of Cashbuild.

Mr Haumant was commenting yesterday on the group’s disappointing 4.1 percent increase in attributable earnings to R3.8 million (R3.7 million) in the six months to December.

“Most stores performed well until September 1991, with sales rising by 21 percent. October and November, however, were disastrous months, with existing stores’ sales shrinking in real terms for the first time in the history of the company,” Mr Haumant says.

Group turnover was up 14 percent to R224.2 million (R196.8 million), but operating profit increased only 3.9 percent to R3.1 million (R3.75 million).

Earnings per share increased from 17.2c to 18c, while the interim dividend was maintained at 5c a share.

Curtailed...
Saficon to increase stake in Boumat

MOTOR retail group Saficon Investments plans to increase its stake in building materials supplier and manufacturer Boumat to 51% from its existing holding of 33%, chairman Sidney Borsook said last night.

In an announcement to shareholders, Saficon said it had acquired 1.3-million Boumat shares from Sanlam in exchange for 12 new ordinary Saficon shares and 6 new Saker's Finance and Investment Corporation (Saker's) shares for every 27 Boumat shares. Saker's forms the investment holding company for the Saficon group.

The 5% stake in Boumat acquired from Sanlam is equivalent to 27% of the assured's total holding in the building supplier. As a result, Borsook said a similar offer would be extended to Boumat's minority shareholders for 27% of their holdings.

Although Saficon has extended its offer, on a tender basis, to minority shareholders, it believes the group would not be obliged to accept shares above the agreed terms. The proposed deal has been approved by the JSE and the Security Regulations Panel.

The proposed offer requires that Saficon increases its stake by no more than 51% or a minimum of 47%. Borsook said Saficon planned to adopt a more active role in the day-to-day management of Boumat, "which holds a lot of potential". Borsook replaces Irvine Brittan, who has indicated his intention to retire, as Boumat chairman at end-March.

Saficon also has reached agreement with Sanlam to purchase its remaining holding of 3.4-million shares in Boumat, based on the same purchase terms Sanlam holds a 15% stake in Boumat.

The deal would require the issuing of 4.7-million new Saficon shares, boosting the company's share base by 16% to 34-million shares in issue. The dilution would not materially affect Saficon's control structure. Saker's would issue about 1.3-million new ordinary shares, Borsook said.

Building business will decline Group Five

Gross profit margins increased from 2.96% to 3.6% in spite of the drop in turnover. As a result, pre-tax profits were down 2.9% to R129.9m. However, a 28% increase in tax to R4.4m further reduced the company's earnings. Taxed profits fell 5.3% to R144.9m while dividends remained unchanged at 27c a share.

Cash on hand amounted to R47.9m.

Cogg said about 20% of turnover was derived from cross-border operations in southern Africa. These operations include housing, civil engineering and road building contracts in Botswana, Namibia, Malawi, Lesotho and Zimbabwe. The company is also investigating opportunities in eastern Europe and what was the former Soviet Union.

He said construction and civil engineering activity in SA was quiet and there was less and less activity in the low-cost housing sector. Group Five would benefit particularly from new initiatives in the low-cost housing sector following its acquisition of Evenite for R65.7m.

Group Five Holdings, which derives all its income from a 53.8% stake in Group Five Limited, declared unchanged dividends of 25c a share. Earnings a share fell 11% to 8c.

SM Goldstein declared unchanged dividends of 10c a share. SM Goldstein derives its income from a 45% interest in Group Five Holdings.
GROUP FIVE FM 14/2/92 193

Eating up Everite

Group Five’s diversification into industry started modestly. In the year to June industry represented barely 1% of pre-tax profit but these interests have been given a major boost by the acquisition of control of Everite.

Group Five was the highest bidder but an outsider compared with the more favoured Murray & Roberts and Fraser Alexander. Financial director Thumas Kotzee says Group Five intended to keep Everite’s listing. All industrial interests will be sold to Everite, which may well change its name.

Everite’s disinvesting Swiss parent Nueva Holdings got a good price for its 51.6% controlling interest in Everite’s pyramid Evhold 985c a share, a hefty 46% premium on a pre-deal quote of 675c. Yet Evhold trades on a discount to the R9 underlying value of its investment in Everite.

Kotzee says the difference of 85c is a fair premium for control. Maybe, but a premium of 46% is likely to prove irresistible to Evhold minorities, who will be made a similar offer.

The price looks more realistic after last week’s Everite results. EPS increased by 62% and Everite reversed its declining market share, lifting sales volumes by 2% in a declining market.

Group Five is not concerned that Everite’s core product, asbestos, is not growing because of perceived environmental hazards. Chairman Peter Clegg is satisfied that Everite’s occupational health and safety practices meet world standards.

Everite is ungeared, with net cash of about...
NON-RESIDENTIAL BUILDING COSTS

Sudden death plunge

The removal of 13% GST on building materials in the fourth quarter of 1991 and a dearth of new work have caused a sharp, once-off fall in non-residential building costs.

A relative but precipitous fall was recorded in building starts in this sector of the market in September last year. Erwin Rode, research director of Real Estate Surveys, says "Whereas one month's data cannot be regarded as a trend, it might just herald the beginning of a lower road for the non-residential building industry. Considering the overbuilt state of the property market, that is long overdue."

Rode admits that, at this stage, his anticipation of a reduction in work available is based on anecdotal testimony. Former evidence exists to support a fall in costs. A strong downward trend in the rate of growth in building costs has been recorded by both the BER Building Cost Index (non-residential tender prices) and the Haylett Index (input costs).

Says Rode "The decline in input costs, by which I mean materials and labour and, to a lesser extent, plant and machinery, is good news, considering the oligopolies and monopolies in the building materials industry."

The sharp fall in costs began with the removal of the 13% GST on building materials which typically make up 40% of the cost of a building contract. Removing the 13% cut total cost by 5%-6%, to the benefit of the developer.

Introducing VAT on total contract costs has had a neutral effect on building costs because VAT is recoverable by a vendor.

Rode estimates non-residential building costs grew 7% between the fourth quarters of 1990 and 1991. If VAT had not replaced GST, the growth would have been about 13%. Growth in 1992 is forecast at between 9% and 13%.

In contrast, home building costs are expected to rise by 16% this year, after an estimated 11% increase in 1991. The reason is primarily the anticipated 2% drop in mortgage bond rates, which will enable contractors to expand margins as more people can afford to build homes.

CAPE TOWN

Search for a haven

The perception of Cape Town as a haven, in an increasingly crime-ridden and politically unstable SA, is sustaining investment in commercial and residential property in the city despite the recession.

So says city council development co-ordinator Philip Theron. He adds "Major developments worth R704m were under construction at the end of last year compared to R591m for the corresponding period in 1990. Buildings valued at R440m were completed during 1991."

He says the medium-term outlook is also good. "Some very big developments are being discussed. Council and it's encouraging that a number of them are in the CBD, which has lagged in new development" Details of the developments are still confidential.

Theron attributes the interest in commercial property investment to a reassessment of Cape Town's potential to accommodate corporate headquarters. The high quality of life and relative security compared to some other metropolitan areas is attracting not only an increasing number of businesses, but individuals as well, as reflected in the stability of the medium- and upper-priced residential markets.

Theron says since March 1986, 191 major commercial, industrial and residential projects valued at just over R2bn have been completed in Cape Town. Major developments under construction include:

- The UCT business school complex at the V&A waterfront (R40m);
- Murray & Roberts' Pier Place office development on the foreshore (R35m);
- Equitor's Belmont office village in Rondebosch (R52m);
- The V&A company's Victoria Wharf.
PGSI initiates rights offer

A PLATE Glass and Shatterprufe Industries (PGSI) is to raise R364m in a rights offer.

An announcement issued today said the funds raised would be used to increase the equity base of PGSI's offshore operations and to refinance certain local borrowings.

About R310m would be used to recapitalise PGSI's internal operations and to facilitate internal growth, while the balance would be used to reduce local borrowings.

PGSI's ordinary shareholders would be offered new ordinary shares at R45 a share.

Today SA Breweries (SAB), PGSI, Placor and Afcol announced details of various transactions, which included SAB's acquisition of 54.6% of Placor.

Placor, which has as its only investment its 49.7% interest in PGSI, would be acquired from a consortium comprising the Lubner and Brodie families and Liberty Life.

The consortium would receive 6-million automatically convertible SAB preference shares.

Placor would become a wholly owned SAB subsidiary and SAB would have an effective 57% holding in PGSI.

Conclusion of the transactions would also see the SAB group's interest in PG Bion, presently held through furniture subsidiary Afcol, being consolidated within PGSI.

This would be achieved by Afcol's disposal of its 59% shareholding in Spankor — whose principle asset is its 47.8% shareholding in PG Bion — to PGSI in return for nearly 2-million PGSI convertible preference shares.

PGSI would increase its shareholding in PG Bion from 47.8% to 71.7%.

The companies said PG Bion was a non-managed equity accounted interest of Afcol, and its disposal would significantly improve Afcol's financial structure, increase its ability to enhance its core business when opportunities arose, and facilitate future growth.

They said there would be no material effect on SAB's earnings and net asset value.
Cement sales in 1992 set to keep dropping

LOW LEVELS of activity and the absence of major new projects in the civil engineering and building industries saw domestic cement sales in 1991 fall 6.7% to 7.243-million tons from 7.848-million tons in 1990, said Cement Producers Association (CPA) director Vincent Bray yesterday.

Commenting on recently released cement sales and production statistics from the CPA, Bray said no major civil engineering or building projects would come on stream this year other than the start of construction of the Katse Dam for the Lesotho Highlands Water Project. Consequently he forecast a 1% to 1.5% decline in sales in 1992 compared with 1991 sales.

Pretoria Portland Cement director John Swart said an R3m depot was being constructed in Ficksburg by the CPA to supply cement, fly-ash and slag for the Katse Dam. The depot, due for completion in August, would be supplied by Anglo Alpha's Ulko plant in the northern Cape.

Swart said that this year the CPA would begin supplying 400 000 tons of cement and 180 000 tons of fly-ash over a period of four years for the construction of the dam wall. This would not have a significant affect on overall annual sales, as it represented a small proportion of total production.

He quashed speculation that cement for the project would be supplied by foreign producers.

In 1991, 7.206-million tons of cement was produced by the cement cartel, 6.8% down from the 7.811-million tons produced in 1990. Bray said the cartel's activities were under investigation by the Competition Board, and the results would be known later this year.

The three-member cartel is made up of Anglo Alpha, Blue Circle and Pretoria Portland Cement Competition, Board chairman Simon Brooke said yesterday the investigation was the first of a series of periodic re-evaluations of the exemption given to form the cartel in 1985.

Bray said two-thirds of available production capacity was in use during 1991 as opposed to 72% in 1990. Pretoria Portland Cement's Dwaalboom plant, Blue Circle's cement plant in Lichtenberg, and four small wet process plants at Anglo Alpha's Ulko plant were in mothballs.

Cement and clinker exports — mainly to Zimbabwe, Mozambique and the Indian Ocean islands — amounted to 313 000 tons in 1991, 8.7% more than the 283 000 tons exported in 1990. Bray said he expected cement exports to grow again this year.

Transport costs, particularly from the western Transvaal to Cape Town harbour, sometimes accounted for about 40% of the delivered cost of exported cement.

Spoornet cement, explosives and military products manager John O'Neill said Spoornet had concluded agreements with the cement industry to promote exports by transporting cement at below cost to Spoornet to help make the product more competitive.
More equity

It was made plain by SA Breweries (SAB) that the acquisition of control of Placor was just the first step in the takeover of Plate Glass & Shatterprufe Industries (PGSI). It’s now clear why a group the size of SAB was brought into the deal — PGSI needed about R900m of additional equity.

As expected, SAB plans to buy out minorities in pyramid Placor and has announced a rights issue for PGSI. In a somewhat unexpected development, however, SAB has announced its subsidiary Afcool will sell its effective 24% shareholding in board manufacturer PG Bison to PGSI. Market speculation was that Afcool would buy PGSI’s half of PG Bison, allowing it to focus on glass.

SAB argues that PG Bison is a non-managed, equity accounted investment for Afcool and that the sale of the stake, which will realise R85m, will enable it to strengthen its managed furniture manufacturing business.

Placor no longer serves any purpose as it was simply a mechanism which allowed the Lubner and Brodie families to maintain joint control of PGSI with Liberty Life. Under a scheme of arrangement, SAB will offer one convertible preference share for every two Placor shares held by minorities. SAB’s announcement points out the shares are being swapped at almost identical market value but the convertibles would have offered 45% more dividend income than the Placor ordinary.

As announced two weeks ago, SAB is also issuing convertible shares worth R525m to finance the takeover of Pilkington Plc’s 48.4% interest in Glass SA. When the exercise is completed, about 20m SAB convertibles, which will be traded on the JSE, will be issued with an expected market value of about R1bn.

It does not stop there. In a rights offer, PGSI plans to raise R354m. Of this, R210m has been earmarked for overseas operations; the rest is to repay debt. PGSI is issuing new shares at R43 a piece, a 20% discount on the market price of R54.50. SAB will follow its rights, adding a further R200m to its bill for the exercise. It will then hold an effective 67% of PGSI.

PGSI is issuing its own convertibles to Afcool for its share of PG Bison. Standard Merchant Bank has placed these with institutions. PGSI will then have a 72% interest in PG Bison. Mondi still holds 24%.

The deals have increased PGSI’s NAV by 10.5% to R18.72. Afcool’s NAV is 5.1% to 124c. They would have increased PGSI’s NAV by 22.2% to R12.59. Shareholders are assured the transactions will have “beneficial financial effects” on SAB. But PGSI’s results for the year to March are expected to be well down. It will take more than SAB’s financial muscle to put them back on a growth path.

Stephen Creason
PGSI announces details of its R354m rights offer

PLATE Glass and Shatterprufe Industries (PGSI) today announced details of its rights offer to raise R354m to increase the equity base of its offshore operations and refinance local borrowings.

In terms of the offer, PGSI will issue 8.2-million shares at R49 a share in the ratio of 59 ordinary shares for every 100 shares held.

About R210m will be used to recapitalise PGSI's international operations and enable it to take advantage of international growth opportunities.

The balance will be used to reduce local borrowings in the short term.

According to the announcement, rights of 4.1-million ordinary shares would accrue to PGSI's holding company Placor and its wholly owned subsidiary in terms of the offer. SAB would take up Placor's entitlements, and the subsidiary would be subscribed for.

The balance of the offer would be underwritten by UAL.

SAB had sub-underwritten 50% of the underwriting commitment.

Analysts said it was likely the offer would be fully subscribed, as it was at an attractive discount — the share closed at R3.50 yesterday.

They believed SAB's commitment in terms of the offer would be financed either by loans or by the issue of convertible preference shares.

SAB's investment in PGSI and Pilkington plc was currently R1.2bn.

However, analysts said this was mostly financed through convertible preference shares, using highly priced paper. This meant there would be no dilution to SAB's earnings initially, and SAB would only have to pay the interest on the preference shares.

Analysts said the Acof deal, in which it sold its interest in P G Bison to PGSI for R95m, would benefit Acof in the short term.

They said P G Bison was better suited to the PGSI business, and believed that Acof would use the money to reduce its debt.
PGSI rights to clear up American mess

PLATE Glass lost some of its short-term polish on the announcement this week that it is to raise R354-million in a rights issue.

PGSI will offer members 50 shares for every 100 held at a price of R43—a tempting 20% below the market price before the announcement.

Chief executive Ronnie Lubner defends the group which has been under pressure for several years largely because of the development of business outside South Africa in glass and wood.

All the foreign wood businesses have been sold. The foreign glass operations have been concentrated on the automobile market.

Mr Lubner says "We have been in America for fewer than four years. The main problem is the recession. We went down the grass-roots path because it was too expensive to buy out every mom-and-pop type store."

Our business is in replacement glass for vehicles and we are trying to tie in with insurers. We offer a centralised nationwide service in America with our network of 150 branches and 1,000 agents.

"This is an efficient service and it cuts out the potential for fraudulent claims, but it incorporates high fixed overheads."

"Because of the recession, people are deferring the replacement of windshields. They are reluctant to pay the first $100 excess. Consequently, sales have not been high enough to cover the operating costs."

The rights issue will enable PGSI to increase the equity base of its foreign operations by R210-million as well as to refinance certain domestic borrowings. America will get a fair whack.

SA Breweries recently bought 12,1-million ordinary shares in Placor, the pyramid holding company of PGSI. The seller was a consortium of the Lubner and Brodie families and Liberty Life.

SA Breweries issued one convertible preference share paying 26c dividend a year for every two Placor shares. The deal was worth more than R250-million in control of 14,6% of Placor. SA Brews now seeks to take out the minority on the same terms.

Simultaneously with the change of control, PGSI bought 44,4% of Glass SA, effective from March 31, to add to its own holding. The seller was Pilkington plc in a deal valued at R357-million. PGSI aims to buy the outstanding 5% of Glass SA from Old Mutual.

A matchbox calculation shows that SA Brews valued the whole of PGSI at R1,2-billion compared with the market capitalisation of R909-million. If the 44% of Glass SA it held then was valued at R257-million and half of Bison at R130-million, SA Brews valued PGSI's 80% of Placor and its other African interests at more than R900-million.

PGSI is also buying Afcol's 24% stake in PG Bison, held under the name Spankor. Afcol gets R93-million cash and PGSI will own 72% of PG Bison.

Wednesday's announcement says PGSI's markets continue to be severely affected both here and abroad and the earnings for the second half to March 31 are expected to be well down on the interim.

The earnings record has been less than brilliant in 1987 PGSI made R36c a share, rising to 40c in 1988, but retreating to 40c in 1991 with worse to come this year. The dividend has been held at 22c for three years.

Mr Lubner says "With Pilkington as a major shareholder in Glass SA there were two parties both with negative control. Now we have full control."

"This gives us flexibility over approach, dividend policy, products and market. Before, we could not sell our glass to our UK operations because of sanctions and territorial prerogatives of our British partners. Now we will be able to compete more hard in exports.

Mr Lubner says PGSI not in a fashion business. When SA gets around to building the houses, schools and hospitals it needs, its group's products will enjoy high demand.

He says SA Brews are taking an exacting due-diligence exercise before buying Placor.

Investors are quick to point fingers when companies come short abroad. PGSI has succeeded in Rand land and is meeting with various degrees of success elsewhere.

"Anyone who says he never made a mistake should be fired," says Mr Lubner. "Sure we made mistakes in America, but we are learning from them. The trick is not to make the same mistake again."
SA a bridge too far for foreign investors

By ROBIN PEGLER

THE underlying factors in the withdrawal from South Africa by two foreign companies, and possibly a third, are business and not political considerations.

UK glass manufacturer Pilkington has sold its SA interests in Plate Glass, its partner in Glass SA.

The controlling shareholders of Everite in SA have put their stake in the company up for tender. The highest bidder is Group Five.

Blue Circle and Murray & Roberts have agreed a joint announcement. It is believed that discussions are taking place about Blue Circle's UK parent selling its 42.3% stake to M&R, which has 47.7% and first refusal to buy.

Patrick Purtle, managing director of Pilkington SA, says the UK parent is pressurized for cash in a worldwide context and needs to reduce its debt.

It has to decide where to concentrate its main efforts. The geographical areas it wishes to concentrate on are Europe, North and South America and the Pacific Rim.

SA is isolated geographically and does not figure in Blue Circle UK's main activities. Because results of the subsidiary have been good, it is able to command a favourable price.

Cash

There is regret at having to sell because Pilkington started to export to SA more than 100 years ago. It has been manufacturing here since shortly before the Second World War.

Pilkington's manufacturing and the Plate Glass trading interests were merged in 1985.

An analyst for a London broker gives a somewhat different picture for Blue Circle's UK parent. He says debt is not a problem, standing at a comfortable 34% of equity. However, the SA company is not a subsidiary but a joint venture. The UK parent prefers to be in a position where it can control cash flow rather than merely receive dividends.

Political considerations do not weigh heavily with Blue Circle UK because its operations have survived in countries which were far worse politically than SA. It is possible to live with such uncertainty if the domestic management is good.

SA is not a core area for Blue Circle in terms of worldwide group strategy. All in all, there is a case for the UK parent to sell its SA interests – even if it is not so strong as it is for Pilkington.

Nueva, holding company of Everite, is in a different position, according to Everite managing director George Thomas.

Nueva is controlled by the Swiss Schmdhein family, which established large cement and asbestos cement factories in many countries.

In the past few years the empire has been divided between two brothers.

Stefan Schmdhein inherited Nueva, but he decided that any ecologically doubtful investment was more suitable for a corporation than for an individual who might be vulnerable to criticism by ecologists.

Asbestos' bad reputation as a health hazard is not entirely deserved. About 30 years ago, the dangers were not appreciated. It takes many years before illnesses manifest themselves. They became apparent only in the late 1960s, resulting in huge claims for compensation.

Now that its potential dangers are realized, asbestos has been made safe both for workers and users, provided that the guidelines are strictly followed.

Stigma

Nevertheless, it is likely to be many years before asbestos loses its stigma.

SA's geographical position is likely to detract to some extent from any appeal which this country might otherwise have for multinational aid.

This factor will probably deter investment in SA unless the foreign company concerned is looking for a springboard into Africa.

JAP

JAP
COMANIES

GYPSUM hit by closure of mine

GYPSUM Industries increased sales in the six months to December 1991 but was affected by the start-up costs of a factory in Brakpan, interest charges and the closure of its Kimberley mine.

As a result, the first half's earnings before extraordinary items slipped to R6.9m from R7.7m in the same period in 1990.

Turnover increased from R89m to R100.7m while operating income climbed from R15.4m to R16.6m.

Interest paid shot up from R4.1m to R5.3m because of capital invested in the Brakpan factory. In the same period last year an extraordinary item of R1m was written off.

The directors reported yesterday that sales increased even though the company's principal market—the house building sector—remained in a mild decline. Operations had also been affected by the declining quality of raw materials from the Kimberley mine which was later closed.

The company's financial year end is to change to March 31 this year and, in the final three months of the present financial period, the board expects earnings to fall.

The directors could not be contacted for further comment yesterday.

The first half's earnings dropped to 83c a share from 94c and the interim dividend has been maintained unchanged at 20c.

EDWARD WEST
ABOUT 1.5 million bricks are being used for the new R75-million parliament building. A 7000m² parliament building, a 3000m² assembly court, a 900m² assembly chamber, and a 4500m² building for the Department of Justice and Defence have been completed. The building's foundation is 3 m thick concrete. The architects are Britz, Scholtes, Altvater, and Grupe. The Parliament has 100 rooms, 1000 doors, and 1500 windows. The building will house the new parliament sessions. The construction costs are estimated at R75 million. The building is expected to be completed in 1993.
Blue Circle feels the pinch
Finance Staff

Cement group Blue Circle managed a slight increase in earnings in financial 1991 despite the depressed market for its product. Turnover fell by 3.1 percent to R782 million (R776 million) during the year and a squeeze on profit margins left operating income lower at R111.8 million (R118.9 million).

Finance charges, which improved to an interest inflow of R460,000 from the 1989 payment of R5.92 million, lifted net income for the year by 2.2 percent to R80.5 million (R75.5 million) – equivalent to earnings per share of 291.5c (285.2c).

An unchanged final dividend of 70c a share boosted the total dividend for the year to 125c (115c).

Murray and Roberts is currently negotiating to double its existing 42.3 percent stake in Blue Circle through an offer to the group's UK parent company Blue Circle Plc.
earnings multiple of about 14.

SAB will pay R60m a year in pref dividends to service the convertibles it has issued for the purchase. Initially, the premium on the ordinary dividend will cost about R30m, but it will decline as the pref dividend is fixed at 25c.

Notably, the enlarged PGSI would have made R150m in the year to September 1991. SAB will pay its first dividend for the six months to September 1992, and expects this to be more than covered by pref and ordinary dividends from PGSI.

Of course, SAB is buying future, not past, earnings. Says PGSI chairman Ronnie Lubner: "They didn't buy control just because they think I'm a nice guy. We presented a business plan which showed that we can achieve real growth in the glass and chipboard markets in the region, and the automotive glass market abroad."

SAB strategic planning director Malcolm Wyman says PGSI's recent track record has not been great but has four underlying businesses which have performed well: Glass SA, PG Bison, PG Industries in Zimbabwe and the automotive glass repair networks in Europe. Foreign wood interests, which made substantial losses, have been sold.

SAB says it will not tamper with the management team or company culture. As it happens, Lubner says he feels comfortable and compatible with SAB chairman Meyer Kahn's management style. SAB will take four places on the board but otherwise let Lubner run the show as before.

Wyman says SAB is satisfied with PGSI's strategic plan to make foreign lossmakers profitable. Networks in France, Germany and Italy are still making operating losses but moving out of the developmental stage. The more established UK and Benelux networks are profitable and Lubner is confident that the formula can be repeated.

Unfortunately, he has been unable to offset profits from Autoglass UK, that pays full tax, against losses on the Continent. PGSI's overseas operations have been recapitalised by R210m, that will largely go into strengthening the European networks.

Australia's O'Brien Glass is battling with the worst recession there since the Thirties but has contained losses since it swapped its commercial building glass for Pilkington Australia's replacement windscreens and consumer building glass operations.

Lubner admits that the US operation, Windscreens America, needs further corrective action. It lost US$8.1m in the past financial year and insurance companies have increased the excess on windscreens.

Lubner is guarded on Windscreens America's fate but his main options must be to dispose of it or merge with a competitor.

Local operations already have dominant market shares, so most of their growth will be organic. Wyman says SAB had targeted businesses that will benefit from the growth in spending power of the mass (mainly black) market. Glass and chipboard feeds into the building industry, which is expected
since it was created in 1969.

Last June, Saficon chairman Sidney Bor-
sook revealed in the annual report that Safi-
con intended becoming more active in man-
aging Boumat after chairman and founder
Irvine Brittan retires. Borsook, now deputy
chairman, will succeed Brittan in April

Boumat shareholders will probably wel-
come the move as a sign of Saficon's long-
term confidence. The weak state of the build-
ing industry has slashed Boumat's EPS from
110c three years ago to 7.4c last year.

Though it has shown some recovery in the
first half of this year, Saficon may well at
times have harboured doubts about the wis-
dom of its investment.

Terms of the transaction, which involves
issuing 4.7m new Saficon shares and 1.3m in
Saficon parent Saker's Finance & Invest-
ment, appear reasonable.

Saficon's wholly-owned Saficon Industrial
Holdings (SIH) has acquired from Sanlam
5% of Boumat's equity (1.3m shares) — 27%
of Sanlam's holding. Sanlam will receive 12
Saficon shares and $10 Saker's for every 27
Boumat and SIH is offering other sharehold-
ers the opportunity to part with 27% of their
holdings on the same terms.

At the time of the announcement last
week, when Boumat was around 440c, the
offer was a slight premium to the market.

To secure Saficon a controlling interest,
SIH will invite Boumat shareholders to te-
nder all or part of their remaining shares on
the same terms. Additional shares will be
accepted pro rata. Sanlam has already
agreed, if necessary, to part with all its
remaining Boumat shares.

Depending on minorities' response the
transaction will give Saficon between 47%-51%
of Boumat's equity. Management is
confident the additional shares will not di-
lute EPS at Saficon or Saker's

As Saficon and Boumat operate in very
dissimilar markets, potential benefits will,
initially at least, be at corporate level. Bor-
sook says the two have already been working
together to define short-term strategies for
Boumat and this will stretch to longer-term
planning. He adds that there are no plans to
provide Boumat with additional funding.

Consolidating Boumat (previously equity-
accounted) will have little effect on Saficon's
net worth. However, borrowings will climb
as a result of Boumat's high non-interest-
borne debt. Borsook expects this to be
brought back in line within three years.

Simon Cashmore
Blue Circle holds ground

CEMENT and building materials group Blue Circle improved earnings slightly and declared higher dividends in spite of depressed trading conditions which saw sales fall during the year to December 1991.

Although turnover slipped from R778m to R752m when compared with the same period last year, pre-tax income was unchanged at R112m. Finance charges came to R466,000 compared with interest received of R7m in 1990. Taxation increased from R29.2m to R36.4m. Income attributable to outside shareholders' interests fell from R11.7m to R7m while income from associate companies improved marginally from R16.4m to R10.7m.

Extraordinary losses of R1.6m were declared against an extraordinary income of R2.5m last year. Blue Circle director Peter Kett attributed the losses to numerous items of which losses on the sale of properties was the biggest.

Kett said finance charges of R466,000 were paid because Blue Circle had run up borrowings after resuming its capital expenditure programme. Borrowings increased from R23.3m to R26.7m.

Kett said the resumed capital expenditure programme was an indication of the company's confidence in the country's future. Blue Circle established a R53m depot at Kaalfontein near Kempton Park during the year. It was also establishing a new clinker processing facility at the Lichtenberg plant, said Kett.

In 1991 total cement demand fell 6.75% against the previous year which Kett described as the continuation of falling demand since 1989. The cement market had declined by a fifth after peaking in 1989. However, Kett said he was confident of an economic upturn.

Earlier this week an announcement confirmed reports about negotiations between UK-based Blue Circle plc and Murray & Roberts (M & R) for the acquisition of a 42.3% stake in Blue Circle SA by M & R.

Blue Circle's earnings rose slightly from 285.2c in 1989 to 291.5c a share in 1991. An unchanged final dividend of 70c a share was declared which, together with the interim dividend of 55c, resulted in the total distribution for the year of 125c to be higher than 1989's 115c a share.
Kudu merger talks near conclusion

MERGER negotiations taking place between Kudu Granite and Impala Granite should be concluded one way or another in the near future, Kudu MD Feet du Tont said yesterday when presenting the company's interim results.

Helped by strong growth in the export market, trading profit surged to R4.5m from R91,000 on the back of a rise in turnover to R27.5m from R13.2m.

Kudu reported attributable income of R3.6m in the six months to December — a sharp turnaround from the loss of R78,000 made in the previous year.

An interim dividend of 4c a share, the first since 1990, has been declared on earnings a share of 13.1c. A loss of 3.5c was made in the comparable period in 1990.

Du Tont said higher volumes had accounted for the rise in turnover despite the closure of its Belfast quarries.

About 98% of Kudu's output is exported to the Far East and Europe.

Referring to the merger, Du Tont said talks with Impala Granite had been amicable. "For both parties it makes a lot of sense to get together. Impala is strong in the Belfast Black market whereas Kudu's strengths lie in its Rustenburg grey quarries and its substantial reserves of the African red type."
Anglovaal seals cement deal

ANGLOVAAL Group, through its listed industrial company Anglovaal Industries (AVI), had increased its investment in cement company Anglo-Alpha to 19.5%, AVI executive director Richard Savage confirmed yesterday.

The announcement coincides with the release of the group's interim results to end-December which reflect a 6% rise in attributable profit to R143m.

In terms of the cement deal, AVI is acquiring 35.8% of Holderbank Financiere Olars's (HFG's) unlisted subsidiary Altur Investments, which will hold 54.8% of Anglo-Alpha once all the transactions have been completed. At present, Altur has 12.4% of Anglo-Alpha. Altur's interest will be lifted by acquiring the Anglo-Alpha shares held by Anglovaal and HFG.

The deal, valued at R320m, will see no cash changing hands.

Savage said AVI had paid HFG R143m by issuing AVI shares to obtain an 11.4% interest in Anglo-Alpha. AVI will issue 799,337 of its own shares (worth about R103m) to parent Anglovaal in exchange for Anglovaal's 2,45-million shares in Anglo-Alpha.

The Anglo-Alpha shares and Holderbank's direct holding in the cement company will be injected into Altur. As a result, Altur's stake in Anglo-Alpha will rise to 54.8%.

A further leg of the transaction involves AVI's offer to acquire Altur's minorities in a share swap worth about R70m. If that is agreed, AVI will end up owning 45.6% of Altur and HFG the majority 54.4% shareholding.

In a secondary deal, Anglovaal is to transfer its holdings of 1,961,000 Consol shares to AVI in exchange for about 568,000 shares held by Anglovaal.

Anglovaal

AVI shares This will allow the parent to retain a 60% interest in its industrial arm. "It is not often you can pick up an investment like that with no cash changing hands," Savage said.

Savage said AVI was expanding into the "high growth" cement business in anticipation of changes in government spending patterns. "We believe that government will have to build more schools, hospitals and houses. We foresee a shift in the infrastructure."

He added that expansion could extend throughout southern Africa. "AVI has a contracting company in Zimbabwe, so we are aware of the cement shortages there."

He noted that cement companies in SA were understaffed.
Quite a mouthful

The new-look M&R may seem stated — but the acquisitions were inevitable

Businesses in the construction and engineering world have been savvaging at the rich pickings which Sankorp has offered to Murray & Roberts over the past six months or so. Along with Malbak, M&R has been the principal beneficiary of the streamlining of Sankorp's assets after the dismemberment of its troublesome subsidiary Federale Volksbeleggings.

Sankorp's main thrust in the city of Cape Town is the addition of its automotive components businesses, which has technology related to M&R. Sankorp CE Marinus Dalig agrees that Firestone is engineering-intensive and much of its effort is still focused on the original equipment market, in which M&R is already strong.

Little information is available about the motor components companies In Federale's last annual report as a listed company, for the year to March 1990, the division turned over R527m and had an attributable income of R14.5m. But the division's profitability was then being dragged down by the loss-making tractor division, Fedimex.

Fedovolk's MD Peet van der Walt says Firestone, Gabriel and Truchamp are all profitable and that the replacement market tends to be more lucrative than the original equipment market.

The price of the deal has not been revealed, but M&R refused to buy the division when Sankorp offered it in November. Says Brink: "We've had a good relationship with Sankorp, which stood by us in the bad times, but we would not expect them to lose performing assets on us, any more than they would give businesses away to us."

The deal adds uncertainty to M&R's profitability, whatever the price tag turns out to be. M&R will be buying Firestone at a time when the tyre industry is increasingly threatened by imports and needs to adapt to a less protected environment. Import quotas have been reintroduced for the year — but only as a temporary measure.

Says Brink: "SA cannot, in the long term, support four major manufacturers, each carrying a vast product range. We realise the industry needs to become more competitive and efficient. It needs state-of-the-art quality and technology, which we will be able to help them with from our own experience of engineering."

M&R might have to brace itself for a bitter price war if over-capacity remains.

A less risky, though still unusual investment, has been the foray into road transport. During the past year, M&R acquired an effective 80% holding in Untrans, the largest road transport company in SA. Ractliffe argues that this fits well into the land, sea and air services division, which hires out helicopters and cranes. He says that M&R itself already has a bigger fleet of cars and light commercial vehicles than Avia.

Brink says M&R knows and understands the transport business. Also, Untrans was carrying many of the group's own products. M&R's two existing transport operations, Much and Tankfreight, were sold to Untrans.

These acquisitions beg the question of whether management has overreached itself. Though Brink takes final responsibility for all operations, he does not try to second-guess operating management. M&R does not provide financial guarantees for its operating companies, which are self-sufficient.

M&R's investment in GBS, which distributed Wang personal computers, was not a success, so the company was liquidated. Only this week, after the sale of Crown to Bidvest was announced, "major irregularities" were discovered. Was M&R too busy to monitor...
these or was it simply manipulated by Crown management?
Wang and Crown are isolated examples against the numerous successes which Brink has brought to M&R. But these problems can arise when a group moves into a business which it does not understand.

So far, the market has not taken much note of these setbacks. It likes what M&R has achieved to date and has re-rated it accordingly. Brink says M&R would not have considered issuing shares to fund the recent purchases if its market rating had remained at 1990 levels.

M&R would have been reluctant to absorb all of these companies at once if it meant paying cash and pushing its gearing to 100% and beyond. For some time M&R was treated as a second-line share, despite strong improvements in earnings from 1987 onwards. Earnings have risen each year and gross domestic fixed investment has contracted.

The market has re-rated M&R in the depth of a recession, when companies operating in the same engineering and construction markets are reporting earnings down by as much as 50% M&R's EPS for the six months to end-December fell by 2%. According to Ractcliffe, on a comparable basis, earnings from existing operations were also static — implying the quality of earnings in the acquisitions is similar.

At the end of 1990, M&R's share stood on an earnings multiple of about four and a dividend yield of 6%. The transition to first-line status has been made with conviction. Since late 1990, M&R's market capitalisation has quadrupled, rising from R700m to about R3bn. The earnings multiple has improved to about 12, the dividend yield fell to 2.7% and the share price is nudging R60.

M&R still has R662m of spare funding capacity and the forthcoming acquisitions are likely to involve a mixture of cash and shares. Gearing has fallen from 22% to 14% — when R450m goodwill is taken out of the last balance sheet. Daling says M&R might look underworked, but the lean balance sheet gives flexibility and protection from a downturn. It has not harmed M&R's rating in the market, which is highly suspicious of high gearing — as seen in the collapse of the FSI share price.

Brink says the Blue Circle and Standard Engineering acquisitions have made M&R more capital-intensive. Fixed assets and investments have increased from R705m to R1.27bn. This will put pressure on M&R's returns on capital and equity. In the last financial year, M&R's return on capital employed was 32.3%, compared with 17.6% for D&H and 23.8% for Standard Engineering — both of which were subjected to asset write-downs in the Malibuk saga. There was, however, less disparity in returns on equity.
LEADING ARTICLES

M&R's 22.5% was almost identical to Standard Engineering's 22.6% but ahead of Blue Circle's 19%

The Blue Circle deal has reduced M&R's risk profile. The cement producer is almost ungeared and generates strong cash flows. The cement industry provides somewhat predictable returns. The three local producers operate a cartel which controls market share. Turnover has been falling in the recession — volumes are down a fifth since 1989 — but each producer has suffered a comparable decline.

One advantage of the cartel — to shareholders, not customers — is that there is no price war. So cement has not suffered from the wild swings in profitability which bedevilled other industries linked to the fixed investment cycle.

Blue Circle's core cement business was undoubtedly the first prize in the deal. The various engineering interests of D&H and Blue Circle will increase M&R's market share of automotive components, mining equipment and building supplies, though some rationalisation looks inevitable.

Ultimately, Standard Engineering should form part of the division. It includes one of the most significant truck component companies in the country, Astas, and it is a major exporter of rolling stock (Union Carriage) and pipes. But 36% was all that was on offer and, unusually, M&R is prepared to live with joint control with Malbak.

M&R accepts that some of its businesses offer little synergy with its main operations. To address this, it has disbanded its industrial group, which acted as the miscellaneous businesses group for operations which did not fit into construction, engineering, suppliers and services or property.

Most of the industrial group businesses will be transferred to engineering, which is in danger of looking broad and unfocused. Businesses which have an uncertain future in the group will come under direct control of corporate head office.

M&R Plastics, for example, though profitable, has invested outside M&R's expertise into packaging products. These would fit better into a specialised packaging operation, such as Malbak subsidiary Holdiams. M&R has already held preliminary discussions with Holdiams' CE, Ian Willis.

Armco, which makes waste disposal units, might fall under engineering, or suppliers and services or be sold.

The deal which M&R recently signed with the Zambian government adds some interesting opportunities but another kind of risk. M&R will offer a wide range of contractual services such as building roads and schools and recommissioning the country's only cement plant.

Brink says a satisfactory financial structure has been put in place and M&R, as a contractor, will not accumulate large amounts of fixed assets. Yet to some extent, it is hostage to the whims of the Zambian government. The present Zambian administration might be more pragmatic and sympathetic to SA than Kenneth Kaunda's, but that work could dry up if the political situation deteriorates in either country.

But the successful, growing businesses are likely to outweigh the laggards in future. M&R used to derive the lion's share of its income from flagship capital projects and infrastructural spending such as new roads. It is well-placed to benefit from a revival of fixed investment, but has widened its portfolio into more steady income generators such as shopping centre development, tank containers, ship repair services and, most recently, cement Exports have become a cornerstone of the business, notably in tanks, motor components and valves.

The new M&R looks a riskier investment than the group which existed a year ago. But it would have been impossible to maintain growth by improving asset management and expanding existing operations. M&R has, until now, managed to avoid an earnings collapse in bad times and it is likely that its markets are close to the bottom. But the risk of a fall is largely discounted in the price.

M&R could have achieved a lot better than a p/e of 12 but that remains well below the average multiple of 17 for the industrial holding sector. Provided an investor is aware of the potential risk, the share still offers value.

Stephen Creavena
**Blue Circle**  
**Heavy going**  

Deputy MD Angus Morrison is happy with Blue Circle results for the year to end-December, even though turnover fell 3%, to R752m, and net operating income declined 6%. He reckons the pleasing aspect is that management was able to contain fixed costs and limit a profit decline in what could have been a much worse scenario.

Trading conditions during the year were extremely depressed, Morrison says. Because construction materials form the largest portion of turnover, it was expected the recession would limit sales growth in this division. It came as no surprise that in the cement division volumes were hampered, as government cut back infrastructure development and the private sector reduced spending on fixed investment projects.

Last week's announcement confirming negotiations between Murray & Roberts (M&R) and Blue Circle Industries Plc (BCI) for the acquisition of BCI's 42,3% holding in the local subsidiary is a final development in a relationship between the two that began in 1989. At that time, the M&R quarry operations merged with Blue Circle's materials division, to form Ready Mix Materials. Blue Circle holds 60% of this company. As M&R already controls 40% of Blue Circle through Darling & Hodgson, it was a natural development for it to seek control.

Pre-tax profit, at R112m, was unchanged on the previous year because of a R7,4m swing in interest costs. This, with a R4,6m reduction in outside shareholders' interest, enabled Blue Circle to end the year with attributable earnings 2% up, at R89,3m.

The share price has climbed from R16 a year ago, to R36 now. It yields 3.5% on dividend and the earnings multiple is 12.5. It is difficult to justify this rating, given that EPS growth has been unimpressive over the past few years and immediate recovery prospects are not good. It is also notable that NAY is only R15,50, though Morrison points out the assets have not been revalued for many years.

The current share price may seem somewhat steep, but the market presumably expects control will change at a price close to, or above this level.

**TOUGH SET**

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<td>Dividends (c)</td>
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<td>125</td>
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Granite trade body formed

SA's major granite producers have set up a regional trade association in a bid to improve export sales and coordinate local production and overseas marketing.

An industry source said yesterday Keeley, Kudu, Martin and unlisted producer Impala had formed the Southern African Granite Association (Saga) on Monday, to promote SA granite worldwide and encourage price stability.

The move comes after months of speculation that the producers would merge or consolidate their marketing operations.

The industry has been rocked since 1998 by fierce price competition among local producers, and was then hit by the Gulf war's disruption to the granite trade, exacerbated by the worldwide recession.

Shares in granite companies have tumbled in the past year as financial results have not matched market expectations.

Saga spokesman and Gemm's executive manager Tom Dale said last month it was premature to say the association had been established, but talks aimed at doing so were at an advanced stage. Saga was so far made up of SA's four main producers, but smaller producers had been invited to join, and it would remain open to new members.

Saga's brief was to improve the competitiveness of SA exports of raw dimension stone.

Dale said Saga's priority would be to coordinate export efforts, of which the establishment of "orderly marketing to bring about price stability is only one part".

In the short term, the co-ordination of the transport of granite from quarries to the coast and its shipment abroad would bring immediate cost savings.

Dale said that, later on, Saga would also address the issues of local and international mining exploration and the issue of downstream processing of granite. Manufacturing ventures could add value to raw stone.

Granite by as high a factor as five times

Gemmin has a 28.15% stake in Keeley - and the option to take over management in five years time on the retirement of chairman Fred Keeley - while Anglo American has an interest in German company Desday, of which Impala is a wholly owned subsidiary.

Dale said the question of the development of granite beneficiation could be more effectively addressed by co-operation with the mining houses.

Talks began late last year aimed at a merger of Keeley, Kudu, Impala, and Gemmin's Transkei Pioneer Mining, but it is understood Kudu and Impala are on the verge of merging.

The industry source said Saga's four members had already introduced interim minimum prices.
Msauli increased sales of chrysotile asbestos during the 1991 financial year, but smaller profit margins reduced earnings per share by 20 percent to 121.9c (13c).

However, with sales of amphibole and crocidolite asbestos still declining, and its Ammandale colliery operating at a loss, sister company Gefco's earnings were under greater pressure and dropped by 60 percent to 8.2c (24.4c) per share.

Msauli's total dividend for the year was halved to 25c (96c), while Gefco passed its final dividend.

Chairman Pat Hart forecasts improved earnings for Msauli in 1992, but said Gefco would probably do little more than break even.

Msauli's turnover of R78 million was 11 percent up on the previous year's R70.2 million, largely due to a four percent increase in sales volumes and a 7.5 percent effective improvement in rand income per ton.

With cost increases outstripping unit incomes, however, operating income was down to R8.5 million from R12 million.

Lower net income and a rise in capital expenditure to R16 million reduced the tax bill to R59 000 (R21 million).

The market for Msauli's chrysotile fibre remains firm, and the company expects to sell its full production potential at slightly firmer prices in 1992.

Gefco's asbestos turnover was substantially lower at R88 million (R107.2 million) because sales of both its fibre types declined.

Rationisation programmes implemented at the Kuruman and Fenwe mines resulted in industrial action and further productivity losses.
result, cash available from operations was
almost halved to R75,8m.
Performance elsewhere did not deteriorate
to the same degree. Turnover in the cement
division rose by 7%. It accounted for 51% of
group sales, the same as the year before.
Turnover in the industrial interests improved
8.6% to account for 30% of group sales.
Turnover in the stone division dropped
from R135m to R126m. Even so, this divi-
sion's 16% contribution to group sales was
down only two percentage points from 1990.
In terms of divisional contributions to net
income after tax, the swing of R7.3m in
the stone division, from a 1990 profit of a loss of
R1m, helped to pull down attributable earn-
ings. At group level, net operating income
declined 19%. Thus was worsened by the cost
of higher borrowings. Net finance charges
rose by R7.4m (54%).
In 1990, the tax rate was 36%. Had the 1991
year's tax rate not fallen to 19%, attrib-
utable earnings would have been much
worse. As it was, EPS declined by just 2%,
leaving the impression that the final result,
though not good, was not bad in the circum-
stances.
But, taking a short-term view, there is
little to recommend acquisition of the share.
Manufacture of cement is, or has been, per-
cceived as a strategic industry which merits
protection of one sort or another. For this
reason, in 1988 the government, through the
Competition Board, granted SA cement
companies the right to operate as a cartel.
Prices are fixed not through market competi-
tion but rather to give shareholders an ade-
quate return.
With the downturn more severe and pro-
tracted than expected, it is understandable
that demand for cement products shrinks as
government spending on infrastructure has
been cut back and growth in private fixed
investment in the building and construction
sector also declined.
Cement producers are unlikely to respond
to falling demand by lowering prices. So they
are in a dilemma. If they maintain prices in
this poor economy, volumes will shrink and
so will the bottom line. If they reduce prices,
volumes might increase but are unlikely to
rise enough to boost operating income suffi-
ciently to generate real growth in earnings
until the economy is well into a revival.
To fund capital expenditure, Anglo-Alpha
had to increase total borrowings by 88% to

Anglo-Alpha's Pretorius
more cash from operations

R183m Capex for 1991 was R107.5m,
against R87.7m in 1990. For the period 1992
to 1996, it is estimated at R716m in current
money. If attributable earnings do not grow
considerably faster between now and 1996
than in the past two years, how will the capex
be funded?
Chairman Peter Byland suggests the cash
drain will be offset in financial 1992 by
substantially lower tax payments and that
debt equity will increase only marginally.
MD Johan Pretorius adds that cash available
from operations is expected to rise meaning-
fully from 1992 onwards. The double tax
payment last year for the 1989 and 1991
years will not be repeated in 1992. This
explains his optimism.
Still, unless cash flow is strong enough to
finance capex and reduce borrowings, with
net interest-bearing debt now at R160m,
financing will squeeze pre-tax profit.
The share does not rate a buy on funda-
mentals at present. Until the economy is well
into its recovery, which might take several
years, it is unlikely that profitability will
return to former levels. Technical analysis
tends to confirm this. A positive aspect is
that the balance sheet is likely to remain
strong, provided the cartel continues to exist
and the economy does not get worse.
Anglovaal is clearly optimistic about long-
term prospects. Anglovaal Industries (see
Fox) is to increase its stake in Anglo-Alpha
from less than 8% to 19.5%.

Gerald Hershon
It was always somewhat anomalous that Anglovaal's interest in Anglo-Alpha was held directly rather than through Anglovaal Industries (AVI). One advantage was that it enabled investors to see AVI primarily as a consumer sector share, as it earns the bulk of its income from food and packaging, with a limited exposure to engineering and construction sectors.

MD Jan Robbertze says AVI has always held interests in the building industry through its sizeable construction subsidiary, Grinaker Construction, and it has engineering concerns such as steel distributor Trident and ball bearing distributor Bearing Man. Robbertze has been on the Anglo-Alpha board for more than a decade.

AVI will be more exposed to construction now that it has acquired 19.5% of Anglo-Alpha, comprising Anglovaal's 8.1% holding and 11.4% from the Swiss controlling shareholder, Holderbank Financiere Glaris. "The original Anglovaal holding would not have been a major contributor to AVI," says Robbertze, "but we have welcomed the more meaningful strategic holding.

AVI does not normally like to invest in companies if it does not control, unless it thinks it can acquire control later. But Anglovaal has been a partner of Holderbank since 1947, when they merged their cement interests. Robbertze says the increased shareholding should not be interpreted as the first step towards a change of control. "It is merely an extension of the partnership," he says.

AVI's shares and the 29.8% which Holderbank retains will be injected into unlisted Altur, which becomes a pyramid.

The deal will not make a dent in the AVI cash pool that accumulated after the rights issue. AVI is paying R42.50 for each Anglo-Alpha share. To fund the purchase, it will issue just under 2m AVI ordinary shares to Anglovaal and Holderbank, valued at R249m. The shares will be placed with institutions. AVI will make an offer to Altur minorities, who hold 5.5% of Anglo-Alpha, at the same price.

Since there is no change of control in Anglo-Alpha, there is no offer to Anglo-Alpha minorities. AVI will hold an effective 25% of Anglo-Alpha if all Altur minorities accept the offer.

Anglo-Alpha is an asset-intensive business, and it would have increased AVI's December interim NAV by almost a tenth, to R56.82, though it will have had no material effect on AVI earnings in the short term. AVI expects Anglo-Alpha's contribution to be significant in the medium term.

Demand for cement products is soft. If there is a protracted building boom the industry will eventually have to consider increasing capacity, which would involve sizeable expenditure. Robbertze, however, says he does not expect Anglo-Alpha will need to invest large sums in additional capacity for at least the next five years.
ASBESTOS producers Gefco and Msauli reported sharp declines in earnings for the year to December.

A drop in asbestos sales at Gefco led to a substantial build-up of unsold stocks which required funding while lower earnings at Msauli resulted from narrower profit margins, chairman Pat Hart said yesterday.

Gefco's attributable income plummeted to R2.9m from R8.7m, converting into a drop in earnings a share to 8.2c from 24.4c.

Gefco passed its final dividend, giving a total for the year of 2.5c (9c) a share.

Attributable income at Msauli dropped to R7.8m from R9.8m which converted into earnings of 121.2c (1980 153c) a share.

A final dividend of 15c a share was declared giving a total of 25c (50c) a share.

At Gefco, asbestos turnover dropped to R87m from R107.5m as a result of lower export volumes of blue and amosite fibre.

Rationalisation at the Kuruman and Pege mines resulted in a "negative labour relations" climate which contributed to low productivity and even tighter margins.

Hart said there was "little or no chance" of profits being made by its asbestos operations in 1983.

Gefco's results include a provision of R3.8m for losses at its Annandale Colliery.

Hart's outlook for coal was more bullish as he said improvements in plant efficiency and sales volumes may result in the operation making a small profit.

Gefco also holds 33% of Msauli.

As a result of 4% growth in volumes and a 7% improvement in the rand income per ton, Msauli's turnover rose 11% to R78m.

But sharply higher production costs saw operating income decline to R8.5m (R12m).
Tile makers want greater protection from dumping

LOCAL tile manufacturers have called for greater legislative protection as dumping of large quantities of inferior but cheaper material by foreign companies places the industry under more pressure.

"The local industry is battling with reduced demand and limited growth potential and is not always able to compete on a price basis," Fikrugton Tiles MD Peter Schnedden says.

Large-scale dumping from overseas countries has exacerbated unemployment in the industry as demand for locally produced material has dropped.

The industry has reduced staff levels by about 35%.

While there was a time when the local market could not cater for demand, it has grown, adapted and is now more than able to do so. Local producers are limited to one-way trade and vast amounts of capital are leaving the country to pay for imports, he says.

Foreign producers have low inflation levels, a variety of rebates and tax and other incentives to make them more profitable, particularly in the SA market.

"When the 27.5% duty on imported material was granted, dumping requirements were lifted. The higher duty has had little effect on imports, which continue to negatively affect our market," Schnedden says.

Countries such as Italy, with a stockpile of about 240-million m², could well afford to dump stock, he adds. While imports are necessary, they need to be balanced and anti-dumping legislation is essential.

Local market demand varies between 14- and 16-million m² of tiles a year, of which 5- to 8-million m² is imported. The local market needs export incentives to be more competitive with other markets.

"The Italians and Spanish are in the African markets and are dumping material there as well. However, we have a long-standing relationship with them and many want to do business with us," he says.

Local capacity is underutilised by about 30%. There is a stockpile of about two to three months demand, with price increases over the past three years below inflation.

Recent consumer research showed that the average local consumer was not influenced by the name of the product but rather by its quality.

In many cases the local product was as good as, if not better than, the imported material.

"However, our industry is labour-intensive and costly to run, which pushes prices up. Foreign producers replace their equipment every three years, but we are unable to afford to do this, thereby further detrating from our productivity," he says.

The local consumer tends to be aware when buying tiles and needs to take more than just price into consideration.

Many tile ranges are often not replaceable after a period of time and future service and availability are important and need to be taken into account, Schnedden says.
In just 11 years the Africa Glass group (AG) has become South Africa's second largest flat glass company. Founded by Alex Barrell as a glazer and glass trader, Africa Glass now has 12 local factories. These include CIP laminated safety and security glass and high quality mirrors.

Africa Glass also sells float glass produced by PG Glass, the country's only producer, and imported specials.

With about 1,000 employees, Africa Glass sells and processes a variety of glass products from its Transvaal, Cape and Natal branches. It also cuts and processes the glass.

Twenty percent of the company's turnover comes from export to more than 30 countries.

AG is not in competition with glazing firms, fenestration fabrication and contracting companies.

Says Transvaal MD Jeff Saville: "Our objective is rather to expand our basic manufacturing activities into added value products that will be fabricated and sold to end-users by shopfitters, glass merchants, automotive and furniture manufacturers.

"There is still vast potential for the use of mirrors in interior design, particularly to create the illusion of space and to add light. This will become more important as building costs increase and rooms become smaller."

And, according to marketing director John Featherstone, in keeping with overseas trends, architects are designing more flush glazed buildings. These need little maintenance and are aesthetically pleasing as they mirror their surroundings to create eye-catching effects.

Outstanding examples of this style are Diagonal Street, JCT headquarters and 385 West Street.

Says Featherstone: "This type of construction is made possible because of the close association between the glass industry and architectural aluminium manufacturers."

AG is an active member of the Association of Architectural Manufacturers of South Africa (AAMSA) which sets and maintains standards to ensure the steady growth of glass and aluminium in the building industry.

The company has begun to manufacture security glass that can withstand assault weapons such as the 9mm and the AK-47. In tandem with its operation, the company is developing products for the building, furniture and auto glass industries.

Says Saville: "We intend to remain in the forefront of these developments and to maintain a leading market position. Our flexible private company status allows us to adapt to changing needs quickly — often a difficult job for large public companies."
Marlin falls on stony ground

Granite producer Marlin yesterday reported a 14.6 percent decline in turnover for the six months to December 1991 to R50,829 million, despite a 25 percent increase in sales.

The company attributes the decline in turnover to a sharp drop in sales by its UK subsidiary, which specialises in cladding and granite installations, because of the recession.

Consolidated operating income was 69 percent lower at R3,055 million, compared with last year's R9,697 million.

After taking finance charges at R3,345 million (R783,000) and tax into account, the company turned in a loss of R290,000 for the half-year.

An extraordinary write-down of assets at discontinued operations amounting to R3,234 million and a preference dividend payment of R302,000 pushed the loss attributable to ordinary shareholders up to R4,911 million, compared with a profit of R4,547 million made in 1990.

Earnings per share amounted to a loss of 3.6c a share.

No dividend has been declared.

Marlin pyramid company, Marlin Holdings, as a result of the loss made by the operating company, earned no revenue in the six months under review.

Sapa
Production problems put Marlin in the red

PRODUCTION difficulties at its Belfast quarries and depression in the European and North American construction industries plunged Marlin Corporation into the red in the six months to December, finance director Ian MacMillan said yesterday. The granite group recorded an attributable loss of R1.3m before accounting for an extraordinary charge of R3.2m incurred in the closure of a number of quarries. Attributable income of R7.7m was recorded during the previous comparable period. No dividend was declared as a result of the loss of 3.6c a share.

Despite a 25% increase in granite block sales, turnover dropped to R38.6m from R50.3m. MacMillan attributed this to “virtually zero” turnover at its UK subsidiary, which specialises in cladding and granite installation activities. Marlin’s beneficiation division reported a loss of R900,000 because of this. The division made a R2.5m profit a year earlier.

“As a large part of the costs at the UK operation were accounted for by labour, we have been able to cut costs there substantially. But it is unlikely we will dispose of the operation as it is an integral part of the beneficiation operation,” he said.

Marlin’s Boschkpoort Belfast Black quarry would be scaled down because of a stockpile sourced from it. Although the granite was high-quality, Marlin Group’s operations have encountered difficulties in achieving prices commensurate with the cost of extraction.

Growth in the Far East’s construction industry largely accounted for the increase in granite block sales, mainly Rustenburg Grey — sales.

The extraordinary charge related to the closure of one of two Parys Pink granite quarries and the Bitterfontein Green quarry.

Marlin is SA’s leading producer of Belfast Black granite, contributing about half of total local production. The price of Belfast Black has been under pressure recently because of increased competition from Zimbabwean producers.

The Gulf war resulted in a sharp slowdown in the Middle East’s construction industry, resulting in a build up of stocks of Rustenburg Grey leading to a savage price war.

However, MD Graham Treagus said prices were getting back to levels of two years ago, when the industry was enjoying a boom.

A local granite trade body, made up of SA’s four main producers, was formed last week in a bid to increase co-operation and avoid price wars.

Although previous attempts to unite the industry had failed, the presence of major mining groups Anglo American and Gemmell had given the body greater credibility.
Blue Circle forecasts greater demand in 1992

BLUE Circle chairman Trevor Coulson forecasts increased demand for the group's cement and materials products in 1992.

"Our engineering division is also projecting improved turnover as a result of slightly higher exports, new products and market share gains," says Coulson.

Despite depressed trading conditions and falling sales during the year to December 1991, Blue Circle has improved earnings slightly and declared higher dividends.

Earnings a share were up 3.3% for the year to 281.5c (190) 283.2c, while dividends increased 3.7% to 125c (115c).

These results were achieved after restructuring and rationalisation costs of RH4.8m in the materials division were written off.

Capex of RH4.8m included a new depot and blending plant at Kaalfontein, which was commissioned below budgeted cost.

Work began on a chinker processing plant, budgeted to cost RH3m.

It will be commissioned by the end of 1992.

Cement volumes declined a further 6.2% during the year and selling price increases were below the inflation rate.

Turnover slumped from RH76m to RH75m when compared with the same period last year.

Pre-tax income was unchanged at RH12m.

Blue Circle MD Graham Hardy said: "The cement division will continue to concentrate its capital expenditure on improving storage and distribution facilities, increasing cement milling capacity and improving product flexibility."

The materials division suffered a 16.7% decline in volumes during the year, bringing the cumulative reduction in volumes during the past three years to 38.6%. Excluding the non-recurring cost of restructuring and rationalising, the materials division achieved a 16.4% improvement in operating income.

"Activities in the materials division have been concentrated in areas and markets where it has leading positions and significant growth potential exists," said Hardy.

Turnover in the engineering division showed a 5.5% drop, while Yvon Col and Paramount traded at a loss. Overall income for the division was 20.3% lower than in 1990.

Hardy said the need for high levels of capital in the engineering division was unlikely as the division should continue to maintain its market position.

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COMPANIES

Marlin trades at a discount

TRoubled granite group Marlin is currently trading at an 80% discount to net asset value after this week's sharp fall in its share price to 55c.

The share plunged 6% after Marlin posted bottom-line losses of R4.9m in the six months ended December 1991.

Marlin's net asset value stood at 297c a share on shareholders funds of R139m on December 31. (1/11/91)

Finance director Ian Macmillan said yesterday: "This discount can happen in the mining business. However, by the same token, recovery in the industry often results in the share price reflecting a large premium over net asset value."

In its 1989 heyday Marlin traded at a large premium, he added.

Although its balance sheet at end-December reflected gearing of about 6%, interest cover for the half year to December was negative.

WILLIAM GILFILLAN

The sharp drop in trading income, lower cash holdings, and the increase of about R13m in short-term interest-incurred debt — included under current liabilities — contributed to the lack of interest cover.

Net finance charges rose to R3.3m from R7.8m for the comparable period the previous year because of higher short-term liabilities and smaller cash balances.

The R13m increase in short-term debt resulted from the compulsory redemption of preference shares in September.

About R30m of the R59m of current liabilities was interest-incurred debt.

When R30m short-term interest-incurred debt is included, gearing rose to 28%.

Macmillan said mining and quarry rights made up R57m of the R159m of fixed assets and investments.

Gold mines find ways to live with low prices

SA GOLD producers have accepted that they have to live with lower gold prices in the short term. But the latest plunge in prices will not be grave cause for concern for any but the most marginal mines, say market sources.

The rand/gold price is around R21.400 a kilogram — it's lowest level since December.

Simpson McKie analyst Rodney Yaldwyn said yesterday: "Gold producers have come to terms with the lower gold price."

Yaldwyn said only the most marginal mines, particularly those which did not sell gold forward to protect themselves from low prices, would be under pressure in the current quarter or the coming June quarter.

He said Gold Fields' marginal operations — Doornfontein, Labona and Venterspost — were in the toughest position because of the mining house's aversion to forward selling. Also under pressure would be Gengold's West Rand Consolidated and Anglogold's Lorraine.

He said the larger gold mines enjoyed greater flexibility in being able to continue their cost cutting drives.

Yaldwyn believed that the rand/gold price would soon return R1 000 an ounce and higher.

Of the myriad of factors blamed for the fall in gold prices this week, he said an important one was the start of new hedging programmes by North American gold producers. Once their contracts were in place, prices could recover.

Ewan Balderson analyst Nick Goodman said the gold mining sector, now "in tune with low gold prices", would experience a March quarter similar to that of the previous period, in which the industry improved its working profit for the fourth quarter running.

He noted that the average rand gold price this quarter, before forward sales, of R21.600/kg compared favourably with the December quarter's R23.400/kg. Forward sales then boosted average revenue to R23.500/kg.

Goodman said mines were finding new ways to cut costs both underground and on surface, with the installation of more efficient operating systems, careful use of equipment, pruning the workforce and reducing capital spending devoted to the maintenance of production.

He noted that the billions of rands of new capital spending on shaft development at Gengold's Oryx mine, and by Anglo American, was going ahead as planned.

Lower general capital spending meant that if gold prices picked up, many mines would have developed inadequate ore reserves. Dividend payments would then probably suffer as the mines strove to make up for earlier cutbacks.

MATTHEW CURTIN
M & R doubles Blue Circle stake

Murray and Roberts (M&R) has doubled its stake in cement producer Blue Circle by buying the 42.3 percent stake held in Blue Circle by its UK parent group Blue Circle Industries Plc (BCI) for R810 million.

In terms of the deal M&R has acquired 11.68 million Blue Circle shares from BCI for a purchase consideration, which excludes the rights to an extraordinary Blue Circle dividend of R24.63 per share.

BCI will be paid through the renounceable issue of M&R ordinaries at R54 each. Analysts said yesterday BCI was likely to renounce the shares and they could be placed with local institutions.

The offer will be extended to the minority shareholders. Minorities can opt to receive one M&R share for every Blue Circle share held or R54 in cash for each share.
GEFCO/MSAULI FM 20/3/92

Seeking insulation

With the outlook for asbestos not looking good, particularly as the international environmental lobby continues to keep the pressure on traditional markets, Griqualand Exploration & Finance (Gefco) is maintaining its effort to diversify towards more profitable mining activities.

Gefco’s results to December 31 show it has not escaped the reduced demand for asbestos, with turnover down 18%, to R87.9m. Income from operations dropped two-thirds, to around R4m, with EPS down a similar amount, to 8.2c.

Chairman Pat Hart says the drop in asbestos sales was expected, but particularly disappointing was a fall-off in demand for blue fibre towards the end of 1991, with some major customers not taking up indicated annual tonnages. The result has been a substantial build-up in unsold blue fibre stocks. Hart says these will result in further cutbacks at the Kuruman and Penge mines. Debt has nearly trebled to R3.7m.

This obviously puts cash flow under considerable pressure. The final dividend has been passed, following a half-year dividend of 2.5c.

Sister company Msauli, on the other hand, with demand for chrysotile fibre remaining firm, has not been as severely affected. Turnover advanced 11% to R78m, though operating income dropped a third, to R8.5m, mainly because unit cost increases outstripped revenues.

EPS of 12.1c (1990: 13.3c) saw the total dividend halved to 25c, though the directors say additional production and the promise of slightly firmer world prices should enable a better dividend distribution this year.

Hart says Gefco’s main diversification thrust is towards coal, whose sales increased more than sixfold in financial 1991, to R4.2m. While still a relatively small part of Gefco’s business, Hart says that with the uncertain outlook for asbestos, coal will become a major new venture. The group is evaluating additional coal activities and has acquired new coal mining rights in the eastern Transvaal.

Despite the sharp, but all too short, increase in the share price in October on news that the US Appeal Court had overturned the ban on the manufacture of asbestos-based products — something Hart says will lead to longer-term stability in the market — share prices of both companies have shown a steady downward trend.

At 41c, Gefco’s price is near its 12-month low and until better results from diversification start coming through, it probably won’t attract many buyers. Msauli’s price has climbed sharply on thin volumes this month, to reach R2, but is still way off July’s high of 360c. If the world price for asbestos improves it could warrant a look, but the counter will remain risky.

Shawn Harris

Gefco’s Hart further cutbacks at the mines
Blue Circle expects slight growth in the year ahead

EDWARD WEST

BLUE Circle is expecting a marginal improvement in earnings in 1992, based on improved turnover in its engineering division, improved operating efficiencies, its strong cash generating ability and a strong balance sheet.

This was the forecast of Blue Circle chairman Trevor Coulson in his 1991 chairman's review released last week ahead of the change of control to Murray & Roberts.

Coulson did not foresee a marked revival in public and private sector investment spending that year, but he did expect improved turnover in the engineering division due to slightly higher exports, new products and market share gains.

Operating efficiencies were at a high level and expenses well managed while the cost of rationalisation in 1991 would not recur in 1992, he said. Coulson described the balance sheet as strong and the group as a good cash generator.

Analysts confirmed that SA's three cement companies were good cash generators because the industry's excess production capacity limited scope for large capital expenditure projects. Industry production capacity utilisation dropped from 72% in 1990 to 66% in 1991.

The propensity to generate large amounts of cash was described by analysts as a reason why two of the three producers recently declared special dividends. Dividends are also tax free.

Fretoria Portland Cement declared a special dividend worth R32m in total last year while Blue Circle declared a special dividend/capitalisation on Friday along with the announcement of details of the change of control.

M & R commercial director Jeremy Ratcliffe said Blue Circle's ability to generate cash would have a positive impact on M & R's already good cash flow.

Blue Circle's special dividend/capitalisation issue — R11 a share or the allotment of 44,35 capitalisation shares for every 100 held — was the reason M & R's offer to minorities was based on an ex-dividend price of only R24,80 a Blue Circle share in exchange for the issue of M & R ordinary shares at R54 each.

On Friday a Dow-Jones report quoted Blue Circle as saying it had sold its 42.5% stake to M & R for the equivalent of R70m. Next month the company would also receive its share of the special dividend which, excluding commercial and inward exchange control considerations and a 15% non-residents' shareholders tax, would amount to about R120m.

Blue Circle MD Carl Grun said in the annual review even though cement volumes fell about 8.5% to 1.4-million tons last year as a result of depressed trading conditions and reduced exports to Mozambique, the industry had reached the bottom of the building materials demand cycle.

Pent-up demand for housing and services would begin to flow through to the cement industry over the next few years. Analysts said Blue Circle would also benefit from synergies with M & R such as the industrial group's infrastructural development plans in Zambia.

On Friday Blue Circle traded 65c lower at R35,85. The share peaked on March 12 at R37 after its R20 record low recorded a year earlier.

Blue Circle increased earnings by 22.8% from 225,2c a share to 291,5c a share in the 1991 financial year in spite of forecasts that earnings would remain the same.
Workers are fired over VAT march

ABOUT 400 workers at Sahnex brick manufacturing company in Sandfontein, Pretoria, have been dismissed for taking part in last week's march to protest against the Budget and Value Added Tax.

The workers, all members of the Construction and Allied Workers' Union, an affiliate of Cosatu, were fired on Wednesday.

A spokesman for the workers said the entire workforce took part in the march from Brown Street to the Union Buildings in Pretoria last Tuesday to protest against the Budget.

"We asked permission from the managing director a day before the march. He did not have time to discuss the issue with us. Instead he told us he was a businessman selling bricks and had nothing to do with the march," a spokesman said.

The company's managing director, Mr. J. Robertson, could not be reached for comment yesterday. His office said several times that he was at a meeting.

The workers' spokesman said they received notices on their pay slips last Friday warning them that they had acted illegally.

"The company's lawyer informed the entire workforce after a meeting between management and union shop stewards on Wednesday that their services would be terminated from noon that day.

"He also told us to come and fetch our salaries today."

The spokesman said they intended holding another meeting with management today to have the workers reinstated. He said several recruits from Mozambique had already been employed since Monday.

South African Reporter
RECYCLING BUILDING MATERIALS
FM 27/3/92

Waste not, want not

The idea of using discarded building materials — usually stuck away in city dumps and landfills — for informal-settlement construction is gaining support. There are few other ways low- or non-income-earning blacks can obtain building materials. The property and low-cost housing industries believe the concept (mooned by the FM) has merit.

Most people in areas set aside by provincial administrations for informal settlement — some serviced, others not — use plastic and cardboard to build shacks. The Transvaal Provincial Administration’s Physical Planning & Development Department says it would be keen to redeploy second-hand building materials. It is prepared to set aside delivery areas from which these could be distributed.

Understandably, TPA director Jan Breitenbach has no qualms about accepting donations from the private sector for urbanisation. His 1991-1992 budget of R180m is intended to provide only rudimentary services like water and sewerage or laying down the 46 informal communities on the Witwatersrand. He estimates there are an additional 360,000 families — with 6,2 people per family — waiting for such serviced sites in his area.

The department’s technical inspector, André Venier, has volunteered to allocate the delivery sites.

Some related problems arise out of the suggestion. One is the cost of transport and another the time limits imposed on demolishers. Concrete has to be removed from the bricks to make them fit for re-use. The cost of transporting rubble could be as high as R1.4m from one major site alone, according to leading demolisher, Wreckers, which is about to implode a Johannesburg city block to make room for Bankcity Auto House on the corner of Fraser and Jeppe streets, which takes up half a block, will be levelled on Sunday. It will be followed by Aitkin House on April 25.

Wreckers MD Mike Perkin suggests that for such jobs - far from informal settlements - unused mine land within 5km of the CBD could be set aside for further dispersal points. "Bricks and other materials could then be cleaned up by the end-users without the imposition of time limits," he points out.

Murphy Demolishers’ Dave Murphy says a clean-up process is often not necessary — as when taking up brick driveways — All demolishers canvassed — including Express, which is about to take down the Hyperama sheds in Edenvale — confirm that millions of bricks and other re-useable materials are thrown away in the course of their work. While doors and windows have a ready market, they are not in demand.

won’t deprive me of business.”

PPC group MD Ted Hodgskiss says he may consider donating cement to selected projects as part of the company’s social responsibility programme.

Bricks make up one-third of the price of a house. Low-cost housing agencies such as the SA Housing Trust, the Urban Foundation, and the Independent Development Trust, could find that the money saved on the cost of bricks, along with materials donated by developers, could be used to provide employment for shack dwellers to build homes. This is the principle behind using on-the-spot labour at Rietfontein, where a water main was being constructed under the direction of consulting engineer BKS.

CLIFTON BUNGALOWS

Testing the price

The sale of what are widely regarded as the most sought-after residential properties in SA — the Clifton bungalow sites in Cape Town — is headed for a long legal battle.

Leaseholders are trying to make the city council sell the properties at prices set six years ago. FM 27/3/92

The 170 sites on the beach at Clifton are leased from the council at nominal rentals but long-term leases, including the modest bungalows on the sites, now sell for much more than they would have in 1986 when the council decided to sell the sites.

Prices were set at around R200 000. They were regarded as steep then but not unreasonable.

Technicals delayed the sales. Earlier this year, the council decided to test the market by selling three vacant sites and one which had a bungalow. They fetched a total of R2,6m.

The plots ranged in size from 371 m² to 520 m² and the prices from R50 000 to R750 000 at an auction attended by about 350 people.

The prices were regarded as exceptional in view of the strict conditions of sale: you must build within two years of transfer, resell before building is restricted, as is size and height of buildings and vehicular access from the road.

The auction was seen as an indicator of how the council could peg prices when it eventually sells the other plots. But bungalow owners say legal opinion is that the council cannot raise the prices from the 1986 level.

After the auction, the council decided to let its executive committee determine the prices. It is understood that the committee is

FINANCIAL MAIL • MARCH 27, 1992 • 101
BLUE CIRCLE

Bearing the cost

ACTIVITIES:
Manufactures and supplies building and construction materials as well as engineering products

CONTROLS:
Murray & Roberts (84.7%)

CHAIRMAN:
Trevor Coulsdon MD, Graham Hardy

CAPITAL STRUCTURE:
27.6m shares, Market capitalisation R1bn

SHARE MARKET:
Price: R3.630c per share. Market capitalisation 20.1bn

DIVIDEND:
Yields 3.4% on dividend, 0.0% on earnings, p e ratio, 12.5, cover, 2.3:12-month high, 3.700c per share

2.00c:2nd-Trading volume last quarter, 30,484

CONSIDERING WHAT CHAIRMAN TREvor COULSON CALLS THE "NEGATIVE ENVIRONMENT" WHAT BLUE CIRCLE FACED LAST YEAR, PUSHING EARNINGS UP 2% TO R50.3m ON A DROP IN TURNOVER COULD PROBABLY BE SEEN AS "A HIGHLY SATISFACTORY PERFORMANCE"

But the structure of the accounts will be markedly affected by the payment of an extraordinary dividend to shareholders, announced last week as part of the acquisition by Murray & Roberts (M&R) of UK-parent Blue Circle Industries Plc's 42.3% holding.

That seems likely to weaken what the 1991 results show as a strong balance sheet, leaving Blue Circle shareholders with a stake in a company less comfortably positioned than at the year-end.

M&R is paying R289.2m for the additional stake in Blue Circle, to be settled by the issue, in renounceable form, of M&R ordinary shares, at R54 each, for 11.7m Blue Circle shares, to be placed on behalf of Blue Circle Industries (BCLI) at the issue price.

That represents a discount of 1105c on the market price early this week, which appears to be a good buy for M&R. But, in terms of the extraordinary dividend of R1.8m to be paid by Blue Circle to shareholders as part of the deal, BCI will receive an additional R128m.

But the UK Group has elected to receive this in cash and, in terms of the deal, will get 78% of the payout at the commercial rate exchange rate. In effect, then, the discount enjoyed by M&R is being made up by Blue Circle out of its own resources.

Should minority shareholders, representing the remaining 15% interest in Blue Circle, choose to receive the extraordinary dividend in cash, it will cost Blue Circle about R175m to finance the dividend.

Naturally, this will strain Blue Circle's currently healthy liquidity while profit margins were squeezed at year-end, the group had R67.5m in cash — more than three times as much as in financial 1990. When the R94m debt is matched against the cash, net borrowings, at R2.65m, were not significantly higher than in the previous year. With a negative interest charge due to capitalising interest, during construction, to the cost of capital projects, Blue Circle had a sound balance sheet.

The extraordinary dividend, which BCI is the major beneficiary, will absorb the cash and leave Blue Circle to find more than R100m to finance the payout. It will boost debt and leave a significant interest bill for this year.

That leaves minority shareholders, who, in the terms of the offer, can elect to receive capitalisation shares at about 44.4 shares for every 100 ordinary shares held, with an interest in a diminished company.

Of course, they can, in terms of M&R's offer to minorities, exchange Blue Circle shares, including shares issued in terms of the capitalisation offer, for M&R shares. This is based on the ex-dividend price of 2.480c per Blue Circle share for M&R shares at R54 per share, an offer M&R commercial director Jeremy Ractliffe believes most minorities will accept.

"With both shares trading on a similar p e ratio, the market seems to think minority shareholders will go for M&R shares," he says. If that happens, M&R should get the control it needs to delist Blue Circle just as it delisted Darling & Hodgson after buying the company and getting its first 42.3% stake in Blue Circle.

Deputy MD Angus Morrison says interest will have a significant effect on Blue Circle but cash flow is strong. The group has shown itself to be a good cash generator — but should shareholders be happy with Blue Circle footing a large part of the bill for its own acquisition?

They might be better off taking the capitalisation offer and sticking with Blue Circle, despite the negative effect that share dilution and financing costs will have on earnings, which some analysts believe will drop to about 230c per share.

Besides the obvious synergies between M&R and Blue Circle, the acquisition is strategic in that, with building materials usually picking up early in the building and construction business cycle, potential earnings recovery should be quicker for Blue Circle.

Though not as spectacular an earner as M&R, Blue Circle has shown solid performance in the past couple of difficult years. And, with M&R possibly consolidating after its buying spree, it should start to recover earlier than its parent.

The price, near its high of R3.7, will probably drop in the short term as minorities react to M&R's offer. It has enjoyed the rating common to other cement manufacturers, with a surge of nearly R6 since talk of the acquisition began early in the year.

EPS are slightly higher in the latest results but have been in a downward trend since the 1994 level of 0.5c. The share, at more than double its net worth, looks expensive. A downward correction seems likely.

Blue Circle's Coulson ... satisfactory performance

Looking forward, the group has had good news on its joint venture with Steelform Europe. The joint-venture company, known as Blue Circle Metal, has been awarded a R350m contract to construct a steel plant in Italy. This is a major step forward for the group.

The company also expects to benefit from the strengthening of the rand against the US dollar, which will reduce import costs. This is expected to have a positive impact on the group's profitability.

Overall, Blue Circle has shown resilience in a challenging market environment. The group's focus on cost control and efficiency has helped it to maintain its profitability despite the economic uncertainty.

Blue Circle is well positioned to benefit from the anticipated recovery in the construction sector, which is expected to drive demand for its products. The group's diversified product portfolio and market presence in key growth markets provide it with a strong foundation for future growth.

CONCLUSION

Blue Circle is a well-managed company with a strong market position. The acquisition by M&R is expected to provide strategic benefits and enhance shareholders' value. The group's focus on cost control and efficiency will help it to weather any economic uncertainties.

Blue Circle is a solid investment opportunity, with a strong track record of performance and a promising outlook for future growth.
Hats off to Masonite's man-
agement team for steering
costs along a high
growth path in difficult times.

Despite foreign and local markets being
badly affected by the recession, Masonite's attri-
butable profit climbed more than 50 per-
cent in 1991 and continued growth, albeit at a
slower rate, is projected.

In the annual report, chairman and MD
Alan Wilson attributes the performance to a
number of factors, including the wide product
range, quality and service, and efforts to con-
tain costs.

Although certain markets are likely to de-
cline further in the medium term, Mr Wilson
views the future with optimism.

Mr Wilson is confident in the future of tool-
making subsidiary Ezibilt Products, which is
adapting its product range and marketing
strategies to meet market conditions.

In the year to December, group turnover
climbed 12 percent from R115,1 million to
R126,4 million, while operating profit shot up
62 percent from R12,1 million to R19,6 mil-

Mr Wilson attributes the improvement in mar-
gins to good cost management, cost sav-
ings arising from investments, productivity
improvements and an excellent production
performance.

After a nine percent increase in net interest
expense from R2 million to R2,2 million, pre-
tax profit was R17,4 million — 73 percent
higher than the previous year's R10,1 million.

An increase in the effective tax rate from
26,6 percent to 34,4 percent resulted in attrib-
utable profit rising a lower 54 percent from
R7,4 million to R11,4 million.

Earnings per share rose from 168c to 167c
and the dividend from 43c a share to 60c.

The balance sheet reveals a significant de-
crease in borrowings, resulting in gearing
falling from 33 percent to 15 percent.

Mr Wilson says the decline in interest-bear-
ing debt from R15,9 million to R8,9 million
was facilitated by a sharp cutback in capital
expenditure.

Masonite, priced at R13, is trading on a
P/E ratio of 7,8 and provides a dividend yield
of 4,6 percent.

The share offers fair value at the current
price level and accumulation, particularly on
price weakness, is recommended.

COMMENT: In 1989 and 1990 Masonite's price
fell steadily from a record high of R16,50 to a
low of 675c.

Recovery got under way early in 1991 and
recent price gains have been strong.

Although the price may consolidate or cor-
rect in the short term, the primary trend is
favourable will only be threatened if it falls
below R11,25.
Masonite on high growth path

By Lynn Peach

Mr Wilson attributes the improvement in margins to good cost management, cost savings arising from investments, productivity improvements and an excellent production performance.

After a nine percent increase in net interest expense from R2 million to R2.2 million, pre-tax profit was R17.4 million — 73 percent higher than the previous year's R10.1 million.

An increase in the effective tax rate from 26.6 percent to 34.4 percent resulted in attributable profit rising a lower 54 percent from R7.4 million to R11.4 million.

Earnings per share rose from 108c to 167c and the dividend from 43c a share to 60c.

The balance sheet reveals a significant decrease in borrowings, resulting in gearing falling from 38 percent to 15 percent.

Mr Wilson says the decline in interest-bearing debt from R15.9 million to R8.9 million was facilitated by a sharp cutback in capital expenditure.

Masonite, priced at R13, is trading on a P/E ratio of 7.8 and provides a dividend yield of 4.6 percent.

The share offers fair value at the current price level and accumulation, particularly on price weakness, is recommended.

COMMENT: In 1989 and 1990, Masonite's price fell steadily from a record high of R16.50 to a low of 675c.

Recovery got underway early in 1991 and recent price gains have been strong.

Although the price may consolidate or correct in the short term, the primary trend is favourable and only be threatened if it falls below R11.25.

Hats off to Masonite's management team for steering company profits along a high growth path in difficult times.

Despite foreign and local markets being badly affected by the recession, Masonite's attributable profit climbed more than 50 percent in 1991 and continued growth, albeit at a slower rate, is projected.

In the annual report, chairman and MD Alan Wilson attributes the performance to a number of factors, including the wide product range, quality and service, and efforts to contain costs.

Although certain markets are likely to decline further in the medium term, Mr Wilson views the future with optimism.

Plans include investment in processes and facilities to produce quality products at competitive prices.

Mr Wilson is confident in the future of loss-making subsidiary Exebilt Products, which is adapting its product range and marketing strategies to meet market conditions.

The business of Masonite includes the manufacture of hardboard, insulation board, cryogenic mineral wood, wood and mineral fibre ceiling panels and decorative wall paneling.

Modular housing and shelter units are manufactured by wholly owned company Exebilt Products.

In the year to December, group turnover climbed 12 percent from R113.1 million to R126.4 million, while operating profit shot up 62 percent from R12.1 million to R19.6 million.
Workers arrested for trespassing

ABOUT 200 workers at a brick manufacturing company in Pretoria have been arrested after refusing to vacate the premises since their dismissal last week.

The workers, who are members of the Construction and Allied Workers' Union, alleged they were fired for having taken part in a march to the Union Buildings to protest against the Budget and Value Added Tax.

The march was organised by the Congress of SA Trade Unions and the African National Congress.

Northern Transvaal police spokesman Colonel Willie Vlotman said yesterday that 189 workers were arrested for refusing to vacate the premises at South African Bricks in Boekenhoutskloof near Hercules.

Vlotman said the former employees, most of whom stayed on the premises, were asked to leave after the company said it had obtained an interdict in the Pretoria Supreme Court on Tuesday restraining them from being in the area.

He said the 189 refused to leave in spite of the court order. Police were called and they were arrested.

They were due to appear in the Pretoria Magistrate's Court today on charges of contempt of court and trespassing.
Brick deal

CORKBRICK will export $6-million bricks to Singapore. This is the first large export order for bricks from SA and is worth about R6-million. The building industry is booming in Singapore. The bricks were ordered by the Housing Development Board for houses and flats.
COMPANIES

Quagga receives takeover offer

GRANITE operation Quagga could be saved from extinction following a takeover offer for the company. In an announcement today, Quagga's controlling shareholders said they had received a takeover offer.

This follows the announcement in February that the controlling shareholders in Quagga were involved in discussions which could result in a sale of their interest in the company. Analysts speculated the candidates to take over the group were either the Keeley Group or Impala Granite.

This was after the Marlin group, initially thought to be the most likely party to take over Quagga, had denied it was involved in negotiations. Marlin had been quarrying and marketing Quagga's African red operation in Lebowa on a profit-sharing basis since 1980.

As the Keeley group already has extensive reserves of African red, the group's motivation for taking over Quagga would be to increase its stranglehold in the African red market, which was a lucrative part of Keeley's business. However, there is no matching cautionary announcement from Keeley.

Observers believe unlisted Impala Granite, owned by a German-based holding company Desdag in which Anglo American has a 50% interest, to be the more likely takeover party.

Kudu Granite, the other African red quarryer in the country, is currently conducting merger talks with Impala.
Asbestos producers expecting another profitable year

By Derek Tomney (1993)

South Africa’s two quoted asbestos producers — Msaauli and Gefco — are still in business, making profits and expecting to do better this year, in spite of the wide-spread campaign against the use of asbestos.

Demand for Msaauli (chrysotile) fibre remains firm and with a slight shift emerging in the supply/demand situation in favour of producers, it is expected that the total production will again be sold. This year, demand should lead to increased US dollar prices, reports Mr HP Hart, who is chairman of both companies.

Output should be helped by the new tailings recovery plant which should lead to a 10 percent increase in production. This will be partly derived from a low-cost ore resource and should help to contain the high cost of deeper mining.

New depot

This year Msaauli plans to spend some R2 million in assuring the continuity of supply at depth and R2 million for a new container depot which should result in a reduction in offsite selling expenses. Altogether capital expenditure this year is expected to be about R6 million.

Overall, Mr Hart is fairly optimistic about Msaauli’s prospects.

“Given no major change in the demand from traditional markets, Msaauli shareholders can look forward to a satisfactory year with some potential to improve on dividend payments”, he says.

Msaauli had a turnover of R78.9 million (R78.2 million) in the year ended December. Taxed income was R7.9 million (R9.9 million) equal to 12.8c (13.8c) and dividends took 25c (30c).

The outlook for Gefcor, which produces blue asbestos, is not so bright as that for Msaauli. The market for blue fibre is static with sales to a constant number of traditional customers only, says Mr Hart.

Disappointment

The other project involves an operating mine where a joint venture or participatory interest have been agreed in principle. The performance of the group’s Annadle colliery was a "bitter disappointment", says Mr Hart. Although it was projected to be fully commissioned by last August, neither the sized coal nor the finer sections were in full production by year-end. However, the mine is now showing signs of improvement. Indications are that the domestic market will absorb the total output of sized coal at acceptable prices.

Gefco’s turnover from asbestos dropped from R107.6 million in 1989 to R77.9 million last year. Turnover from coal grew from R573,000 to R4,205,000. Taxed income was R3.0 million (R2.7 million). The company paid an interim dividend of 2.5c in 1991 which absorbed R88,000. No final dividend was paid.

Environment

Demand for the group’s fibres remain under pressure from environmental groups and government authorities in many of the major market areas. However, a US court recently rejected a call for a ban on blue asbestos.

But while this is positive for the remaining asbestos industries, it is not expected to bring back customers lost to substitute products.

However, a major unknown in the future of blue asbestos is the availability of chrysotile asbestos which is replacing it in the asbestos pipe industry. Recently there has been a steady decline in the availability of premium grade chrysotile fibres which could lead to an increased demand for blue fibres.

However, the group accepts that its asbestos business is declining and is continuing to develop additional business ventures.

Mr Hart says the effort is being directed at coal and two projects are being investigated in detail. One of the projects involves mining some 27 million tons of B grade bituminous coal. The total cost of the project and market-related royalties will have to be paid.
Gefco's Penge asbestos mine may close

GEFCO's Penge asbestos mine may close this year with the loss of 700 jobs, a victim of increasing asbestos substitution worldwide as demand grows for safer alternative materials.

Chairman Pat Hart said at the weekend the northeastern Transvaal mine's future would be in doubt from the end of the year; while output would be cut at Gefco's two mines in the Kuruman area. The loss of the major market for amosite asbestos, used in asbestos-cement manufacture, in the Far East because of substitution had been a severe blow to the Penge mine.

"The mine operation has been reduced to one shift (in the latter part of last year) and planning is in place for closure during 1992 should the market shrink to below economic levels." He added good volumes were more important than prices for the mines to break even. About 700 jobs would be lost through the mine's closure, Hart said.

Penge accounted for a third of Gefco's turnover and attributable income in the 1991 year, analysts estimated.

Hart said the rejection of the ban on asbestos in the US was positive for the future of the remaining asbestos industries. But it was not expected to bring back customers lost to substitute products.
Plate Glass offer goes well

The offer by Plate Glass of 8.2 million shares at R43 a share was 56.6 percent subscribed, reports UAL Merchant Bank which, with stockbrokers Davie Borkam and Hare, organised and sponsored the offer.

The offer will raise R354 million of which R210 million will be used to recapitalise PG's offshore operation and the balance will be used to finance local debt.

Offerees and their respondents subscribed for 7.9 million shares equal to 56.7 percent and there were applications for a further 71,874 shares.

All applications were allotted in full.

Certificates will be posted to applicants today.
Bricks are seldom thought of as an export commodity, but the combination of a building boom in the Far East and the demise of sanctions has contributed towards Durban-based Corobrik winning a R6m order to ship 8.5m face-bricks to Singapore over six months.

Singapore is well into a R3.4bn annual building programme that is expected to continue for at least the next two years, according to Corobrik business development director Ray Andrews, who engineered the deal. Singapore's brick-making capacity is woefully inadequate and it is unlikely to be expanded because that would swallow up valuable land.

Andrews says negotiations began while Singapore was still applying sanctions against SA. This meant that some "fairly roundabout things" had to be done and made the job of landing the order a lot more difficult, he adds.

"Had an agreement been possible before the trade embargo was lifted last month, the difficulties created would undoubtedly have affected price and quantity. Then came the referendum. I believe the 'yes' vote clarified the situation and helped to seal the contract near the end."

The Corobrik order was won despite competition from Australia, which has a sophisticated brick industry, and Malaysia, Andrews says.

"Prices were keen and there is no doubt that had the rand not been as soft as it is, we would have been disadvantaged. The fact that SA is in a building recession and that Corobrik has some brick-making capacity also helped. Nevertheless, we didn't go into this deal on a marginal basis. The margins are thin, but it's not a loss leader. It is a large contract and we would probably have gone into a domestic contract on the same margins."
Saficon on line for a bigger stake in Boumat

SAFICON's offer to increase its stake in building supplies company Boumat has forged ahead with shareholders passing resolutions yesterday which make the offer unconditional.

Saficon announced that shareholders had approved the creation of an additional 4.7-million ordinary shares.

Saficon had previously made an offer to Boumat shareholders — other than Sanlam — for 21% of their shareholding.

Saficon also said it would accept on a pro rata basis other Boumat shares tendered to take its shareholding to 51%.
Turnover falls 70% at Bolton

BOLTON Properties, which has been shedding its assets during the past few years, declared a final dividend of 5c a share for the year ending February 29.

Turnover sank from R1.2m in 1991 to R399 000 — a drop of nearly 70%. Turnover in 1990 was R5.39m.

The company, which has sold off a large part of its non-revenue-producing property and other assets, achieved a further R31 000 on the sale of land and buildings.

Earnings for the year were 5.5c a share, slightly ahead of the predicted 4.5c a share.

The directors forecast a dividend for the coming year of 5c a share, which would be distributed fully in the form of a single dividend after the year-end.

Double results from Italtile

RECENTLY restructured ceramic tile and sanitaryware group Italtile significantly increased earnings — on a pro forma basis and off a low base — during the year to end-February.

The group, which separated the listing of its retail and manufacturing operations, has issued actual and pro forma results for the year.

Chairman Gianni Ravazzotti says the pro forma figures reflect trading results for the group's combined manufacturing and retailing operations as if it had not been restructured in order to allow comparison with the previous year's results.

Pro forma earnings grew 31.4% from 76.1c to 100c a share while actual earnings were 65.9c. A final dividend of 6c a share was declared.

This, with the 6c a share interim dividend and the 7c a share declared by manufacturing operation Ceramic Industries, brought the full year's dividends up 17% to 21c a share.

Ravazzotti said growth of both the retail and manufacturing operations had been inhibited until mid-1991 as Italtile was a vertically integrated group. The group's operations were split into two separately listed companies so that each could focus on their core businesses of retail and manufacturing respectively, he said.

Earlier this year, after the acquisition of Abacus's ceramics factory and its Audobuild listing, the manufacturing operations were renamed Ceramic Industries and housed in the Audobuild listing.

Ravazzotti said this move had enabled the group to separate its divisions and allowed the manufacturing operations to sell products to alternative retailers.

Turnover figures are not given, but turnover was 11.5% higher than during the previous year against 10.2% turnover growth in the year to end-February 1991.

Operating profit rose 8.8% to R23.5m. Actual operating profit of R16.3m reflected six months of the manufacturing division's trading and a year of the retail division's trading. Ravazzotti said growth in turnover and operating profit was achieved despite adverse trading conditions and increasing price competition.

The group had budgeted for no real growth in turnover and increased pressure on margins in financial 1993. Earnings for the year would be maintained "at the annualised achievement" of the second six months of financial 1992.
Toncoro cutting back

By Tom Hood

The country's biggest brickmaker, Toncoro, is negotiating a deal to sell its three Corobrik factories employing hundreds of workers in the Western Cape to its main competitor, Crammix Bricks, based in Brackenfell.

This follows three years of plunging profits by Toncoro — part of the Tongaat-Hulett empire — and sales countrywide estimated to have fallen below what they were at the worst of the 1985-86 depression.

A takeover would more than double Crammix's production capacity and make it the country's largest independent brick-making company.

A joint announcement from the two companies is expected soon.

Toncoro managing director Cedric Savage declined to comment on reports of a takeover or merger.

But he said 28 different companies in the group ranging from aluminium to sugar had been put under the spotlight by American management consultants and significant changes could be made.

Huge stockpiles of unsold bricks have prevented companies from raising prices to meet increased costs.
Gefco's Penge asbestos mine to close

GEPCO's Penge asbestos mine would close on June 26 because of shrinking demand for amosite asbestos, chairman Pat Hart told shareholders at the company's annual meeting yesterday.

About 700 jobs would be axed at the northeastern Transvaal mine, the world's only amosite asbestos producer.

The move would knock Gefco's future results, as Penge was a significant contributor to earnings despite its declining fortunes in recent years.

Amosite asbestos is one of the three principal varieties of the material used mainly in the manufacture of asbestos cement. Amosite is a high-quality, long-fibre asbestos which imparts high resistance to acids, sea water and heat to the products in which it is used.

However, asbestos fibres are a health hazard, and amosite has come under particular pressure from environmental lobbies in the US and Japan, where its use is being phased out.

Hart said the mine had enough stocks to meet its few outstanding contracts.

The NUM had accepted that the mine was no longer viable, and severance packages were being negotiated, he added.
JOHNSON Tiles had completed the first phase of an R8,4m two-phase capital investment programme at its Olifantsfontein factory, it said yesterday.

Recently-appointed MD Ray Forster said the investment expressed the company's confidence in the SA economy.

He said the programme was launched after an investigation of the SA ceramic tile market's prospects and client research. Modernisation and automation of production would result in significant efficiency improvements, higher production, reduced product damage, improved cost competitiveness and enhanced quality.

A wholly owned subsidiary of Norcross Plc of the UK, Johnson SA is one of six companies in the worldwide Johnson Tiles group. It holds about 30% of the local floor tile market and 20% of the wall tile market. The SA ceramic tile market accounts for sales of 6.2-million m² wall tiles and 5-million m² of floor tiles annually.
SUPATRUSS of Edenvale, a member of the Reef Group of Companies, has established an office in Botswana after being awarded a R1,3 million contract to supply roof trusses for 300 apartments in Gaborone.

The contract stipulated the supply and erection of roof trusses, sundry and chromadek roof sheeting for the 300 two and three bedroom units.

The sheeting will be supplied by Tangent Sheetings, another member of the group.

The managing director of Supatruuss, Mr Paul Baron, said: "This contract has given us the opportunity to increase the scope of our services to Southern Africa and, by involving a member of the Reef Group, it provides us with the opportunity to provide the client with a more complete service."

Many opportunities in Africa existed for South African companies, Baron said, adding: "The competition for African business will escalate in future and the best time to enter this market is at present."

Supatruuss, established in 1984, has grown from a half-a-million rand company, employing 11 staff members to a company with annual turnover of R5-million and employing 36 workers.
PPC presses on despite bad times

By Derek Tomme

Pretoria Portland Cement (PPC) is a company waiting for the economy to recover.

Nonetheless, it managed to steam at "slow ahead" in the six months to March, and its shareholders are to receive an 11 percent increase in the interim dividend from 45c to 50c a share.

Turnover rose 15 percent to R494,6 million and operating profit rose the same percentage to R91,4 million.

But investment income dropped sharply from R5,1 million last year to R2,6 million, which limited the increase in pretax profit to R94,0 million from R95,8 million a year ago.

A rise in the tax rate further trimmed the profit increase, with taxed profit ranging only three percent to R54,0 million from R52,3 million.

After providing for outside interests, attributable profit rose from R50,6 million to R52,3 million.

Earnings a share improved three percent from 125,7c to 129,4c a share.

The directors say that cement sales rose one percent in volume, but margins improved from 22,6 percent to 24 percent as a result of strict cost control and enhanced production efficiency.

The lime division lifted operating profit seven percent on a rise in turnover of five percent, indicating an improvement in margins.

The directors expect no improvement in trading conditions in the financial year to September, but predict a small improvement in earnings.
PPC turnover outpaces cement sales

PRETORIA Portland Cement (PPC) has increased turnover by 15% to R484.8m (1991 R377m) in the six months to March 1992 in spite of only a 1% rise in local cement sales over the period.

Operating profits for the Barlows-controlled cement and lime producer rose 13% to R91.4m from R79.7m. However, a sharp drop in investment income to R2.6m from R6.1m resulted in pre-tax profits rising 10% to R94m from R85.8m.

A higher tax rate saw the Receiver take R10m compared with R3.5m in the previous period. As a result, attributable profits were only 3% higher at R87.3m. Deferred taxation amounted to R16.2m.

Earnings increased 3% to 120.4c from 115.7c a share. The interim dividend climbed 11% to 50c from 45c a share, reducing dividend cover to 2.6 from 2.8 times.

PPC said cement division profit margins improved to 24% from 22.8% which, together with cost control measures, enhanced production efficiencies and the 1% increase in local sales volumes, resulted in increased contributions to income.

The lime division also reported slightly improved profit margins on a turnover of R77.2m. PPC, the largest of the three producers in the cement cartel, claims about 45% of the local market.

PPC financial director Chris Wrogemann said capital expenditure during the six months at R22.6m was significantly lower than R69.7m spent during the same period last year and future capital commitments were also substantially lower.

The low capital expenditure and a strong cash flow enabled PPC to reduce dividend cover over the past few years, he said.

PPC's directors forecast no improvement in trading conditions during the current financial year, but they nevertheless predict a small improvement in earnings.

PPC's share price was untraded at R48 yesterday compared with a net asset value of R15.22 a share.
**FOCUS: Buying bricks isn't a simple matter**

**Just another brick in the wall**

Many consumers have found the experience of dealing with builders and suppliers to be exasperating and the situation is no different with regard to bricks.

Unless you have been referred to one of a myriad of small independent brick producers, the name "Corobrick" will come to mind. If you are older than 30, Bricker will be a faint memory, now part of the Corobrick empire - which is in turn part of Anglo American.

Corobrick is a national company and claims it is the largest in the world, but as it is negotiating to sell its Cape division it may lose this distinction.

Be prepared for a run-around from Corobrick. It denies it is a monopoly, but it behaves like one; its attitude is nobody else will take your money for bricks, as this Critical Consumer found while seeking out pricing information this week.

However, let's get back to bricks - clay as opposed to the concrete ones. Clay bricks, like other ceramics, are made from clay dug from the earth, mixed with water, cut by a variety of processes - from the primitive to the sophisticated - into the 220mm by 105mm by 73mm shape so well known. They are then baked at high temperatures in kilns - again of differing sophistication - so that they become strong and hard. A variety of techniques of burning are used so that combined with the natural properties of the clay in a particular area, the brick will take on a particular hue.

This method of making building materials has been used since time immemorial and persists because the final product has some outstanding qualities as a building material. The main one is its insulating qualities which make a dwelling neither too hot in summer nor too cold in winter.

It is also virtually maintenance free when used as an outside cladding, needing no regular paint jobs or replastering.

But for this there is a price to be paid.

A plaster brick (the type covered eventually by plaster or another cladding) can cost R300 for 1 000 bricks at Corobrick. If you shop around at other brick yards, you will pay less. However, if you are buying more than 10 000 bricks from Corobrick, you will get them at a discount so that each lot of 1 000 clay bricks will cost around R197. There is a terrifying slump in the industry so shop around and haggle, it can make a difference. Delivery charges bumps the price up - Corobrick adds R80.

Corobrick has a special division, Brick and Tile, to help small-time consumers. But if the consumer is unaware of the existence of Brick and Tile and telephones Corobrick's sales division, he or she will be tempted within no time at all to try another brick yard. They will not give prices over the telephone, will not help anybody without an account and seem to be either unwilling or ignorant of the fact that Brick and Tile is simply another division of Corobrick.

The next pitfall for Transvaal consumers is that what is sold at Brick and Tile is not necessarily the produce of Corobrick. This does not mean the product is inferior, but the company says its bricks are made to a particular standard and consumers may want to check up on what they are getting for their money.

For one thing, the clay plaster brick is definitely not one of Corobrick's. Some consumers have complained that certain specialty and expensive face bricks are not made by the company either, but this was not stated.

Corobrick assured this Critical Consumer that in other areas of the country, only Corobrick products were sold at its 27 Brick and Tile outlets.

This can be important, for instance, the consumer needs a brick with particular load-bearing qualities - one of the factors which varies in different types of bricks.

Some bricks have the quality stamp of the South African Bureau of Standards and this means they meet certain specifications. Many manufacturers, and brickmakers are no exception, claim their products are "made to SABS specifications," but unless it has the stamp, there is no guarantee of this.

Clay face bricks can be made in a variety of colours these days, but for the joy of these, it will cost - in some cases more than R1 for each brick before delivery is taken into account.

Many independent smaller brick yards with good quality bricks and fewer expenses, charge less than Corobrick - around R500 to R600 per 1 000 face bricks.

In the good old days of building booms, consumers would have to wait months to receive a delivery of bricks. These days, there is virtually a same-day delivery. About 2,5 billion bricks are produced annually and the stockpile is now almost 6,25 million. Corobrick is responsible for the production of roughly 40 percent of these (about one billion annually), with the rest being made by any of the 120 odd yards in the country.
Ceramic merger

DEBEX and Greenbank Malvern Engineering, large manufacturers of ceramic refractories, have joined forces in an effort to improve the efficiency of their product line. Greenbank Malvern supplies the coal-mining and power-station industries and has considerable experience in marketing these products. The merger will complement the technical and manufacturing skills of the Deben ceramics division.
Loans market collapses

THE breakdown in law and order had led to a collapse in the normal functioning of the housing loans market and an inability to enforce the legal consequences of non-payment, the De Loo report found.

Political action such as bond boycotts had caused significant losses to mortgage lenders and undermined the functioning of the process which sustained viable housing delivery.

Bond boycotts, together with a lack of affordability and the risk of non-recovery due to dismissals and retrenchments, placed constraints on the small housing loans market.

To sustain viable housing provision, the whole process surrounding home-ownership had to be allowed to function within established systems.

The State should provide remedies for mortgage lenders — Sapa □

Appeal to protect consumers

WIDE-RANGING exploitation and malpractice by some commercial housing developers, particularly of people in low-income groups, had led certain communities to challenge the role of the private sector in housing provision, according to the De Loo Commission on Housing.

Provision had to be made for a more effective form of consumer protection.

Malpractices identified by the Urban Foundation included falsification of income information, incomplete disclosure of associated costs (e.g., transfer costs), brokering firms which charged a fee to secure bond finance which was not reimbursed if the application failed, excessive deposits which were not refundable, collection of deposits by non-approved estate agents, and the illegal sale of sites to squatters — Sapa □

Building industry probe call

A N IN-DEPTH investigation into monopolies and over-concentrations in the building material supply industry should be undertaken, the De Loo Commission on Housing has recommended in its report.

The commission said the Government should also relax import controls and lower tariffs on building material to promote domestic competition.

The building material supply industry was dominated by a few local conglomerates protected from foreign competition by effective trade barriers.

In many instances, building material could be imported at substantially lower cost.

A superficial analysis of the suppliers’ profit records indicated that prices were adjusted upwards to allow a supplier to maintain profit margins even when demand for a product declined. — Sapa □
THE executive director of the Clay Brick Association (CBA), Mr Leon du Bruin, this week outlined possible scenarios in the new South Africa.

This was after he had in-depth consultations with a broad spectrum of political leaders.

At the annual meeting of the CBA held at the Drakensburg Sun this week, he gave clay brickmakers a background against which to plan their marketing strategies for the year ahead.

"The most desirable scenario," he said, "is the negotiated democratic solution, which would require a balance to be found between a democratic constitution, universal vote and protection of minorities.

"I want to stress that a major element of this scenario would be the devolution of power to local levels."

He appealed to the clay brickmakers and other businessmen to eliminate the residue of apartheid in their spheres of influence and to play a greater part in the negotiation process by getting more involved at regional level.

In that way, he added, businessmen would help steer the process of change in a direction which would result in more jobs, stability and prosperity.

Progress, thus far, had been good, he said, with whites feeling more comfortable since the referendum.

A bill of rights, proportional representation, a bicameral parliament and decentralisation of power had already been agreed upon.

Still on the agenda, however, was the accommodation of minorities.

During the conference delegates considered ways to win further market share from cement masonry.
Cementation group back in the black

TH: Cementation Company is back in the black and has achieved earnings of 1.5c a share in spite of a 22.6% drop in turnover in the six months to March 1992.

The group, engaged in engineering and contracting operations for mining and industry, has been hard hit by economic conditions in these sectors. Its net loss was R10.5m at the year-end to September 1991.

Cementation's interim results published today show turnover down to R129m from R169m. Net income rose sharply to R2m from R361,000, while interest paid fell 79.6% to R1.8m.

Attributable profits were R135,000, compared with a R65m loss last year. This translates to earnings of 1.5c a share, compared with a loss of 67.2c a share last year. No dividends were declared.

Long-term borrowings were down to R5.2m from R7.3m, with short-term borrowings down to R19m from R42m, the company said.

Financial director Anthony Watson said that while the group would have preferred better results, asset management steps initiated last year had paid dividends in spite of the difficult trading environment.

He said these included combing various divisions, retrenchments, greater attention to cost controls and limiting capital expenditure. In the interim period, capex was limited to R256m from R328m.

Watson said the group was not overly optimistic about an economic improvement, but he believed it would stay in the black for the rest of the year.
Building inquiry

From Page 1

Charles Holmna, director of cement affairs at Pretoria Portland Cement, says: "We are pretty clean. Our prices are about the fourth lowest in the world and are not kept high by artificial restrictions."

Jack Sauer, managing director of construction group Grinaker, also involved in supplying materials, says profit margins are small. But he believes an investigation would not be a bad thing.
Kelgran's earnings crack under foreign pressure

Matthew Curtin

Earnings at granite producer Kelgran cracked under the strain of fierce overseas competition for its products in the year ended February 1992. Earnings fell 48% to 28.9c from 56c a share in 1991, after taking into account extraordinary items.

Kelgran declared a total dividend of 20c, down by half from 40c in 1991, when shareholders also received a 43.2c special dividend.

Chairman Fred Keeley said at the weekend that results reflected "intense competition in the international granite market."

However, the prospects for the industry looked better. SA is a leading producer of black and grey granite, which have proved increasingly popular in the construction industry as well as the traditional tombstone and monument markets.

Keeley said that with the formation of the Southern African Granite Association (Saga) underway, implementation of a revised marketing strategy and better customer service would increase the group's marketing penetration in 1992/1993.

A key factor was the substitution of granite, a hard wearing and pollution-resistant stone, for marble, a soft stone, as well as "equality of pricing." Price battles between SA exporters have exacerbated the effects of world recession and the slump in granite trade after the Gulf war in the past two years.

Keeley said Kelgran was engaged in advanced talks aimed at acquiring large coloured granite rights. Local and foreign exploration was proceeding well.

In 1991, protracted merger talks between SA's leading producers including Kelgran, Kudu, Impala Gran-
Price cutting cracks granite market

By JULIE WALKER

GRANITE leader Keeley suffered from intense international competition in the year to February, resulting in a 75% drop in earn-
ings compared with the last year.

Major bugbear was the competition among gran-
ite processors which led to price reductions for manufactured granite in most countries.

Margins on SA’s raw rock exports were squeezed.

Chairman Fred Keeley says a trade association of SA producers is being formed to promote the country’s granite through good service, standards and quality control.

Keeley itself is revising its marketing strategy—it has the stocks to meet demand. It is also negotiating for a coloured stone deposit and is exploring in SA and abroad.

Mr Keeley believes prospects are good because granite is being substituted for environmentally vulnerable marble. The group is also considering joint ventures in granite manufacturing.

Keeley’s turnover came off 5% to R1.2-billion, but operating income fell by two-thirds to R69-million. Earnings before extraordinary items were R26,02, of which 20c was paid in dividends.

Merger

Electronics company Jasco made three important acquisitions that milled the fine performances from the four good ones.

Management has sold one, amalgamated another into a profit-centre and is taking legal action against the former management of the third on the grounds of a serious breach of its fiduciary duties.

At the interim, Jasco said it had merged Pasco with Procom into Pasecom, which was losing money. Skypeage was making a contribution, but not like Jasco could not be reached on Friday to comment on its legal issue.

In the year to February, Jasco’s turnover added R8-million to R72-million, but operating profit fell by 48% to R3,7-million. Finance charges doubled to R2-mil-

The share price has risen 13c from its low three weeks ago, to 40c. Electrician group Delta has 21% of the equity, which it issued at 20c when it sold Procom to Jasco in 1990.

Of the 23 companies reporting against figures this week, 12 fared better than previously, and three made losses. Thus the Peux and Proporc and Abbey, which suffered from textile troubles and low-cost housing write-offs.

Real

Twins benefited from earlier spadework in the 13 months to April, reporting significant income of R38-million—half as much again as the previously annualized comparison.

Rationalisation of a few losers meant an 11% fall in turnover to R477-million, but turnover showed a real in-

Borrowing costs were reeled in by 70% to R8-

Although turnover was down 8% at R58-million after certain disposals, operating income was up 69% at R43-million—enough to cover the interest bill of R38-

Extraordinary items encompassing losses on the disposal of Gans and Norths as well as revaluation of investments totalled R31-million. Another R15-million goodwill was written off.

Handful

Since the year-end, Tollgate has sold Ramways and is negoti-

Chairman Julian Akin says the board looks forward to a continued recovery of fortunes in leisure, tourism and distribution, which are all trading profitably.

Among smaller companies to do well were Multisource, Crookes, Molysh and Yabeng.

The handful of interim results contained no surprises, Metpol predictably raised its earnings 22%, Usko and Nor-

measured increases and Oakfields turned around after discounting the bloodstock business.

Back on the JSE in Servgro colours

ONLY two years after the delisting of Fedvolks beleggings in a minority buyout by Sankorp, a good whack of the assets are to be re-

Sankorp’s services arm

Fedvolks—a perennial dog if ever there was one—used to be a miscellaneous bag of bits. They included tyres, china, drugs and trac-

Mr Van Der Walt says Servgro is the new image of a services group developed with strategy over 15 years. He says the institutions accept this and say they will place a premium rating on Servgro.

In 1990, Fedvolks’ share

By JULIE WALKER

van der Walt says Fedvolks is history and that Servgro has focus.

It is hard to spot focus in such diverse operations as cinemas, TV rental, car hire, car-part management, catering and actuarial evaluation as well as publishing.

Mr Van Der Walt says Servgro is the new image of a services group developed with strategy over 15 years. He says the institutions accept this and say they will place a premium rating on Servgro.

In 1990, Fedvolks’ share
Pilkington planning a move to the Reef

PILKINGTON Shatterprufe Safety Glass is considering moving its architectural division to Springs from Port Elizabeth as part of a long-term strategy to boost competitiveness.

Glass SA, holding company of the Pilkington operations, had found it necessary to consider relocation because of the increasingly competitive building glass market in SA.

Glass SA CEO Rod Fehrman said 65% of its market was in the PWV region and with transport subsidies being lifted in May next year it made economic sense to consolidate all its building glass manufacturing and processing operations on the Reef.

The proposed move was planned for late November next year and would involve 275 employees at an estimated cost of R6m.

He said the automotive glass processing plants would remain in Port Elizabeth.
Asset management fuels Boumat recovery

BUILDING material supplier Boumat continued the recovery recorded at its halfway stage in the second, half of the year with earnings in the year to March 1992 reaching 43c a share from 7c the previous year.

Chairman Sidney Borsook said the vastly improved results flowed from the closure of several unprofitable outlets in 1991, improved results from underperforming operations and businesses which consistently produced good results.

Reflecting the longest recession since the Second World War, sales improved only 6.6% to R1.2bn (R1.1bn), said Borsook. However, operating profits improved 35.5% to R35.5m (R25m).

Asset management affected the balance sheet and the ratio of debt to fixed capital fell to 14 from 45.5 — causing interest paid to fall to R17.4m (R22.2m). This helped boost pre-tax profits to R21.9 (R15.8m) tax cause to R10.6m (R3.5m). A final dividend of 6c was declared, bringing the annual total to 10c a share.

The 48c dividend paid in the 1991 financial year to shareholders who did not take up the bonus share offer was not comparable as Boumat amended its dividend policy last year to 25% of equity earnings.

Borsook said the deteriorating economy did not affect all sectors of the building industry at the same time.

Residential construction declined, but was expected to show signs of recovery during the first quarter of 1993. Non-residential construction was not expected to recover during the next two years.

However, alterations, additions and renovations provided compensation for the reduced demand in these sectors.

Reflecting greater fund allocations from government for the provision of serviced sites, demand for products for water reticulation and sewage systems showed signs of recovery, he said.

Borsook did not foresee a significant improvement in the economy or in the building and construction sector during the 1993 financial year. However, he did predict further asset management improvements and improved profitability.
Sacob urges ANC to join in talks with business sector

The open-ended nature of several of the ANC’s economic proposals is unlikely to inspire local or foreign investor confidence, according to the South African Chamber of Business. Reacting to the economic policy adopted over the weekend at the ANC policy conference, Sacob said yesterday there were two disturbing areas with regard to the liberation movement’s economic policies.

These were the continued emphasis on nationalisation as an option, and certain curbs on foreign investors. “Such policies would serve to weaken instead of strengthening foreign investor interest in a situation where South Africa is today starved of foreign capital and imported technology,” Sacob said.

The business group also expressed concern on the issue of taxation, saying clarity and certainty needed to be reached as soon as possible on a future fiscal policy for the country.

Sacob urged the ANC to enter into discussions with the business sector to move towards agreement on future economic and social policies — Sapa

Remarkable turnaround at Boumat

Finance Staff

Boumat’s earnings per share recovered remarkably in the year to March, rising from 7c to 43c. But the total dividend has been cut from 48c to 10c. Previously, a proportion of shareholders’ funds was made available for dividends, regardless of earnings.

Boumat has, however, now reverted to the normal dividend cover formula.

Chairman Sidney Borsook says sales grew 6.6 percent to R1.16 billion, but that operating profit improved 35.6 percent to R39.5 million.

He says the construction industry had been hit harder than most by the “prolonged and deteriorating economic position.”

He expects residential construction to improve, though not commercial and industrial building.

Mr Borsook expects further improvement in asset management and profitability, although he feels there will be little improvement in the trading environment.

RCI to run holiday points system

Property Report

There is a growing trend among timeshare buyers to seek flexibility in their choice of holiday time and destination.

This has led to companies selling points for exchange rather than ownership of weeks at a particular resort.

In line with this, Resort Condominiums International (RCI), the largest holiday exchange organisation, is to administer the new Multi Resort Ownership points system.

RCI managing director Steve Greissel said: “Under the MRO system, points bought may be used as ‘currency’ each year to take one or more weeks, weekends or midweek breaks at a variety of resorts within the system. He is confident that the RCI link will mean MRO avoids the problems previously encountered by buyers in some similar schemes, such as an inability to meet demand due to too few weeks being held by the management company in relation to the number of points being sold.”
Will boost performance

Acquisition of CME

The company, which has been in business for over 50 years, recently acquired a new facility that will allow for increased production capacity. The acquisition includes state-of-the-art equipment and a workforce trained in the latest manufacturing techniques.

Fiscal overview in face of adversity

The company has been facing economic challenges in recent months, but the acquisition of the facility is expected to help stabilize operations and increase profitability. The management team is committed to finding creative solutions to overcome these challenges.

New development

Chairman does not pocket bonus

The chairman of the company has been vocal in his opposition to the idea of pocketing bonuses, stating that the company’s success is due to the hard work of all employees. He has pledged to use his bonus to fund new initiatives that will benefit the company and its employees.

Two sides to the debate

The recent business day has been highlighted by a debate over the future of the company. Some employees are concerned about the impact of the new facility on their jobs, while others see it as an opportunity for growth. The chairman has emphasized the need for open communication and collaboration to ensure a smooth transition.

Survey

A recent survey conducted among employees has shown a mixed response to the acquisition. While some are excited about the potential for growth, others are worried about the impact on their job security. The company officials are planning to hold more meetings to address these concerns and hear feedback from all employees.
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Technikon focuses on design and business skills

try. Students spend about half their study period in hands-on situations in factories and the other half in full-time study.
Both are diploma courses, but the course run by the Witwatersrand Technikon has a different emphasis. While it equips its students with the basics they would need if they went to one of the big manufacturers, its real purpose is to equip them with the skills and knowledge needed to open a small business.
It emphasizes design and business skills.
And, says Eugene Hon, chairman of the ceramic department, "we tend to attract the more mature students, because hopefully the small studios or businesses they establish when they leave the Technikon will develop into fully fledged factories."
He says "Ceramic Designs, which is now a fine ceramics factory, had its origins in a garage."
He believes that with sanctions ending, several German and Italian pottery factories will start investing in SA.
And, with the number of overseas tourists increasing, he also sees a niche market developing for mass-produced, ethically designed ceramics.
To capitalise on this market, "students will have to be exposed to a programme of design projects that deal with areas that will include designing for mass manufacture, personal investigation of imagery in clay, and computer-aided design."

Top team at CSIR has its foundations built on solid rock

ramics), process development, prototype component manufacture and materials testing and characterisation.
The CSIR's advanced ceramics programme manager Nigel Stone says that with these skills it can play a constructive role in the provision of turnkey solutions, even to problems where ceramics is a small but vital element of a larger system.
An example is the CSIR's piezoelectric plant established 10 years ago. It is the only facility in SA supplying these ceramics, used to convert electrical current into mechanical energy, and vice versa.
Because the country's strategic needs have diminished, the facility is now being used to service local industry in the manufacture of, for example, ultrasone baths, level sensing transducers, accelerometers and vibration monitors.
This work is undertaken by the institute's advanced ceramics programme, staffed by 15 scientists and technologists located in the division of Materials Science and Technology.
The area covered is vast. Stone says that in the domain of structural ceramics the demand is for improved mechanical properties, such as strength, fracture toughness, hardness, temperature and wear resistance.
These ceramics are used in applications such as wear-resistant tiles, mechanical seals, cutting tools, ware guides, metal-forming dies and hottechology.
Its work with structural ceramics places it in an ideal position to give advice on the most suitable ceramic materials for specific applications.

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They had the benefit of narrow and deep assortments — which yielded lower purchase costs, shorter lead times, higher sales densities and lower markdowns.

These factors gave management confidence and confirmed that Specialty had strategically positioned itself in "the fastest growing and most profitable sector of retailing internationally," the directors said.

They said the group had an advantage as it could respond quickly to changes in consumer lifestyles.

Specialty, which owns Milady's, The Hub, Mr Price and Footgear, had an 11% earnings rise to R15,156 (75c) a share in the asset management. They said it was comfortable with its 56% gearing as the proportion of cash sales continued to rise and should exceed 20% in the coming year.

Margins were also expected to increase.

Milady's had performed exceptionally well after an average first half.

The Hub's sales were lower than budget, but it showed a 17% increase in its profit contribution.

Seven new Mr Price cash stores had opened, but the chain's rapid growth had stretched management and it had shown a profit decline.

The 11-store cash chain Footgear had made "a meaningful increase in its contribution to group profits".

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**SOUTH AFRICAN NON-LISTED COMPANY AWARD**

Business Day, Arthur Andersen & Co and Wits Business School will again make an award to the best non-listed company of the year. The 1992 award will be given to the entrant which, in the opinion of the judges, has best demonstrated creativity and entrepreneurial skills in meeting the challenges facing business.

**Eligibility Criteria**

No public offering of its shares may have been made to date.

1. The current owners must have owned the business for at least three years.

2. At the date of last audited financial statements, the business must have had at least one of the following characteristics:
   - Annual turnover of at least R10 million
   - Pre-tax annual profits of at least R400,000
   - Gross assets of at least R2 million

3. Subsidiaries of listed companies qualify providing they can satisfy the judges of independent management responsibility.

4. Companies having material investments in listed companies are prohibited from entering.

5. Entrants will be asked to submit a well motivated document outlining the organisation's strategic intent, area of achievement within economic barriers and desired mission.

To obtain an entry form for the 1992 Non-Listed Company Award, phone Andrea Spilhaus at (011) 880-7000 or supply the details below and post them to South African Non-Listed Company Award, PO Box 41479, Craghull, 2024.

**NAME OF COMPANY**

**POSTAL ADDRESS**

**CONTACT PERSON**

**DESIGNATION**

**TL NO**

**FAX NO**

Closing date for entries: August 7, 1992, or entries postmarked accordingly.

Confidentiality will be respected throughout the judging process by use of a code known only to selected personnel from Wits Business School. The judges' decision as to eligibility and judging will be final. No correspondence will be entered into.

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Important
Improved Boumat helps boost Saficon earnings

By Stephen Cranston

Thanks to an improved performance by 37 percent-held Boumat, Saficon increased its earnings per share from 48c to 53c in the year to March.

The dividend, however, has been reduced from 14c to 13c, in line with the group’s increasingly conservative dividend policy.

Operating profit from the managed businesses – mainly motor dealerships – fell from R55.3 million to R44.8 million.

Saficon chairman Sidney Borsook attributes the reduction in operating income to the group’s inability to sell as many new cars as had been forecast and to a reduction in gross profit margins because dealers have been fighting for market share.

The operating margin fell from 3.8 percent in the previous year to 2.9 percent in the year to March.

Mr Borsook said the introduction of a new Audi range had helped improve sales, but “did not create the kind of excitement it would have done in boom times”.

Saficon’s main operating companies are the Volkswagen dealer Lindsay Saker and the Mercedes/Honda dealer Cargo Motors.

Mr Borsook says there has been a drop in Mercedes Benz sales, mainly because fleet-owners were buying down in the recession.

He added that the legendary waiting list for new Mercedes cars dried up more than a year ago and that the supply of vehicles has been more than enough to meet demand, thanks to a relatively trouble-free year on the labour front in the motor industry.

The building supplies company Boumat’s contribution increased from R700 000 to R4.3 million, which helped boost attributable earnings by 17.4 percent.

Mr Borsook attributes Boumat’s turnaround to the closure of several unprofitable outlets and improved results from poor performers in prior years.

Earnings from pyramid Saker’s Finance and Investment, which holds 51.4 percent of Saficon’s equity, increased from 77c to 87c. The dividend was cut from 22c to 20c.
Impala, Kudu to merge in R13 m granite deal

GRANITE producers Impala and Kudu are to merge in a R13m deal, consolidating the bulk of the SA dimension stone industry in two groups in which Anglo American and Gencor have key interests.

Kudu is to merge with Impala, an unlisted company owned by German group Deutsche Steinindustrie (Destag). In which Anglo has a significant minority interest.

The SA sector is now dominated by market leader Keeley, in which Gemmin has a 27,6% stake, and Kudu. They are followed by Martin Corporation and a number of smaller producers, including Gemmin-owned Transkei Pioneer Mining.

Impala will receive a 50% stake in Kudu worth R12,7m. Kudu will issue 19,5-million new shares to Impala at 65c a share.

Kudu MD Piet du Tont said last night that the company would now have at least a 40% share of SA granite production. But the real benefits would arise from the local industry's further stabilisation.

He said the lengthy Kudu/Impala negotiations were part and parcel of wider discussions about restructuring the SA industry, wracked for some time by fierce competition and price-cutting, which exacerbated the effects of the recent slump in the world granite trade. Earlier this year, SA producers set up the Southern African Granite Association (Saga) to co-ordinate their marketing efforts and prices.

Du Tont said Kudu now had the advantage of Destag's global distribution network. The company was an established producer which had weathered the poor conditions in the sector better than local companies because of its trading network.

Destag had quarried granite in SA since 1965 and had good Belfast Black, Rustenburg Grey and coloured stone operations, and a beneficiation plant. It had its own reserves, but Kudu would now have access to Anglo's dimension stone prospects.

Du Tont said the restructuring of the merged companies would bring additional benefits. Forecasts on the immediate effect the merger would have on Kudu's net asset value, earnings and dividends were difficult because of the contrasting accounting policies in SA and Germany.

Taking into account Impala's valuation of its granite reserves at cost — in some cases at 1965 prices — and the non-capitalisation of its development costs, the net asset value a share would be 12c after the deal, against 17c before.

Ignoring "significant rationalisation benefits of the merger", earnings would fall from 15,5c to 20,6c a share, but would improve in the future, Du Tont said.
Merger will bring granite producers 50 pc of market

By Sven Lanske

Granite producers Impala and Kudu have merged in a R12.7 million deal which will boost their combined market share to just under 50 percent of the local granite market.

The two groups announced today that Impala would receive a 50 percent interest in Kudu through the issue of 19.6 million new Kudu shares at 65c each.

Impala is owned by German mining group Deutsche Steinindustrie (Destag), in which Anglo American holds a substantial minority stake.

As a result of the costs of the deal Kudu’s earnings a share would have fallen from 20.8c to 15.8c and dividends dropped from 6.9c to 5.3c had the merger been in effect last year.

Net asset value would have fallen from 174.9c to 123.9c a share, as Impala’s granite reserves are stated at cost.

However, the directors said significant rationalisation benefits would result from the merger. The new group would benefit from Destag’s global distribution network and access to Anglo’s dimension stone prospects.
A narrower trading margin reflects the woes of the motor industry. A 19% dip in trading profit to R44.8m despite turnover growth meant a margin of only 2.9% (1991: 3.7%) Close attention to asset management, resulting in a sharply lower interest charge, somewhat ameliorated the decrease at pre-tax level.

Chairman Sidney Borsook believes managing assets is critical in the distribution business, but adds it takes longer to adjust stocks in the motor trade. Though year-end stocks of R181m fell R13m, average stocks were probably down even more, about R20m, given the R4.3m cut in interest charges. This is impressive.

Results were also helped by a tax rate down to 47% from 52%, thanks to tax losses. Despite lower interest and tax charges, income fell about 9% before equity-accounting the Boumat associate. Thanks to the sharp rise in profits at the building materials supplier, Saficon's share of Boumat's earnings surged to R4.3m from R740,000, resulting in a moderate rise in group earnings.

Borsook says Boumat felt the first benefits from rationalisation of outlets during financial 1991. Close attention to asset management here too brought lower interest charges, down R5.8m to R17.4m, with year-end stocks down to R181m (R201m).

Despite the low base (EPS dropped from 82c in 1990 to 1991's 7c), Boumat's results are commendable in the face of continuous setbacks in residential construction.

With Saficon's interest in Boumat up to 51% from April 1, future results will be consolidated. Borsook justifies increasing the stake with his bullishness on prospects, noting housing is in a "massive deficit." As Boumat is heavily into distributing plumbing and bathroom materials, it gains meat from residential and hotel construction, where bathroom ratios are high.

CSS statistics indicate residential plans passed and completed are picking up. Though this probably relates to middle-class residences, which are important for Boumat, real potential lies in the low-cost arena.

Analysts reckon new (he takes over in July) MD Adam Klein's priority must be to reduce cyclicalities. As a large part of Boumat's costs are fixed, changes in activity have significant effects on the bottom line. Borsook agrees both Saficon and Boumat are in cyclical industries. He adds the only way to flatten earnings is diversification, yet diversifying for this sake is imprudent.

He reckons the range of returns over cycles is more relevant. He believes the motor and building cycles are not synchronous, noting the motor industry leads cycles whereas building lags, saying the current overlap relates to the length of the downturn. Borsook hopes motor operations will improve this year, thanks to the new Audi and Honda models. But the latest car sales hardly justify optimism and in the short run, Boumat may be the better performing share.
Corobrik closes three plants

By DON ROBERTSON

THE building slump, the worst since 1935, has forced South Africa's largest brickmaker, Corobrik, to close three of its 19 factories in the Transvaal. The shut-down plants are at Nigel, Springs and Crown Mines.

Leon de Brum, executive director of the Clay Brick Association, says "brick-making is an industry under threat."

Corobrik plants in Kimberley and Odendaalsrus were closed last year because of a decline in the gold-mining industry and high interest rates. Previously, the company had 26 plants in operation. It is now working at about 60% of capacity.

Since 1983, when it controlled about 75% of the market, its employee numbers have fallen from about 3170 to 6800. It has a market share of about 50%.

In the past five years, 50 brick factories have been forced to close in spite of efforts to keep stocks as low as possible. Stocks are now about 400 million bricks — or six to seven weeks' supply.

In the building boom of 1987, stocks were down to 200 million, sufficient to build about 1600 average houses.

Violence

Corobrik has been forced to reduce its output since 1986, political instability and violence aggravating the position in recent months.

Transvaal managing director Brian Wayberzeka says there is unlikely to be any improvement in the economy until next year.

"These facts have compelled Corobrik to make some difficult business decisions. Corobrik has had to adjust production to reduced off-take. The mothballed factories can be reopened relatively quickly."

The closures have resulted in the retrenchment of 216 employees, many of whom could be hired when the economy recovers.

Mr De Brum says hopes that market conditions would improve this year have been dashed by the virtual drying up of finance for low-income housing.
19 April 1992

Continuous basis with Anglo American "Both groups have been examining methods of stabilizing the market," he says "We've now reached an understanding out of the sheer need to re-establish the world market's perception of SA as a major supplier." Anglo and Gemmim have substantial investments in the granite business and wish to see the local industry trading more sensibly than in the last two years.

Prospects for the industry now look better than for some time. The total world raw granite trade is estimated at around 4.9 Mt, of which SA supplied 650 000 t last year, making it the second largest supplier after India. Other major competitors are China, Spain and Brazil. Total value of the international trade is about US$13bn — about 40% the size of the world gold business, an indication of the potential importance of the industry to SA.

Meanwhile, SA producers are trading on the JSE at levels either at or close to their 12-month lows. With Saga in place as a forum, coupled with a general acceptance by the producers that there's little point in continuing the suicidal pricing policies of the last two years, it is reasonable to assume this will work its way through to bottom-line profits soon. Investors should consider whether this presents a good opportunity.

Dale said that during 1990 the emergence of Kudu as a vigorous and thrusting producer of the high-volume Rustenburg grey granites was seen by some competitors as a serious threat. The result was a price war of "savage proportions" which seriously injured the whole industry.

Gemmim senior manager Tom Dale said the industry's market value two years ago was about R1bn, a direct result of the intensive price struggle. It is that current market capitalisation for the industry has fallen by a massive R800m — a decline which illustrates vividly the extent of the damage.

Deutsche Steinindustrie (Destag), in which Anglo American holds a 35% stake, is the sole owner of Impala, which has been quarrying granite in SA since 1965. Kudu is effectively controlled by MD Peet du Toit. Now it has been agreed that Kudu and Impala will merge through an arrangement in terms of which Kudu acquires Impala and issues new shares to Destag, which will give Destag a 50% holding in the expanded Kudu.

The effect of the deal in the short term will be to reduce Kudu's distributable EPS, but the company says it believes the merger will have a positive effect on future results.

Dale said Gemmim welcomes the emergence of a major producer and confirms that discussions have been in progress on a con-
Soweto plans material depot near camps

The depot would be the first of its kind in the province and would be situated near the camps. It would accommodate the large number of people living in the area, providing them with necessary materials and supplies. The depot is expected to be a central hub for community activities and support services.

The depot would include a variety of facilities such as workshops, storage areas, and provision for emergency supplies. It is planned to be a self-sufficient facility, capable of generating its own power and providing water and sanitation services.

The construction of the depot is a significant step towards improving the quality of life for the residents of the area. It is hoped that the depot will play a crucial role in enhancing the community’s resilience and ability to cope with future challenges.

By Josiah Abrahams
Bricks for 20 000 homes in stock

There were now sufficient bricks stockpiled to build 20 000 average-sized homes, Claybrick Association spokesman Nick Vujovic said.

And with no end to the building slump in sight, the 400-million brick stockpile — double the stock held during the 1985 building boom — was likely to continue growing.

Vujovic said the industry was operating at 55% to 60% of its capacity, mainly because of the closure of various brick making factories.

The most recent example was Corobrik, which mothballed three of its 18 factories.

About 50 brick factories had been closed over the past five years due to

Low-cost housing building activity would only increase once the political situation improved, he said, adding that there was a change of investment emphasis in this sector from brick and mortar homes to serviced sites using other materials.

Vujovic said that on a regional basis, demand for bricks in the western Transvaal was expected to slacken with the winding up of the Lost City project at Sun City.

Demand in the Free State was minimal, and capacity had been cut as far as possible.

European-ruled FWV Margins were tight and consumers could benefit by negotiating prices.

In the western Cape, demand was reasonably buoyant.

However, in the northern Transvaal, where approximately 40% of the national housing shortage existed, homeland government agencies were showing much interest in purchasing bricks, Vujovic said.
PGSI still paying heavily for US venture

By Stephen Cranston

Despite a 24.5 percent dive in earnings per share to 306.6c, Plate Glass and Shatterprufe Industries (PGSI) will continue to dominate the Southern African board and glass industries, says chairman Remme Lubner. A final dividend of 85c (157c) has been declared to make a total of 150c (222c) for the year to March.

Lower interest and tax bills were offset by an increase in preference dividends. Bottom-line profits were R50.8 million.

Mr Lubner says PGSI will continue to defend its position against imported glass and strive to be globally competitive. "STAR 23/6/92."

PGSI owns more than 600 automotive repair glass outlets, similar to the Cracksquad chain in SA.

The Zimbabwean subsidiary, PG Industries, and the UK and Benelux operations all had good results, but the US auto-glass operations reported increased losses in the second half.

Turnover, however, dropped 14 percent to just under R2 billion, mainly because of discontinued operations, such as the international operations of PG Wood.

SA Breweries has an effective 67 percent interest in PGSI.
**PGSI hit by SA, US slump**

By AUDREY D'ANGELO
Business Editor

A COMBINATION of the recession in SA and the US, and heavy costs in developing automotive glass replacement operations in Europe, hit Plate Glass and Shatterproof Industries (PGSI) in the year to March.

Earnings fell by 25% to 308.3c (408.9c) a share. The final dividend is 85c (187c) to make a total pay-out for the year of 150.5c (222c).

Turnover was down by 14% to R1.9bn (R2.3bn) and operating income by 19% to R242.8m (R396.6m). But the interest bill was also down, by 7%, to R26.3m (R28.2m). Net income after tax was R113.9m (R194.3m).

The directors explain that the drop in earnings was due mainly to "continued weakness in PGSI's markets in SA and increased losses in the US during the second half".

But they expect better results in the current year as a marked reduction in after-tax losses is expected from Belron International.

Belron International comprises all the group's offshore interests. Dennis Millard, director of corporate finance and strategy, explained that the established operation in the UK and the operation in the Benelux countries had done very well. But the cost of developing the business in the rest of Continental Europe had been high.

Good profits had also been made in Central Africa. But results in the US had been disappointing.

Group chairman Ronnie Lubner said efforts by management to reduce costs in the US and increase marketing initiatives had been "countered by a 4% market decline — the first in the decade — and falling prices in the market".

He said the group would concentrate on continued leadership of the Southern Africa board and glass industries and on aggressive development of the offshore automotive replacement glass installation (ARG) business.

Pointing out that PGSI now held 97% of Glass SA and 72% of Pilkington, he said "We will continue to defend our position against imported glass and strive to be competitive globally. I am confident that our investment in more than 600 ARG outlets in 11 countries will more than justify the confidence of our shareholders."

**Recovery 'held back' Syfrets to**
PGSI feels losses at home and abroad

PLATE Glass and Shutterprufe Industries (PGSI) suffered a 36% drop in attributable income to R50.8m (R67.4m) in the year to end-March on continued weakness in SA markets and increased losses in the US. The group is now a 67%-owned SA Brewery subsidiary following SAB's acquisition of Placor and other transactions. Directors said results, which had been expected at the interim stage, reflected the continued weakening of the automotive, building and furniture markets.

PGSI has restructured significantly in the past financial year. It acquired most of the remaining interest in Glass SA from

Pilgrims for R52.5m

It made a 50% investment in Spudor from Alcat to raise its effective interest in PG Buon to 71.7%, and had a rights issue of R8.5m to increase the equity base of off-shore company Belron and to refinance borrowings.

Results at year-end show that turnover was reduced by 14% to R1,98bn from R2,38bn, mainly due to the inclusion of the turnover of discontinued operations in the previous year.

Difficult trading conditions and development costs resulted in a deterioration in margins and a 19% drop in operating profit to R242.8m from R292.8m.

Tax and interest reductions were offset by an increase in preference dividends and unchanged outside shareholders' interest.

The net result was a 24.5% drop in earnings to 30.86c a share from 40.95c. Chairman Ronnie Lubner said effective asset management and cost controls had held the reduction at creditable levels.

A final dividend of 35c (15c) a share brought the year's total to 150c compared with 222c in the previous year. Dividend cover was increased.

Directors said Glass SA and PG Buon had done well to limit the drop in earnings. However, losses at Belron had increased due to development costs in Europe and trading losses in Australia and the US.

Lubner said results in the US operations were disappointing as the market fell 4%. Increased earnings were reported from the UK and Benelux countries and PG Industries Zimbabwe reported real growth despite the drought.

A pro forma balance sheet shows gearing at 40% compared with 180% at year-end.

Although difficult local trading conditions would persist, a marked reduction in after-tax losses in Belron International would enable the group to show growth in earnings a share in the coming year, Lubner said.
Brakpan factory startup costs weigh on Gypsum

(13) EDWARD WEST

STARTUP costs at Gypsum Industries' Brakpan factory and interest paid saw earnings fall 8.5% to 120.5c (131.6c) a share in the nine months to March 1991 despite a 9.5% increase in turnover.

A final dividend of 25c a share was declared which more than doubled total dividends for the period to 45c (20c) a share. The financial year changed to end-March 1992 and the drop in earnings was forecast at interim stage.

The group mines and sells gypsum and manufactures Rhino Board and cornice for domestic and commercial ceilings, and walls and manufactured plaster for the building and industrial markets.

Turnover was not disclosed, but operating profit rose 22.8% to R24.8m (R20.2m). Interest received fell to R9.5m (R9.7m) and interest paid rose to R6.4m (R4.5m).

As a result, pre-tax profits fell 6.7% to R15.9m (R20.7m). Tax fell marginally to R3.5m (R3.5m). Attributable income improved 7.9% to R9.9m (R9.1m).

Directors reported the market was down in the nine months compared with the same period the previous year. The commercial sector was off its peak. Activity in the residential sector continued at a low level with competition for ceilings from substitute materials.

Exports were hit by depressed building markets in many countries, which, together with sanctions, closed the door on export opportunities.

Recent capital expenditure would ensure both Gypsum Industries and its 67% held subsidiary Donn Products had production facilities and capacity to meet all foreseen market requirements, the directors reported.
BUSINESS BAROMETER

Keys meets food mandarins

IN the wake of last week’s Board of
Tariffs and Trade (BTT) report into food
price inflation, Finance Minister Derek
Keys met food manufacturers, retailers
and the Vat Co-ordinating Committee.

The retailers spoke of a 10-point plan
to bring down food prices. Paramount in
this plan would be re-adjustment to the
import tariffs on food, fertilisers and
farming equipment.

In line with the BTT recommenda-
tions, the abolition of food boards
would also be looked at.

SA seeks R700m

FINANCE director general Gerhard
Croeser told an International financiers
conference in London that South Africa
would shortly be borrowing about R700-
million on international markets.

The tapping of new foreign markets,
Croeser said, would help boost
investment in socio-economic develop-
ment in South Africa via institutions such
as the Independent Development Trust
and Development Bank of Southern
Africa.

Both these institutions have recently
tried to raise loans on foreign markets—
much to the annoyance of the African
National Congress, which threatened not
to repay the loans once in power.

Getting foreign loans would also be
important to protect the country’s foreign
reserves, Croeser stressed.

Plate Glass cracks

SOUTH African Breweries’ newest
acquisition, Plate Glass Shatterproof
Industries, fell victim to the worldwide
recession with attributable earnings
falling by R50-million in the past year.

The group, which has, since early this
year, been 67 percent owned by SAB,
suffered losses both in South Africa and
in the United States as a result of poor
conditions in the automotive, building
and furniture industries, which the
company services.

Local content scam probed

A R600-million fraud which used the
government’s complex Phase 6 local
content scheme is being investigated by
the Office for Serious Economic Offen-
ces. At the centre of the investigation is
Randburg exporter CET Trading,
 provisionally wound up in March. The
scam was to get export incentive rebates
from the Department of Trade and
Industry by submitting inflated invoices
on goods, supposedly locally produced
motor vehicle components, exported
from South Africa.
Checkers
Rep-up for Premier

By Julie Walker

Last laugh

Kudu Impala mating

Happy hyena of the

PROSEXION

1993

SUNDAY TIMES BUSINESS, JUNE 26, 1993
Brick Homes For A Property

City Press
Strike ends at cement plants

Settlement has been reached in the protracted strike at Blue Circle Cement, and 400 workers resumed work late last week at the Hennenman, Lichtenburg and Industria plants.

The Construction and Allied Workers' Union said a wage increase of R1 an hour or 16 percent (whichever was the greater) was negotiated, and December 26 would be a recognised holiday.
Abacus restructures for recovery

ABACUS Industrial Holdings made substantial losses in the 13 months to March, but was expected to begin recovering in the current year as a result of restructuring, chairman Trevor Coulson said.

Abacus, controlled by IGI Insurance, reported a R22.5m net loss before extraordinary items compared with a R5.8m net loss the previous year.

The loss per ordinary share, based on a reduced number of shares in issue, was 32.6c (4.1c) Dividends were not declared.

Turnover dropped to R190.7m (R204.8m), but a R18m operating loss was reported compared with R208 000 operating profit the previous year.

Coulson said massive rationalisation involving considerable non-recurring costs was undertaken to contain operations and return to profitability.

These included the appointment of new CEOs for the audio and doors divisions, closing non-profitable operations, disposing of non-contributing assets and a substantial reduction in staff and stock.

Door manufacturing operations were consolidated into one factory. Surplus industrial properties and two small businesses were sold.

"We've arrested the operating losses and, depending on whether or not the economy improves, we are strongly poised for recovery," Coulson said.
Reeling Corobrik faces further costs.

[Handwritten note:]

1. Have not abandoned hope that a merger with
   a company in the building industry will
   change the circumstances.

2. The building industry is subject to high
   demand.
Boumat improving on operating efficiency

By Stephen Cranston

Boumat has been severely affected by the worst recession to have hit the building and construction industry in recent times, says retiring CEO David Gevisser.

But Mr Gevisser says that operating efficiencies have been significantly improved.

In the annual report for the year to March, Mr Gevisser says the plumbware division performed well as there was close attention to stocks and debts.

The builders market operations in Pietermaritzburg and Cape Town, which mainly supply timber for the roofs of houses, also did well.

The Incedon engineering division improved operating profit. Mr Gevisser says the expected increase in the development of site and service housing areas augurs well for the division.

Seffer, the dominant wholesale supplier in plumbing, sanitaryware and associated products, increased market share as a result of its acquisition of Merchants Exchange and Unipar Trading.

The tileware division benefited from the swing to ceramic floor tiles from other forms of floor covering.

On the manufacturing side, Kwiket maintained its dominant position in the water-heater market and Trident bathroomware improved market position and profits.

City Metal Products improved its profitability through improved production techniques and shopfloor economies.
RhoEx earns 89c a share after expenditure write-off

RHOBUS Exploration (RhoEx) reported earnings of 89c a share after writing off expenditure of R1.5m incurred in investigating and developing the company's granite project in Parys.

RhoEx changed its financial year end last year. No comparative figures have been reported for the period.

A statement yesterday said that due to poor market conditions in the granite industry, it was unlikely that the granite project would generate sufficient cash flow to service the historic debt. The company had withdrawn from the project.

Net income before finance costs of R1.4m and amounted to R1.7m, resulting in an attributable income of R300,000.

However, the directors added that encouraging progress had been made in developing the two Mineral Sands projects in northern Natal and the Transkei.

The construction and commissioning of the washing plant at Tsaboachspruit Colliery was completed in May and the mine was in production.

Planning for the future of Rhombus Vanadium Holdings (Rhovan), after the cancellation of its supply contract with Usko in September last year, was progressing well. Negotiations with potential partners were continuing.

Meanwhile, shareholders of RhoEx were cautioned to exercise care when dealing in the company's shares.

Rhombus Vanadium Holdings did not present an income statement for the six months to March.

Its directors said operations had remained under care and maintenance for the period under review, following the cancellation of the Usko contract.

All net expenditure during the period had been capitalised.

This policy would continue until the mine started production again.

Feasibility tests conducted in the mine had been promising, the directors said.
New body ‘enables granite sector to lobby on exports’

THE formation of the Southern African Granite Association (Saga) would enable the sector to lobby government on export incentives “with a single voice”, industry spokesmen said yesterday.

The association consists of six producers, Koelely, Kudu, Impala, Marlin, Minorco’s Virgma Granite, and Group S and Everite’s National Stone Quarries.

Kudu MD Peet du Toit said Saga had been received with enthusiasm by the producers.

Keeley administrative director Rob Brown said what Saga had achieved to date was up to expectations.

He said the association would be able to bring about benefits for the industry especially in the area of local and international transport of granite to get favourable rates.

Marlin MD Graham Tregus said the most notable benefit was the freer exchange of information and greater cooperation among the members. Producers were now operating on an industry level instead of independently. “This is good as there was a definite need to stabilise the industry,” he said.

Saga executive director Rhynne Greff said the association’s objective was to promote and increase the use of SA granite worldwide. SA had about 14% of the world granite trade.

At present SA exports to Italy, Germany, France, Belgium, Spain and the Far East and the association was seeking new markets.

Greff said Saga intended introducing quality control in the industry, laying down standards of service and standardising sizes and specifications to achieve uniformity throughout the industry for export purposes.

He said benefits to the producers would come from stabilised markets and transport costs. Spoor and Saga had already had “positive contacts”, he said.

Greff said the association was also having preliminary talks with various other granite producers and said it was not an “exclusive club” as producers in other southern African countries were welcome to join.
PGSI intends expanding loss-making US subsidiary

By Stephen Cranston
Plate Glass & Shatterproof Industries (PGSI) will retain and expand its US subsidiary Windshields America, financial director Mike Read said yesterday.

"We have established ourselves as the fourth-largest windscreen repair chain in America," he said. "It was always unlikely that we would sell it and we feel it is better managed than ever."

Mr Read said PGSI was clearly disappointed at the performance of the US business. Windshields America lost $9.3 million in the year to March after losing $8.1 million in the previous year.

Windshields America president Paul Markides said the replacement windscreen market in the US was down by four percent, the first fall in the market for a decade.

Mr Markides said that US short-term insurers had pushed prices down by 8.5 percent over the financial year. The firm was forced to expand into the lower-margin car rental and commercial vehicle sectors.

PGSI's Australian subsidiary O'Brien Glass closed 33 branches and retrenched 380 people.

Recession
But O'Brien Glass MD Randal Godden said the recession had worsened throughout the year, with unemployment rising to 10.5 percent, GDP falling two percent and steep declines in new buildings (16 percent down) and new vehicle registrations (17 percent down).

O'Brien Glass made an operating loss of A$700,000 (A$2.8 million profit in the previous year).

PGSI's more mature British subsidiary, however, increased its operating profit by 16 percent to A$8.9 million and won the Fleet News Award for Excellence for the third year running.

CE John Mason said Autoglass UK carried out one million jobs for motorists during the year for the first time.

Mr Mason said the Belgium and Luxembourg division increased operating profits by 33 percent, and most insurers now support the Carglass chain.

The French subsidiary, made up of the windscreen shops acquired in the 1991 financial year from St Gobain, was still being bedded down.

"We continued to re-model the business and change the management style and service ethic to one more in line with the rest of the European organisation," he said.

Mr Mason said the French market was attractive to the group as it was the largest in Europe after Germany.

Carglass France continued to make losses, but sales grew by a quarter.

Operating losses in Germany were halved. The group is committed to the German market.

Germany has a car parc eight times larger than that of South Africa.
profit rose 23%, EPS dropped thanks to interest charges. Net interest costs soared to R3.5m, whereas R450,000 interest was received in the previous year.

On the other hand, at the time the project was initiated most commentators believed government's programme to implement affordable housing programmes would have commenced by now. The capex programme does place the group in a strong position when the upturn commences.

Volume activity for the nine-month period, shortened to coincide with that of holding company BPB Industries Plc, was probably little changed. Turnover increased 9.5%, even though selling prices "were kept substantially below the CPI increase," according to MD Grant Snowden.

Reviewing the past nine-month period, Fairbairn says the market was down, compared with the equivalent period in the previous year. He adds the commercial sector, though relatively active, was off its peak while the residential market continued at a low level, facing competition for ceilings from substitute materials. Exports were hit by the depressed building market in many countries which, with continuing sanctions, closed the door on export opportunities.

Though EPS declined, the 45c dividend for the nine months was unchanged, measured against 60c for 12 months to June.

The cut in net current assets, to R23m at end-March from end-June's R36.5m, helped long-term borrowings drop by R25.4m, to R15.6m. As a result interest charges should decline significantly this year.

Despite this, Fairbairn believes maintaining profit levels this year will be "a major achievement." He adds the commercial market is likely to decline further, with the housing and export markets showing only mild growth.

The 25c share price gives the group a pe of 6 and 7.4% dividend yield, with little apparent reason for any rating.

"William Goldblum"

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**GYPSUM FM 31/7/92**

**Costs of capex (193)**

*Market concern:* Gypsum has been commissioning significant additional capacity at a time when building activity remains depressed probably has substance. For the nine months to end-March EPS dropped to 120.5c from 131.4c for the comparable period in the previous year.

Though the building industry, where Gypsum is heavily exposed, was in the doldrums over this period, the industry was also relatively depressed for the 12 months to June 1991, when EPS rose to 195c from 190c's 187c. That happened even though difficul-

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**SHOWING CRACKS**

<table>
<thead>
<tr>
<th>Nine months to March 31</th>
<th>1991</th>
<th>1992</th>
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<tbody>
<tr>
<td>Operating income (Rm)</td>
<td>20.2</td>
<td>24.8</td>
</tr>
<tr>
<td>Attributable (Rm)</td>
<td>9.8</td>
<td>10.7</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>131.4</td>
<td>120.5</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>20.0</td>
<td>45.0</td>
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</table>

The effect on the income statement of the new R70m plant at Brakpan, opened in June last year, has been stark. Though trading
Premier talks on Botswana probe

A PREMIER Group associate company in Botswana has been drawn into a corruption probe, but the conglomerate said there were adverse financial implications regarding the issue.

The Botswana Housing Corporation, probing a number of projects which had been paid for but allegedly not carried out, wanted to cancel a R75m construction contract won on tender by Spectra Botswana, which was set up by Premier and local partners.

"We will be fighting the cancellation note," the spokesman said. When asked to respond to market talk on the land and housing scandal, he said: "We are not involved. Our only involvement is in the building contract."

Spectra won the contract to build the housing corporation's new headquarters.

"Some expenditure has been incurred, but there are no major financial implications for Premier," the spokesman said. — Reuter

Plate Glass to bed down after spate of structural changes

PLATE Glass & Shatterprufe Industries (PZSI) would spend the next year hedging down its businesses following major changes to its structure, chairman Ronnie Lubner said at its annual review.

Despite "an unexciting international economic outlook", he has forecast some growth in earnings a share and a significant reduction in the losses of subsidiary Belron International. The real earnings potential of the group would be realised in the medium term.

The group, which operates in 18 countries, includes Glass SA, board company PG Bison, automotive replacement glass company Belron International and central African glass operations.

During the year to end-March, PZSI underwent some major changes SA Breweries acquired control of PZSI, PZSI increased its interest in Glass SA to 96.8% and in PG Bison to 71.7%, it had a R354m rights issue, reduced gearing, re-formulated its mission and reconstituted its board.

The effect of the various funding transactions "was effectively to double the value of PZSI's equity base to nearly R2bn", Lubner said. The benefits of these changes were not reflected in its March year-end results, in which earnings dropped by 25% to 308c a share on a 14% turnover decline to R2.7bn.

Lubner said results were affected by continued losses in the US, development costs in Europe and tough conditions locally.

The 88% held Belron International showed a 60% decline in operating profit and a loss of 121c a PZSI share. Lubner said Belron International, which is responsible for the group's worldwide automotive glass replacements, suffered from development costs in Europe and trading losses in the US and Australia. Autoglass UK produced sparkling results.
are a good bond
Not all cements

SOWETAN BUSINESS AND PROPERTY
COMPANY ROUND-UP

KITCHEN TO WORKSHOP...but not only.

The phrase "cost efficient" is often associated with production or manufacturing processes, and indeed, it is a principle that many businesses strive to adhere to. However, the concept of cost efficiency can also apply to other areas of a company, including the kitchen. In the context of a manufacturing company, the kitchen is often the heart of the operation, providing meals for employees and ensuring their well-being. An efficient kitchen operation can contribute to the overall cost efficiency of the company, as it can save on food costs, reduce waste, and improve productivity.

In the case of Smith & Sons, a manufacturing company, the kitchen was transformed into a workshop. This change was not only cost efficient but also flexible, allowing the company to adapt to changing demands and improve its operations. The kitchen was repurposed into a workshop where employees could work on various tasks, including the assembly of parts and the testing of products. This transformation not only saved on costs but also increased the company's productivity and the quality of its output.

The success of this transformation is evident in the company's increased profits and improved customer satisfaction. The ability to adapt to changing conditions and utilize resources efficiently is a key factor in the company's continued success.

MARKET REPORT

Johnesquarry

We EXPO for Pensions

Better deal

by Julie Walker

For export

SA Preabs

by Don Robertson
Figures are merely for the record.

When the company was restructured with effect from August 31 last year, it acquired from ItalTile the business, assets and liabilities of the Beta Sanitaryware and National Ceramic Industries divisions of ItalTile as well as the entire share capital of and claims against Samacities, National Ceramics, CRM Brick, Associated Industries and Tilecor Properties.

It disposed of businesses making and distributing wooden doors, cupboards and kitchen units, as well as the radio and hi-fi equipment company, Audicor. Sales of these non-ceramic fixed assets brought in R22,4m.

The income statement for the year to end-February shows an after-tax loss of R8,4m. However, at the halfway stage, the company wrote off R7,5m, comprising the accumulated loss at the end of the previous year (R6,7m) and a loss of R1,5m incurred during the first six months of the 1992 year.

The balance sheet shows a reduction in stated capital from R120,1m to R58,1m. During the second half of the year, new business produced earnings of R6,1m, EPS are stated as 34,1c, derived from this figure.

Ceramic entered the new year with two distinct advantages: gearing was conservative at just over 20% and there was a tax loss of R50m. Also, management believes there will be benefits from having the ItalTile manufacturing interests focused in a separate company.

Even so, chairman Giovanni Ravazzotti is cautious about the current year's prospects. He says a new sales and marketing division has been established to increase market penetration and its cost will "impact negatively initially." Trading conditions are expected to remain depressed this year, he says, and it will be difficult to repeat the results (annualised) of the last second half.

The 7c a share dividend, based on second-half results, resulted from the five times dividend cover policy.

At 280c, the share is inexpensive on the historical p/e, but the short-term prospects are not encouraging.

Kari Rosborn
Plate Glass monopoly shattered

INDEPENDENT glass traders claim they have broken the monopoly held by Plate Glass & Shatterproof Industries in manufacturing and distribution.

An application by Pilkington for the imposition of anti-dumping duties on household glass from China was turned down last month, effectively opening up that market.

A new franchise operation and manufacturing plant has reduced Plate Glass' control of the automotive glass market.

Triangle Glass managing director Cyril Gerberdt says his company and 300 independent glazing firms have won their battle against Pilkington. It alleged that China was dumping glass in SA.

Higher

Pilkington is SA's only manufacturer of float glass. The Board of Tariffs and Trade (BTT) ruled last month that anti-dumping duties on drawn and float glass from China would not be in the national interest and the decline in Pilkington's market share could not be attributed solely to imports.

The BTT said the cost of export glass from China was higher than its domestic price. Quality was comparable with glass made in SA.

In April this year, Pilkington UK sold its 49.4% investment in subsidiary Glass SA to Plate Glass.

Its share of the market for 4mm float glass plunged from 100% in 1989 to about 85% last year, says Mr Gerberdt.

Independent glaziers who import and do not rely on Plate Glass have a market share of about 15% of the R1 billion industry. They forced Pilkington to keep price increases as low as possible in the past three years, the

By DON ROBERTSON

price of 3mm float glass has fallen by about 25%, says Mr Gerberdt.

In spite of freight charges and the 18% ad valorem duty, Triangle can sell at a discount of about 20% compared with glass from Pilkington.

On the automotive side, a franchise agreement was recently established by Glastam, marketing arm of the Glastam Group.

A year ago, it opened a glass factory in Bebelegi which effectively broke a Plate Glass monopoly.

Glastam has developed a national network of more than 200 dealers in the major centres. Many of them will be invited to join the franchise.

They will concentrate on automotive glass, but will also offer float glass.

The Glasfit outlets will give buyers a choice in the autoglass market for the first time in many years, says chef executive Dave de Villiers.

Surplus

Rod Fehrsen, chief executive of Glass SA, says Pilkington is the only manufacturer of float glass in SA. Until February last year, it was the only producer of auto glass. He denies that the group has a monopoly on distribution.

Mr Fehrsen says the BTT decision to deny the Pilkington application for dumping duties forced Glass SA to reduce prices on June 1. Prices were cut by 12% to meet competition from imports in a world market which is in surplus and to keep up volumes at the factory.

He hopes Triangle will become a customer of Pilkington.
Price war breaks out in glass industry

CONSUMERS could benefit from a price war that has erupted in the flat glass industry.

SA's only manufacturer has lowered prices following government's decision not to impose anti-dumping duties on glass imports.

Triangle Glass MD Cyril Gebhardt said in a statement yesterday that local manufacturer Pilkington had over the past few weeks cut prices by nearly 15%. At least one of its retail arms, Glass Supply, has slashed prices by almost 26% in an attempt to stop sliding sales.

Gebhardt believed the price cutting was sparked by Pilkington's failure last month to have the Board of Trade and Industry levy anti-dumping duties on Triangle's glass imports.

Pilkite Glass & Shatterprufe Industries spokesman declined to comment yesterday.

However, Glass SA CEO Rod Fehren was reported to have said the decision not to impose anti-dumping duties had forced a 12% price cut to meet competition from imports.

"We can always beat the local manufacturer on price, but we're not comfortable with it and will obviously adjust back to more reasonable levels when we can. While we are reluctant, it looks as if we are going to have to cut prices and get involved in a price war," he said.

Fluctuating prices would not benefit glaziers because they did not know how long current low prices would last and they often needed to quote on contracts months in advance, he added.
Industrial waste can mean cheaper housing

A LEADING mining corporation has found a way to save money, provide cheaper housing and protect the environment by using its industrial waste to make building materials.

Details of the breakthrough were carried in a paper delivered on Tuesday at a Johannesburg environmental symposium focusing on recycling, at the SA Institute of Mineral and Technology.

Gemun Mining Corporation engineer R E Dowling said the process had begun with a Council for Scientific and Industrial Research (CSIR) report which concluded that chrome, copper and platinum slag (metal waste) was suitable for making concrete.

Gemun began making “cement bricks”, experimenting with different proportions of platinum slag and cement mixed with water, and testing them. It was also found that chrome slag could be used instead of sand in mortar for bricklaying or for plastering.

Slag is being incorporated into Gemun’s employee housing scheme at its Impala platinum plant, and two entrepreneurs are making bricks using platinum slag. A special mould has been invented to make brick units to replace steel window frames and door frames, further reducing costs.

Manufacturing from waste was no miracle cure for housing, since the most expensive ingredient was the cement, Dowling said.

“However, using the waste material will contribute to savings in brick-making costs and simultaneously reduce pollution of the environment.”

In another paper, SA companies were warned that they would be forced to keep pace with foreign achievements in recycling.

The paper, presented by consulting engineers Dr Robert Muller and Dave Hoyem, said the most recent legal requirements in Europe demanded that recycling take place if it was technically and environmentally feasible. Waste which fitted these criteria could not be dumped.

Although SA had the most advanced technology for processing and recycling plastics, it still lacked stringent legislation for waste treatment. — Sapa
BOUMAT waiting for peace

BOUMAT's balance sheet strengthened significantly last year, thanks to stringent working capital control. Year-end gearing dropped to 8% (1991: 41%), largely as a result of the R20m stock reduction and the R26m rise in creditors.

Chairman Sidney Borsook does not expect any significant improvement in the economy or the building and construction industry during fiscal 1993. He concedes the key to Boumat's growth lies in the provision of affordable housing. He comments "The Do Loor report is an indictment of the fragmented and inept approach of the various departments and agencies which has resulted in the building of a paucity of 20,000 houses in the past year against an estimated conservative requirement of 200,000."

But Borsook accepts that events in the political arena have resulted in great uncertainty, and adds that both public and private investment in construction will be deferred until there is greater certainty.

Fundamentally, therefore, one must take a view on prospects for peace, particularly in the townships, when taking a view on the group. This applies to any number of businesses, but even more so to groups like Boumat, whose main activities comprise the supply of materials used in building, home improvement and allied activities.

Borsook says there is reason for optimism, particularly in regard to "the predicted increase in tourism." (As Boumat is heavily into distributing plumbing and related materials, it gains most from residential and hotel construction, where bathroom ratios are high.)

An influx of foreign hotel groups would benefit the group, though this prospect is probably temporarily shelved due to the violence. Another reason for some bullishness is that official statistics indicate residential
trading difficulties in domestic operations braced the group results, cutting EPS by just under a quarter, to 30c
Pre-tax profit fell by a fifth, to R216.5m, on a 14% decline in turnover. Plate Glass & Shatterproof Industries’ Autoglass opera-
tions in the UK remained the star performer among the international concerns, with operating profit up 16%, and its contribution to EPS rising by 58.6%, to 18c. Management is confidently forecasting continued growth in sales and operating profit.

PGSI’s need to re-establish itself in international markets has led to a severely over-
gearred situation offshore. Operations in France, Italy and Germany — still in develop-
mental stages — made operating losses. German operations are forecast to be on
track this year after halving their losses in 1992.

The 33% rise in operating profit by the Benelux countries was not enough to contain a 60% slide in Belron International’s profit, resulting in a 12c loss per share for PGSI.
Laggards in the group’s operations were Windscreen O’Brien and O’Brien Glass in Australia and the US company Windscreen America. Both have absorbed substantial capital in recent years but, due to the long and deep recession, have not recently been profitable. Despite extensive rationalisation in Australia, losses incurred there resulted in negative EPS of 24c.

Though sales in the US operation increased 12%, a decline of 13% in average

price more than offset any gains. Management sought other avenues in car rental and commercial sectors, which are traditionally more price sensitive and competitive, though focus remains within the insurance market.
Chairman Ronne Lubner says the group has been unable to offset profit from Autoglass UK, which pays full tax, against losses on the Continent. As the loss makers return to profit, they will not be liable for tax for some years.
SA operations have, over the past few years, been the major source of group profit, contributing roughly four-fifths of attributable earnings. But recently these operations have been hampered by recession and political unrest.

Turnover in Glass SA, the major profit contributor, declined 1%, though in real terms the decrease is more significant. With tight cost controls, the negative impact on operating profit was contained to 15%. Exports remain a key strategy for Glass SA.
Decline in the board and timber markets, particularly the furniture industry, has meant P&G Buon did not go uncashed. An attributable loss of R5m by Penny Pinchers added to pressures on the division’s results. Overall sales volume declined 5% and operating profit dropped 11%.

Operations in central Africa returned a solid performance, with turnover and operating profit rasing 46% and 77% respectively. Contribution to EPS will, however, decline in financial 1993, with the adoption of SA Breweries’ accounting policies, which specify only cash received should be taken into account in PGSI’s income statement.
Notably, had this policy been in place in financial 1992, EPS would have been reduced 32% to 20c.

1992’s acquisitions are expected to bolster year-end profit. PGSI acquired a further 48% interest in Glass SA from Pilkington Plc, lifting its stake to 96.8%. PGSI also bought Accon’s 50% investment in Spankors, raising the group’s interest in P&G Buon to 24%, to 71.7%. Prospects are mixed. While a marked reduction in after-tax losses in Belron International is expected, and hence growth in EPS, losses in US and Europe, and difficult trading conditions in SA are obstacles still to be overcome.
Nevertheless, the group is committed to funding these investments. Roughly half the R354m rights issue proceeds will be remitted overseas, alleviating the overgeared situation. A pro forma balance sheet shows gearing falling to 40%.
At R48.50, and on a p/e of 15.7, the share is priced at a demanding level. While Plate Glass has substantial turnaround potential, investors will want to see signs that problem areas have been successfully addressed before committing themselves.

Martin Greg
SA is ranked third with stone exports

SA PRODUCTION of raw marble, granite and building stone accounted for 2.3% (or 700 000 tons) of world production in 1991, says the World Stone Industry 1992 annual report.

However, as a world exporter of these products SA ranked third with 7.3% (or 590 000 tons), behind Italy and Spain.

The report claims that the number of new housing units in SA increased by 4.7% in the 1990/91 building year to 34 200 units. It does not define housing units.

The world stone industry was expected to grow by 6.5% to produce more than 90-million tons of raw stone by 2000.
A better, brighter outlook

Rehau is giving South Africa a new outlook through its extensive range of PVC windows and doors.

The products are made in Germany to a specially developed South African formula, which has been tested by the SABS and CSIR.

The company’s huge East London warehouse carries large stocks of all the components and profiles, and group sales manager Harald Draheim says quick deliveries are the rule rather than the exception.

Each window and door supplier is tailored to the customer’s home, office, shopfront or factory by a national network of trained fabricators.

Says Mr Draheim “We have no completed windows. We supply carefully selected fabricators and contractors with the extruded PVC and the necessary components. The contractors measure each individual opening, cut and weld the windows and doors to form an exact fit which does not permit any leakes.”

Rehau believes its network of fabricators offers an advantage over other PVC window suppliers who provide the finished products.

“We provide the profiles to the fabricator and he fits and welds the window or door. As a result the fabricators have developed considerable expertise and are able to solve particular problems. If they were fitting ready-made windows they would not have that body of knowledge for the client to draw upon.”

The product is not cheap and is aimed at the upper end of the market where its superior finish, appearance, durability and maintenance-free qualities have proved popular.

Clients are able to fit the type of glass most suited to their likes and needs. This ranges from the standard float glass, through to special laminated insulation glass, double glazing and triple glazing.

Says Mr Draheim “In Europe insulation glass or double glazing is almost standard. “One of the advantages which Rehau windows and doors offer is that they are fitted exactly. This is particularly important when fitting insulation glass. If the fit is not almost perfect, the laminated sheets of glass may distort and separate over time.”

“The PVC used by Rehau was specially developed to cope with SA conditions such as extremes of temperature.”

“We made a special formulation which is resistant to 80 kilocalories per square centimetre. As a result the white PVC remains white, unlike some products which will gain a yellowish hue.”

“The PVC frames have a number of advantages to offer. There is no maintenance and the frames can be cleaned wet. This means dirt can simply be wiped off with a wet cloth.”

“By now PVC windows and doors have reached the stage where there is little which can be done to improve them further. Instead development is in terms of designs and accessories.”

In addition, PVC has enormous advantages over more conventional windows and doors in the coastal areas where its total resistance to weather and the corrosive atmosphere have proved very cost-effective in the long term.

The company concentrates on the products which form the bulk of its market such as a variety of windows and doors.

Mr Draheim says the company is finding particular niche markets in upmarket areas...
Waning confidence sends granite shares into dive

SHATTERED investor confidence in the JSE's granite sector in the past six months has seen shares plummet in a way usually associated with theickle and high-risk mining exploration sector.

Shares of market leader Keglera and holding company Keleis Holdings, have sunk sharply. Keglera closed on Friday at 150c, 13% or 20c down in the past month, compared with 575c earlier this year, and highs of 625c in 1993.

However, the entire sector has suffered, with Marlin Corporation languishing at 25c a share on Friday, and at 22c The stock reached levels of 220c last year, and 800c in 1999. Shares in Keglera have fallen 8% in the past month to 75c, against 135c last year, and 450c in 1989.

The lack of investor confidence in the sector comes at a time when analysts believe the industry must be a better place to consolidate a more world recession.

Earlier this year, producers set up a marketing body, the Southern African Granite Association (SAGA), while Keglera merged with unbundled producer Impala Granite.

These developments left a streamlined granite sector with closer links to mining houses Geenun and Anglo American, using their interests in Ke-

SAGA Executive Director Rimie Greer said the formation of the association was part of the long term process to consolidate granite exports.

In the meantime, the faltering economic growth in the US, Europe and Japan the major granite markets had hit the trade badly, especially in the wake of the Gulf war and its disruption to Middle Eastern trade.

Greer said SA producers had maintained their market share of about 13% of world trade in raw granite, even though the volume of trade had fallen.

As much as 65% of granite is used in the construction and related industries, where the stone has become increasingly popular as a polluting resistant and attractive material for cladding and decorating buildings. Greer and Hochreuter agreed that the scale of the worldwide slump in the construction industry had offset any competitive edge granite had over other materials.

The remaining 15% of granite products is used in the manufacture of tombstones, principally in Japan, a high-margin business with slow but steady growth.

However, Greer said there were signs that demand from Europe was picking up. About 45% of SA granite is exported to Italy, the world's leading stone-cutters. He said granite orders for the post-August holiday season were encouraging.
Cement sales down as builders suffer

EDWARD WEST

FIXED investment in building and construction declined by more than 11% in 1991 and was expected to fall a further 2% in 1992, the Cement Producers' Association said recently.

Other than construction of the first phase of the Lesotho Highlands Water Project, there was little chance of big civil engineering or building projects coming on stream in 1992.

As a result of this, cement sales were forecast to fall between 1% and 1.5% in 1992.

Civil engineering's turnover in 1991 was 20% lower than in 1990, based on current prices and a massive 30% lower base on constant prices.

The greatest potential for building-sector growth was in affordable housing and related activities. More than 300 000 jobs could be created by eliminating the housing backlog, estimated at about 100 000 houses and

200 000 sites.

While building investment was likely to decline by 3.2% in 1992, 2.9% real growth was predicted for 1993.

Overall housing cost increases per square metre for an average three-bedroomed house were estimated at 23% in 1991 and by an average of 15% over the preceding five-year period.

The low level of activity in the building and civil engineering sectors saw cement sales fall 6.4% to 7.34-million tons in 1991 from 7.83-million tons in 1990.

Industry production during the year was 7.83-million tons, 4.9% lower than 7.81-million in 1990. Only 58% of production capacity was used in 1991 against the 63% in 1990.

Cement and clinker exports - mainly to Zimbabwe, Mozambique and the Indian Ocean Islands from two Western Cape factories - amounted to 100 000 tons of cement and 188 000 tons of clinker in 1991, 10.2% up on the previous year.

Overland exports were expected to increase in 1992, but the cost of transport from the industry's major production facilities in the western Transvaal exceeded the international free on board price of cement, negating this mode of cement export.
Anti-Dutton plot denied at hearing

P G BISON, director Bertie Lubner has denied allegations that he and others in the Plate Glass group were part of a conspiracy to destroy the Interboard group of companies and its former chairman Ed Dutton.

This emerged in the Rand Supreme Court yesterday where Dutton is on trial on 14 counts of forex and fraud involving about R150m.

Dutton, who has pleaded not guilty on all counts, claims that the charges against him are the result of a conspiracy by Lubner and others to destroy him and Interboard.

He also alleges his successor as chairman David Olsen was responsible for falsifying documentation used to incriminate him.

Dutton has also denied the State's allegations that he controlled Interboard Ltd's offshore holding company and the Guernsey-registered Mary Gibbs Trust, which was the ultimate owner of the Interboard group.

The State yesterday applied for leave to hear evidence on commisions in Guernsey from Nigel Westgarth, the MD of Stonehage (Guernsey) Ltd which administered the Mary Gibbs Trust. Evidence from a number of State witnesses in Guernsey, Jersey and London was heard on commission earlier this year.

Dutton's counsel Max Hodes SC has not opposed this second application. He has asked Judge P Streicher for an order giving the defence access to documents which Dutton claims will support his allegations that the charges against him are the result of a conspiracy involving Olsen, who was a director of Stonehage (London) at the time, Lubner and others.

Opposing the defence application, State counsel J Heil submitted yesterday that the documents listed by the defence either did not exist or were irrelevant to the case.

Hodes argued the documents would show that while Stonehage administered the Gibbs Trust it was also acting for Lubner, in his personal capacity as well as for his companies, creating a conflict of interest.

The State submitted an affidavit from Lubner in which he denied that he or others in the Plate Glass group took part in a conspiracy with Olsen to destroy Dutton and Interboard.

"The Interboard Group competed with only some of the businesses owned by P G Bison Ltd, in which the Plate Glass group's interest was only 50," Lubner said.

"Moreover, the Interboard Group was only one of a number of competitors within that limited area. Apart from any considerations, it is unthinkable that in those circumstances the Plate Glass group would have stooped to any conspiracy of the kind apparently being alleged."

Hodes will argue further today.
Toncoro assumes subsidiary Corobrik’s name

BRICK and building materials manufacturer Toncoro yesterday assumed the name of its subsidiary, Corobrik.

The holding company was renamed to reflect management’s commitment to leading the group towards a corporate vision, executive chairman Errol Rutherford said.

The subsidiary will retain its name, Corobrik had responded to extremely challenging trading conditions by becoming “a lean and mean outfit”, he said.

The company had streamlined itself from top to bottom with a smaller management team focusing efforts to satisfying customer needs, he said.

“Corobrik intends to make its presence felt internationally and is already supplying bricks to the Singapore Housing and Development Board and is talking to several potential customers in Africa and the Middle East.”

The company had ample scope to handle the demands of the future and employed about 6 000 people at 30 SA factories.

“We are the biggest brickmaker in the southern hemisphere and the second biggest in the world and intend to keep that position. We are heading into a dynamic new international business environment. Local manufacturers can no longer hide behind protective tariffs when the industry needs to be competitive in world terms,” he said.
Keeley gets granite rights to 600 farms from Rand Mines

Keeley (Kelgran) would acquire substantial granite rights covering more than 600 farms for R15m from Rand Mines, chairman Fred Keeley said in the annual report.

A Rand Mines spokesman confirmed the deal and said it was between Rand Mines and Gemmin, whereby Gemmin would pay Rand Mines in Kelgran shares $100 per 3071.

The agreement was in the final stages and would provide the group with additional long-term reserves, plus creating potential for many new materials, Keeley said.

The downturn in world economies in the past year had shown up in the group's annual results, where net income dropped by 48% and earnings a share fell by 42%, he said.

The construction industry in North America, parts of Europe and the Far East had been badly affected, and Kelgran had suffered...
Boart makes another European acquisition

Group public relations manager Viv de Chaun says that in line with Treuhand regulations the purchase price cannot be disclosed.

But it represents an important asset for the group, he says.

Boart has guaranteed the continued employment of most staff members, although other forms of rationalisation are being considered.

Boart International has already established operations and trade links in Russia, the Ukraine, Czechoslovakia, Poland and Kazakhstan.

Boart International, which is 100 percent controlled by Amic, has expanded further into Eastern Europe through the acquisition of a former East German industrial ceramic producer.

In line with the privatisation programme of former East German companies, a campaign which is run by the Treuhand group, Boart International will acquire the land, buildings and machinery of Aumaer Oxid-Keramik with immediate effect.
A Alpha earnings down

By Stephen Cranston

Cement producer Anglo-Alpha's (A Alpha) current cost earnings fell by 15.3 percent to R18.9 million in the six months to June. On the more usual historic cost basis, earnings declined 7.7 percent to R43.1 million.

Chairman Peter Byland warns that although every effort is being made to control costs, management will be hard-pressed to hold the rate of decline in earnings for the year to the same level as the first six months.

Nevertheless, the interim dividend has been maintained at 46c.

Average borrowings for the six months increased, resulting in finance costs more than doubling from R7.5 million to R15.8 million.

Cash flow improved significantly from a negative R1 million in 1991 to R62.6 million, thanks mainly to the fact that 1991 included tax payments relating to 1991 and 1990.

Sales volumes in the cement division fell by 1.8 percent but thanks to a decline in the tax charge and a lower current cost adjustment, taxed income in the division rose 23.3 percent to R9.5 million.

The stone division increased sales volumes by 6.3 percent, but there was an unfavourable sales mix of aggregates, resulting in a loss of R4.7 million.

Sales volumes of all operations in the industrial division declined. Net taxed income in the division fell 11.7 percent to R5.9 million.

Mr Byland says that Anglo-Alpha will not meet the forecast contained in the 1991 annual report of an improvement in net income equal to the inflation rate.

The group assumed that gross domestic fixed investment (GDFI) would increase by one percent, but it is now thought that GDFI will decline by 7.5 percent.

The Anglo-Alpha board believes it will be able to maintain the dividend for the year as a whole.
Trading slump hits Anglo-Alpha profit

EDWARD WES

ANGLO-ALPHA, the cement and lime producer, suffered a further trading setback in the six months to June, and chairman Peter Byland is worried that the second-half profit decline could be steeper than in the first half.

Volume sales declined but the first half’s turnover rose to R375m from R352m in the same period in 1991.

Operating income slipped to R68.1m from R72.5m and steeper finance charges resulted in a sharply lower interim pre-tax profit of R59.1m against R71.5m.

A lower tax bill mitigated the effect at the after-tax level and the interim taxed profit attributable to ordinary shareholders was R43.1m against R46.7m.

In 1991, the total turnover was R72.8m, operating profit was R13.7m, pre-tax profit was R12.7m, and attributable profit was R10.0m.

The interim dividend was unchanged at 46c a share, although the first half’s earnings dropped to 142.6c from 155.3c. In 1991 a total dividend of 152c was declared from earnings of 343.6c. Earnings in 1991 were 2% down on the previous year.

Byland blamed the recession for the group’s poorer performance, and warned of the possibility of a further profit decline despite efforts to control costs.

Cement volumes were 1.8% lower as a result of declining building activity. In con-...
Boart in Germany

BOART International has expanded in Eastern Europe by acquiring Aumaer Osnabrueck, a manufacturer of industrial ceramic products, in what was East Germany (BauSS). Boart will receive the land, buildings, plant, machinery and technology of the operation in Thuringia as part of a privatisation deal.

Aumaer produces ceramic products mainly for Western markets. They include ceramic components, wear-resistant linings, seal rings and transparent ceramics.

Boart has established operations and trade links in Russia, Ukraine, Poland, Czechoslovakia and Kazakhstan.
Gilt options burn investors' fingers

THE Financial Services Board (FSB) has warned the public not to deal with gilt option brokers who are not members of the JSE or of the Bond Market Association (BMA).

The warning comes after reports of investors losing money through the purchase of gilt options that had been on a rise in interest rates. But capital market rates have fallen sharply in the past few weeks.

The problem regarding non-member brokers stems from the truthness of the FSB in granting a licence to the BMA.

The FSB's spokesman, Baron Huyman, says that when the BMA is licensed, the board will be able to audit and inspect brokers who are non-members of the authorised bodies and trade in the market that is not impartial. Until then, FSB's hands are tied with regard to the audit of them and dealing only through BMA members.

This attitude poses the question: What does the FSB have to do that is more important than protecting the public?

As gilt rates fell again this week in the best buy run for several years, I received several calls from clients of Paul Rigden, an independent options trader, who say they have lost money.

Rates have fallen by about 125 points since Mr Rigden told his clients in a newsletter dated June 3 that the next few months, rates would continue to rise to 19.75% and 19.65%, with 19.5% "the probable terminal or before October 17."

He said this potential 300 point rise on the gilt would not be a "drab" opportunity in the long term, but if it did not own a gilt portfolio in better time, it would have to do so immediately.

A postscript to the newsletter told clients that rates had already risen, then retracted.

"When the rate breaks 17%, expect the really exciting rise to begin, first step 17.5%, within three weeks of the break, and much more to follow!" Mr Rigden says.

Mr Rigden was right about the really exciting movement - but the direction of the shift in rates was cut. Instead of rising to 17.5%, rates have fallen to below 16.5%.

The broker said: "I am prepared to recommend options, six-month, two-month and four-month options now. Prices range from 6.1% for the six-month option, 1% for the three-month option, and 0.5% for the one-month option and promise payoffs between 4% and 6%.

Mr Rigden's advertisement mentions his talent to spot interest-rate movements.

He is not a member of the BMA of or the JSE, the other bodies entitled to trade in listed options. Another independent options trader, David Ballantyne of the Johannesburg Optima Market, says he is asked by the BMA to underwrite contracts to trade with members of the public or to advertise. His clients are institutions who understand the gilt market.

Mr Rigden was unavailable to comment, but his partner, Taff Edmonds says Mr Rigden has nothing to say to me.

CHRIS MURRAY Key to the future: improved exports

From glass to wire rope

HAGGIE Chief Executive Chris Murray is pleased with the move from safety glass to steel safety cables.

"After 20 years of making glass, it is time for a change," says Mr Murray, who has been with Haggie for 10 months and is the first to give credit to the staff and management at Haggie for turning in a fine performance in the six months to June.

"Turnover and earnings were up 5%, making a maintained dividend of 6%. Domestic sales volume fell, but export grew by a quarter to 10% of sales."

Mr Murray says: "We are particularly pleased with our export performance. The key now is to export a product made with steel and with steel cables used in mining."

Haggie is synonymous with steel cables used in mining.

"We are important in the mines, which account for 50% of our turnover. About 14% comes from steel mill sales and the rest from platinum and coal operations."

"In cost cutting, we decided to reduce their stock to keep only small stock to cut down on our costs, in re-estimating for a short time following this. But eventually, the demand is restored," Mr Murray says.

"A rope in a mine shaft lasts between 16 months and two years. Safety standards are stringent and the steel used is a special alloy designed to last."

About 12 years ago, Haggie diversified into copper-based products and engineering supplies.

The current tack is to make products related to the core businesses, such as fittings used with copper piping.

The board of directors now oversees the activities of the company. Haggie is not a member of the South African Engineering Council.

The biggest project of the moment involves a $100 million investment in the manufacture of steel cord for the tyre industry. The business is worth $1 million annually and could double as steel cord sales exceed 400,000.
Cement share prices drift to 12-month lows

The share prices of two of SA’s three cement producers have drifted to 12-month lows as economic and political uncertainty continues to hamper fixed investment levels which affect cement sales.

Anglo Alpha’s (AA) share was untraded at a 12-month low of 8.66c yesterday after peaking at 4.35c on June 15. Blue Circle was also untraded at its 12-month low of 2.46c after topping 3.72c on April 3.

Pretoria Portland Cement’s (PPC) shares were traded at 4.66c last Friday, off a high of 5.09c on June 9, 1992 and a low of 3.70c on August 19, 1991.

Slight earnings increases have been predicted by both Blue Circle, due to report interim results to June, and PPC, which will announce year-end results to September 1992.

AA chairman Peter Byland had predicted an earnings increase in the interim period to end June 1992, but instead earnings dived to 148.4c a share from 155.5c. He said second half earnings could fall further.

J D Anderson & Co analyst Malcolm Basford said cement shares tended to perform profitably only later in an economic upturn.

Gross domestic fixed investment levels, which directly affect cement sales, were low, both in the public and private sectors. While a number of projects were in the pipeline to alleviate this trend, including Sasol’s capital expenditure projects and the Columbus and Alusaf projects, political and economic uncertainty hampered decisions to forge ahead with these projects, he said.

Basford added the cartel between the producers was probably the only one to have succeeded in the world as cement price increases had been kept below the inflation rate ever since government allowed the cartel in 1988.

On July 1 cement prices increased on average 5%, but this would have a limited effect on cost increases in the building industry, senior members of the Cement Merchants Association (CMA) said.
Cutbacks in road building weakened Anglo-Alpha's stone division, which recorded a R4.7m attributable loss at interim stage against last year's modest profit. MD Johan Pretorius says demand in this area has dropped dramatically.

Fortunately, the stone division is the group's smallest activity, accounting for R63m of the R375m turnover. Concrete activities, the major use for stone, also plunged in line with construction and civil engineering cutbacks. Affordable housing programmes will eventually return this division to the black as concrete is used in foundations.

The 8% decline in EPS, on an historical accounting basis, for the six months is creditable, considering economic conditions, with

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GDFI now expected to fall 7% in calendar 1992 after earlier estimates of about 1%. The cement division, which retains its dominance through its 55% contribution to group sales, lifted turnover 10% despite a 2% drop in volumes, partly indicating the strength of the carrel Pretorius reckons second-half demand for cement, used in construction and civil engineering, will probably be down on the first half as budgeted volumes are not materialising.

Capacity usage in the capital-intensive cement industry is around 60%, which is hurting all three local producers. On the other hand, profits should soar on the back of moderate increases in demand.

Attributable earnings from the industrial division, at 30% the second-largest contributor to turnover, declined to R5.9m (1991 R6.7m) on lower activity at all operations — paper sacks, industrial minerals and lime. All three have similar turnover contributions.

A turnaround in this division is closely aligned to activity in the economy as the division has exposure across the board. Lime is used in the chemical, steel and gold industries, industrial minerals have applications in the paint, plastic and paper sectors, paper sacks, used to carry cement and industrial minerals, is allied to these sectors.

Pretorius says the earnings drop in the second half will probably be greater than the decline in the first half. The 10.5% p/e is lower than PPC's p/e of 15 but higher than Blue Circle's 8.2, in line with their national market shares. PPC's being 45%, Anglo Alpha's around 35% and Blue Circle's 25%. There appears to be room for moderate reratings downward.

William Gildan
Gefco fares poorly while Msauli improves

ASBESTOS and coal producer Gefco reported poor results, while associate asbestos producer Msauli had a much improved performance in the six months to end June 1992.

The company turned in an after-tax loss of R3,25m (R1,86m profit) on a drop in asbestos turnover at Gefco to R34,1m from R39m in the comparable period last year. Coal turnover grew to R5,56m (R1,45m).

Gefco did not declare a dividend and made a loss of 9c a share from earnings of 5,2c a share in the same period in 1991.

Msauli, in which Gefco has a 35% stake, increased its turnover to R46,2m (R37,2m) and after-tax income more than doubled to R9,86m from R3,1m.

The dividend remained unchanged at 10c, but earnings a share rose to 10c from 48c.

Joint chairman Pat Hart and sales of asbestos fibre from Gefco were substantially lower due to a weak fibre market and the planned phasing out of asbestos fibre announced earlier by the main users.

Coal sales from Gefco increased due to the availability of washed coal following the commissioning of the washing plant at the Anandale colliery.

On Msauli, Hart said the higher turnover was as a result of higher volumes and price increases. Cash reserves, however, were depleted mainly due to the funding of the tailings recovery plant.
Mixed results for Msauli, Gefco

By Sven Linsche

Asbestos producers Msauli and Gefco had mixed fortunes in the first half of the year while Msauli's net income was up from R3.1 million to R6.9 million, Gefco reported a loss of R3.2 million in the six months to end-June.

Msauli, which declared an unchanged interim dividend of 10c, lifted turnover from R27 million to R48 million, while operating income rose from R3.4 million to R8.4 million.

Chairman Pat Hart attributes the good results to increased volumes, better asbestos prices and lower unit costs.

He says shareholders can look forward to improved dividends for the full year.

Commenting on the performance of Gefco, which passed its interim dividend, Mr Hart says a near break-even performance is expected for the full year.

Gefco's turnover in the six months fell from R49.1 million to R29.6 million.

Mr Hart says Gefco's crocodile market remained weak, while results were also affected by the cutback at its Kuruman mine and the closure of its Penge amosite mine.

The joint Von Brandis gold project remains on ice, says Mr Hart.
Cops surround strike factory

Staff Reporter
POLICE yesterday surrounded a Consol Glass factory in Bellville brought to a standstill by more than 400 striking members of the Chemical Workers' Industrial Union.
A normal wage strike by the union has affected five Consol plants.
Union secretary Mr Colin Rani said management at the Bellville plant called in the police when strikers refused to allow trucks admittance to the factory.
Management will meet strikers this morning.
Protection wanted for fibreglass

By Stephen Cranston

The fibreglass industry has applied for a further 20 percent protection against imports.

Henrie Steyn, managing director of Acoustical Fibreglass Insulation, which supplies about 80 percent of the local market's demand for reinforced fibreglass, says local manufacturers are experiencing strong competition from Far East imports.

Excess production capacity is being experienced throughout the world and manufacturers from the Far East export products at prices barely covering their operating and capital costs.

Prices of fibreglass products are still at 1999 levels, while the prices of raw materials have risen seven percent a year over five years.

While the industry is protected, it will negotiate better prices with suppliers of raw materials, negotiate realistic wage rates and modernise local plants.

It will then be able to export on a large scale.
MANUF. - NON-METALLIC MINERAL PRODUCTS

1992

SEPT. - DEC.
Anglo-Alpha launches local cement plant

A NEW player is entering the Western Cape ready mixed concrete market which is expected to help drive down building costs in the region.

Anglo-Alpha, one of the country’s largest construction material producers, is launching a new concrete production plant in Bellville this month. The opening of the plant represents a R10m reallocation of resources within the group and could, depending on market demand, lead to further expansion in the region, says GM Dries Erlank.

For the past 20 years or so the local market has been dominated by one player, Murray & Roberts, which recently rationalised its operations, leaving certain gaps in the market.

It is these gaps that Anglo-Alpha, through its aggregate and ready mix arm, Hippo Cape, intends to exploit.

The area’s potential for economic growth, the building and construction activity likely to result from the Olympic bid preparation and the low income housing backlog and its ancillary infrastructural developments were reasons for the investment, Erlank said.

He said increased competition often resulted in lower prices and Hippo would focus on swift customer service.

The Anglo-Alpha group is associated with the international Swiss-based building materials giant, Holderbank, which sold more than 13.2 million cubic metres of delivered ready mixed concrete in the past year.
Producers hit back at Manuel

BY CLAIRE GEBHARDT

Ex-factory cement price increases have been below the consumer price index (CPI) for eight years and are expected to remain so in 1994, says the Cement Producers Association.

In swift reaction to comments by Trade & Industry Minister Trevor Manuel that the cement cartel could soon come under review, the association's executive director, Graham Mitchell, says producers are determined to keep prices affordable.

"Each year since 1986 we have been able to hold price increases below the level of the CPI and don't foresee 1994 being an exception."

Mitchell says although cement only makes up 5 percent to 8 percent of the building costs of a home, the association is committed to working together with the Government and other stakeholders to ensure the success of the NEDLCO, not only in the immediate term, but well into the future.

"One of the major benefits of the co-operative arrangements of cement producers is that we can ensure uninterrupted supplies of affordable cement on a national basis in the short-to-medium term without any major new investment."

(End)
Scrap tyres used as fuel by PPC

ANITA ALLEN SCIENCE WRITER

SCRAP tyres will replace coal as a fuel in the cement kilns at PPC's Hercules factory in Pretoria, according to a proposal being considered by the company.

The process has been studied overseas, where it is already in operation at more than 80 plants around the world. During trials at the Hercules plant, 10,000 scrap tyres have been successfully burnt.

Burning tyres as a fuel results in a three-way saving: it conserves resources of fossil fuels, in this case, coal; it solves a major waste problem; and it recovers energy from a waste product.
PPC has plan to
kill-burn tyres

ROBYN CHALMERS

CEMENT and lime producer Pretoria Portland Cement (PPC) is evalu-
atating a proposal to replace 20% to 25% of the coal used at its Hercules
cement factory by burning old tyres.

PPC technical consultant Jeremy Gaylard said tyres would replace
coal as a fuel in the cement kiln. Each
year, about 6-million tyres were
scraped in SA of which 2.5-million
were in the PWV

"The proposal offers an environ-
mentally acceptable disposal route
for tyres. Approximately 90% of
cement factories worldwide use
scrap tyres as a source of energy."

PPC had studied the process over-
seas and conducted various trials on
kilns within the group. Its Hercules
factory in Pretoria had successfully
destroyed 10 000 scrap tyres during
these trials.

"We are confident the process is
environmentally acceptable. We be-
lieve Hercules's location is ideal as
the greater PWV region generates
the largest volume of scrap tyres."

Gaylard said many scrap tyres
found their way to informal dumps
where water collected in them, pro-
viding a haven for mosquitoes which
posed a serious health hazard.

Although cement kilns were a safer
disposal route in terms of the envi-
ronment, significant capital invest-
ment was required in the process.

Gaylard said PPC would need to in-
stall a tyre feed and control system
linked to the kiln.
Cement report out soon

The Competition Board will issue a report within 10 days on yesterday's meeting with cement industry representatives about the controversial cement cartel.

Competition Board chairman Pierre Brooks said no decision was taken on the fate of the cartel. The industry gave reasons why the monopoly should continue.

"The board will analyse the views of industry representatives and compile a report. This will be submitted to Public Enterprises Minister Stella Nyceau and should be made public as soon as possible," he said.

The board granted the cartel permission in 1988 to operate legally. Members Anglo Alpha, Blue Circle and Pretoria Portland Cement fix prices and market share but are not privy to tariff protection or state handouts.

The existence of the cartel was questioned recently by Trade and Industry Minister Trevor Manuel.

The reconstruction and development programme called for collusive practices to be eradicated. Further, National Housing director-general designate Billy Cobett had stressed that building costs had to be kept as low as possible to aid government's housing programme.

National Housing Forum consultant Moss Ngasheng said the industry faced immediate capacity constraints to meet the demand for homes, but cement prices could negatively affect the housing programme.
CEMENT industry representatives will meet Competition Board and Trade and Industry Department officials today amid speculation that a decision scrapping the industry’s cartel is imminent.

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

Sources said yesterday other government departments were calling for the cartel to be dissolved, in line with the reconstruction and development programme’s opposition to market collusion.

A Trade and Industry spokesman said a special adviser to Manuel would attend today’s meeting. A final decision on the cartel was unlikely to be made at the meeting, which sources said would be largely an information-gathering session.

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

The release of the board’s report on its 14-month investigation of the cartel, expected in April, was delayed as political and other concerns necessitated further inquiries.

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

In its latest annual report the SA Cement Producers’ Association said the cartel had helped “encourage competition between manufacturers to become the lowest cost producer.” Breaking up the cartel could lead to higher prices and cement shortages, as risks in an unmanaged market would be too great for further investment.”
Anglo-Alpha figures flatter off low base

Samantha Sharpe

Cement manufacturer Anglo-Alpha continued to benefit from productivity plans introduced in 1992, with attributable earnings soaring 47.5% to R36,32m for the six months to June.

But the group's directors cautioned that although the percentage increase reflected a significant movement, the results were calculated off a low base.

Turnover rose 23.8% to R501,69m, with positive post-election business confidence and the subsequent increase in demand for the group's products much improved from the year before.

The group reported a 12.5% increase in operating profit to R39,94m, with income from investments up 66.4% to R10.8m. This was largely due to improved dividends from investments and interest income.

Earnings a share soared ahead almost 48%, with an interim dividend of 55c declared. This resulted in a dividend cover of 2.2 times on a current cost basis.

The group warned against expectations of earnings for the year rising more than 20%. But finance director Trevor Wagner said the discrepancy between the expected earnings increase for the year and the first-half gains did not indicate a potential slowdown in growth in the next six months.

First half growth had been distorted, given the subdued performance in the first half last year.

Activity in the industry picked up in the second half of last year and the results for the year would reflect a more accurate picture of growth.

The group was expecting an upturn in activity in the second half of the year compared with the six months to June.

Group MD Johan Pretorius said the group still had some way to go in achieving its weighted average cost of capital of 18%, with the return on net assets up only 13.9%. Anglo-Alpha's cash flow declined 6.9% to R81,1m because of a substantial increase in tax payments.
Anglo Alpha ups earnings 47%  

MARC HASENFUS  
Business Staff  

CEMENT group Anglo Alpha performed soundly in the half year ended June, reporting a 47 percent increase in attributable earnings to R36 million.  

The group's interim dividend payout was pushed 10 percent to 56c a share.  

Directors stressed the improved results were off a low base as industry growth had been inadequate for some years.  

"Sales are still below 1989 levels."  

They noted that demand for the group's products had increased since the election, boosting sales 24 percent to R501 million. Productivity improvement plans introduced in 1992 also bolstered sales.  

Anglo Alpha's operating profit was up 12,5 percent to R100 million because margins were squeezed by the inclusion of the results of Pioneer Ready Mix Concrete (following the acquisition of the remaining 50 percent of the group in late 1993).  

Bottom line, however, was fortified by a near doubling of investment income to R16,8 million, a drop in borrowing costs and a modest increase in the group's current cost adjustment.  

Anglo Alpha's profit growth was led by a 26 percent increase in operating profit by the industrial division, a 25 percent increase from the Stone and Ready Mix Concrete division and 11 percent from the Cement division.  

Directors expected demand for the group's products to continue rising. "Consequently earnings for the year as a whole are expected to improve by about 20 percent," they said.  

Control Instruments showed an impressive 48 percent growth in attributable earnings to R5 million for the year ended June — but limited the increase in dividend payouts to 10 percent at 2,2c a share.  

Dividend cover has increased from 2,5 times to three times.  

Directors said this step was taken to enable the group to use its internal resources "to take advantage of a number of exciting opportunities being presented."  

Turnover increased 26 percent to just over R100 million, with improved margins pushing operating profit up 40 percent to R7,2 million for the period under review.  

The interest bill showed a seven percent increase to R1,8 million, while taxation increased dramatically to R360 000 (R52 000 previously).  

Directors said Control Instruments continued to introduce new products, which further consolidated the group's market position.  

They said exports of automotive electronics and industrial instrumentation increased again in the year under review. The group also successfully entered the cellular telephone market.  

Industrial group Toco Holdings intends issuing about 8,5 million shares at R3 to raise cash of about R26 million to fund working capital requirements to expand exports in its Park Plus vehicle parking division.  

The issue of new shares represents about 10 percent of the issued shares of Toco.  

The financial effects of the proposed issue (considering it was an effect from April, 1993) would have seen earnings for the year ended March, 1994, increase 0,6c a share to 27,8c.  

In addition, Toco's net asset value would have increased 15,1c to 155,7c a share.
Cementco hit by hard times

CEMENTATION Company (Cementco) reported a 66.7% decline in net attributable income to R501 000 in the year to September as a result of an unstable socio-political environment and the sale of loss-making subsidiary Barracuda Granite Tile.

Earnings per share dropped to 5.6c (16.8c) and no dividend was declared.

Turnover increased 11.4% to R300.3m but net income before interest paid and tax slumped more than 47% to R4.2m.

Interest of R2.6m (R3.2m) left pre-tax income 67.2% down at R1.5m, while after-tax income decreased 57.7% to R1.3m.

Net attributable income of R501 000 (R1.5m) was further reduced by an extraordinary item of R2.1m which left a net loss for the year of R2.8m.

The group's activities were affected negatively by the unstable socio-political climate prior to the elections and the sale of its share of Barracuda.

But the board said the second half of the year had seen a turnaround, reflected in the year-on-year turnover increase of 11%.

AMANDA VERMEULEN

As a result the attributable loss recorded at the interim period was converted to a profit for the full year. This was in spite of bringing to account a number of problematic accounts which were completed towards the end of the year.

The group bought 70% of specialized engineering design and marketing company Techno Arms in January, and in February registered wholly owned subsidiary GFCC Mining and Construction in Ghana.

Its share of the trading loss suffered by Barracuda during the first half was more than R1m. The group disposed of its share in March, resulting in the extraordinary loss of R2.3m.

The 17% increase in the order book over the year, albeit with tight margins, the rationalisation and consolidation of business units, and the increasingly stable socioeconomic situation led the board to believe that there would be satisfactory growth in profits in the year ahead.
PPC has plans to expand

THE substantial increase in cement demand since the April elections had forced cement cartel member Pretoria Portland Cement (PPC) to focus on future capacity expansion plans, PPC group MD John Gemersall said in the latest annual report.

He said estimates of cement demand growth could see the re-opening of PPC's Dwaalboom plant in Northern Transvaal within two to three years.

The recent acquisition of a limestone deposit in the Beestekraal area would provide a deposit close to the PWV and surrounding markets. (193)

He said projects aimed at increasing the production capacities of two factories in the Western Cape were under way.
PPC overcomes the odds

BY DEREK TOMMEY

Despite cement and lime prices rising below the inflation rate, Pretoria Portland Cement (PPC) increased its earnings by 25 percent in the year to September from $229,600 to $375,100 a share.

The Group managing director, John Gomersall, said yesterday the improved performance was rooted in better trading conditions in the core business. Turnover rose 20 percent to R$1,33 billion.

PPC is paying a final dividend of 18.5c a share, making a total of 230c for the year – a 16 percent advance on last year.

Shareholders can elect to take 2,277 new shares for every 100 held in place of the final dividend.

Net pre-tax income rose 15 percent to R$254.7 million.

But a lower tax charge resulted in net taxed income rising 28 percent to R$153.7 million.

Gomersall expected continued improvement in trading in 1985.

"Sales figures for the current quarter indicate national cement volumes are up 13 percent, compared with a year ago."

The decision by the Ministry of Trade and Industry to phase out the cement cartel in the next two years, coupled with rising demand, should ensure a smooth transition of the industry to a free market system.

PPC's position as the leading producer, and the investments it had made in the past two years in its marketing and distribution infrastructure, should stand it in good stead.

PPC recognised that as the leading national producer, it had a responsibility to play an active role in the success of the RDP, and had made a commitment to keep cement price increases below inflation for the next three years.
Cement cartel to be disbanded in 2 years

TRADE and Industry Minister Trevor Manuel yesterday told the cement industry he had accepted the recommendation of the Competition Board to disband the cartel within two years.

Cartel member Pretoria Portland Cement (PPC) group MD John Gomersall said PPC had received confirmation that the cartel was to be dissolved, a decision the industry had been expecting since the board's findings late in September.

Gomersall said the Minister's decision is in favour of a gradual phasing out of the cement cartel over the next two years, coupled with rising demand, should ensure a relatively painless transition for the industry to a free market system.

He said that his group's results, posted on the same day as the Minister's decision was conveyed to the industry, reflected a pleasing improvement in the group's trading environment.

While the year ahead would continue to show improvements, changes in the cement market arrangements had made it more difficult to forecast the company's financial performance.

He said PPC would play a role in the success of the RDP through its commitment to keep cement prices below inflation for the next three years.

Cement

the 5% transition levy and the effect of the reduced taxation on deferred taxation, helped towards a 26% increase in net income after tax to R153.7m.

The 26% rise in earnings a share was accompanied by a 16% increase in dividends to 20c a share. PPC said it would give shareholders the choice of taking new shares in place of a cash dividend.

Turnover in PPC's cement division rose 33% to R949.3m, spurred by a sharp rise in exports and an increased share of the cement distribution market.

However, the substantial growth in the distribution and export activities, conducted at relatively small profit margins, translated to a decline in average cement and group operating profit margins.

PPC Lime benefited from a 2% increase in sales volumes, with turnover and earnings up 11% for the year.
Rising demand boosts PPC

BY STEPHEN CRANSTON

A two percent increase in domestic cement consumption helped Pretoria Portland Cement (PPC) report a 22 percent rise in earnings per share to 151.7c in the six months to March. (193)

The interim dividend is up 30 percent at 65c.

There was a small increase in volumes from PPC Lume, while production efficiency enabled it to report a strong improvement in results.

But group MD John Gomersall does not expect the rate of increase to continue in the second half, in the light of expected increases in energy costs.

Other investments showed significant improvement, which was the result of the sale of its investment in loss-making Parem Enterprises and better results from distribution activities and associate companies.

PPC acquired all of M Phifer & Son, a cement distribution company, for R12 million.

Group turnover rose 16 percent to R612.1 million and operating profit by the same percentage to R116.4 million.

But a lower tax rate and better investment income ensured that taxed profit rose 22 percent to R82.1 million.

Gomersall expects cement sales to increase by three to four percent, but remains cautious about any further significant short-term improvement.

He does not believe that real benefits from the ANC's Reconstruction and Development Programme will be felt in the second half.

The silo and palletising projects at the Hercules and Shurry cement factories, aimed at improved customer service, are almost ready.

PPC has had a strong run over the last twelve months, with the share price up from R37.50 to R95.

It looks well-placed to benefit from any infrastructural development.
PPC ready to invest R750m in east Cape

PORT ELIZABETH — Cement company Pretoria Portland Cement (PPC) is ready to invest R750m in the Eastern Cape — the single largest capital project in the region for many years.

The investment will be in the form of a new cement kiln at the Port Elizabeth factory. Such a move would add an additional 600,000 tons capacity to the current 265,000 tons capacity.

But the potential investment rests on PPC finding an acceptable source of limestone in the region — an issue which caused concern when the company first announced that they were investigating a new source.

At the time PPC identified two possible alternatives: These were a conventional limestone deposit at Oudebosch Kloof, near Hankey, and the sand dunes of Hougham Park-/Sebelehoek near the Sundays River.

Evaluation of the feasibility of mining the dunes at Sundays River went ahead despite protests. Opposition lobbyists said they would wait for the outcome of the studies before reaffirming their position.

During the past 18 months, studies to assess these alternatives have been proceeding under the direction of the Cape Town University's evaluation unit, while Port Elizabeth University's Institute for Coastal Research has been working on an environmental impact report.

The report is not yet complete, but PPC says an acceptable source would assure the long-term future of the Port Elizabeth factory and create the possibility of a new kiln.

PPC Group Communications Manager Mark Drewell said benefits to the Eastern Cape were:

- A 600,000 ton a year cement kiln and associated infrastructure would cost around R750m and would be a major boost to the local economy.
- Drewell said the PPC argument was based on the fact that a desperate need existed for houses and schools in the East Cape region.

Cement which could not be produced in the Eastern Cape would have to be sourced from the Northern Cape. 'This is creating jobs and wealth outside the East Cape region,' he said.
PPC not ready to invest yet

ROBYN CHALMERS

CEMENT giant PPC has dubbed as premature suggestions that it was to embark on a R700m investment programme in the Eastern Cape.

The PPC counter lost R10 over the past month, to close at R105 yesterday. Analysts attributed this to concern over funding for the envisaged scheme and a downward correction to the counter which has more than trebled since last June.

PPC spokesman Mark Drewell said an investment would only be considered once acceptable limestone reserves were found, and even so, there would be no capital expenditure before 1994.

He said the group was at the early stages of identifying a replacement for dwindling reserves at the Loerie Quarry which supplies PPC's Port Elizabeth factory.

'\textbf{Cement consumption in the Eastern Cape is currently about 420 000 tons a year. PPC, the only company manufacturing cement in PE, can produce about 265 000 tons a year and the balance is imported from the Northern Cape.}^\text{(13)}\text{.'}

A major expansion of PPC's operations in the Eastern Cape would require a new kiln. Cement kilns typically have a capacity of 600 000 tons a year and cost about R750m.

PPC's share price slipped 30c or 2,5% to R110 at the end of May. Rival Anglo Alpha's price showed a similar pattern, down 70c or 5,8% in the past month to close at R115 yesterday.
Cartel's critics 'wrong'

Business Staff

It is ironic that while other African countries are offering incentives in the form of tax holidays, tariff protection and soft loans to establish or rehabilitate cement manufacturing plants, critics of the local industry have called for an end to the cement cartel, says Anglo-Alfa chairman Peter Byland.

Writing in the annual report for the year to December, Mr Byland argues that many other countries can rely on neighbours for cement in times of shortages, but South Africa is remote from those countries with the capacity to supply.

Imported cement, particularly in inland markets such as the PWV, would be extremely expensive and would consume large amounts of foreign exchange.
Cement industry expects growth

The cement industry is expected to move to sales growth this year for the first time since 1988, says SA Cement Producers' Association (Sacpa) executive producer Vincent Bray.

Bray said Sacpa had forecast a 3% growth in sales during 1994 after having been on a downward spiral between 1988 and 1992. Sales were largely stagnant last year, which was the first sign of an improvement.

The latest Sacpa figures show sales increased by 6% during January to 17,173 tons from 45,606 tons during January last year. Sales for this year were expected to rise to 7,388 million tons compared with 7,177 million tons in 1993.

Bray said the increase in sales this year could exceed 5% if the next government's housing and other infrastructural initiatives were not hindered by politics or violence.

He said the provision of housing for millions of disadvantaged people would have a profound effect on cement sales. This was borne out by preliminary research conducted by the Building Industries Federation of SA (Bifa), which was doing a survey of building material needs.

Bifa's research showed an extra 430 million concrete blocks and 30 million sacks of cement, among other building materials, would have to be produced to build 300 000 houses annually, he said.

These figures were based on a simple house with no ceiling, carpets or internal walls. They did not include the materials needed for the infrastructure that would spring up around new housing areas such as schools, community centres, offices and business development.

A report from SA's largest cement producing company, Pretoria Portland Cement, estimated that cement sales could increase by R400m a year once the infrastructural initiatives got under way.

Analysts said government spending of R8bn a year on housing would create about 600 000 new jobs in the construction sector and about 900 000 new jobs in the rest of the economy.

An analyst said this level of spending constituted only 2.4% of GDP, which compared poorly with other developing countries such as Mexico and Venezuela, where spending averaged about 4.6% of GDP.

However, he said, cement producers would welcome higher levels of gross domestic fixed investment as they were currently operating at about 60% of their total capacity.
ANGLO-ALPHA

Still waiting for volume growth

Activates: Produces cement and related products
Control: Holdersbank and AV through Altair Investments (54.8%)
Chairman: P. Byland, MD JG Prentus
Capital structure: 30.1m shs Market capitalisation: R2.26bn
Share market: Price 7500c Yields 2.3% on dividend, 5.6% on earnings, PE ratio, 17.8, cover, 2.4 12-month high, 7600c, low, 3100c Trading volume last quarter, 245,000 shares

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Successful cost-cutting and tight asset management have helped underpin cement giant Anglo-Alpha's profits in the year to December, despite a general decline in demand (roughly 2% on average) for its products.

EPS climbed 27% to 421.5c, after three years of decline — the cumulative fall in historic cost earnings has been confined to 3.5% from a peak of 367c in 1989 to 1992's 331c. Operating profit rose almost 37% on sales up less than half this, by 16% to R877m. The operating margin widened from 19.3% to 22.7%.

Pre-tax profit was up 44%, helped by lower interest rates. Borrowing costs fell by a fifth to R24m. Lower capital allowances saw the effective tax rate up to 33% (25%). Net gearing improved to 14.6% from 1992's 19.2%.

MD Johan Prentus points out the performance was rising off low base — sales volumes for the year remained below those of 1989 and the group has some way to go to achieve the targeted returns on net assets and equity. The time it takes to achieve these will depend partly on volume growth.

The continued existence of SA's cement cartel — comprising Anglo-Alpha, PPC and Blue Circle — is again in question, though management says it was unaware that the Competition Board was reviewing the exemption. Chairman Peter Byland says the selling arrangements, which have been in place for about 20 years, have improved efficiency in the industry and ensured that no customers have been prejudiced by their location in times of shortage.

It has, he says, helped reduce the risk of what is traditionally a high risk business, the benefits being passed on to customers through lower selling prices. "If this system were to fall away, overseas experience shows that more powerful customers would succeed in negotiating even larger discounts at the expense of smaller operators," he says.

Cement's contribution to total operating profit fell to 70% (75%), despite an 8% increase in sales to R448m. The division strengthened its distribution base by establishing distribution facilities in key markets and by expanding its transport capability. Though some large projects, including the Columbus Stainless Steel plant and Alusil project, will come on stream in 1994, management expects demand for cement during the first half of the year to remain sluggish, with a small increase in sales volumes evident only in the last quarter.

The industrial division (time, industrial minerals & packaging) lifted operating profit by a fifth to R34m on sales of R286m, contributing just over a quarter of group operating profit. Markets served by the division are expected to reflect marginal growth in the current year.

Rationalisation and an iron grip on costs in the stone and concrete division turned 1992's R6.7m operating loss into a R9.2m profit. Sales revenue increased 49% to R183m, mainly because of the first-time inclusion of Pioneer Ready Mixed Concrete's results and a favourable sales mix of aggregates.

With no new contracts of equal size available to replace those at an end and the generally pessimistic view of the market situation, sales volumes are not expected to increase this year. However, the inclusion of Pioneer Ready Mixed Concrete should increase sales of ready-mixed concrete significantly.

Ongoing cost controls and action plans to generate savings are expected to improve earnings in the next few years, though management concedes much depends on a pick-up in economic activity. Real earnings growth is, nevertheless, forecast, though cash flow is expected to decline by 3% on higher tax payments.

At R75, the share has been sharply revised over the past year and is discounting prospects well into the future. Any further increases in the near-term are likely to be muted.

Mary Lou Greig

Anglo-Alpha's Pretorius returns still below target
Cement cartel in dark about what’s in store

BY THABO LESHILO

With only about three weeks left before the cement industry comes under review, the much-maligned cement cartel is in the dark about its future.

“We have absolutely no idea what the future holds,” Johan Pretorius, MD of AngloAlpha, said at the weekend.

The two other members of the cartel are Pretoria Portland Cement and Blue Circle.

A spokesman for the Competitions Board would not reveal the contents of the draft assessment to be put before it three weeks from now.

Thereafter, the board would recommend to Trade and Industry Minister Trevor Manuel whether to disband the cartel or not.

The cartel was formed 20 years ago to fix prices and market share among its members.

The aim was to improve efficiency and prevent customers in remote areas from paying exorbitant prices.

Critics of the cartel, however, say it is self-serving and appropriates most of the benefits of lower costs to itself.

It has also been suggested that the price of cement outstripped other building materials by up to three percent from 1972 to 1990.

For its part, the cartel says cement makes up only 5 to 8 percent of the cost of an average house (about 40 square metres).

It says increases have been kept well below the consumer price index (CPI) and most other building material price increases since 1986.

Figures from the Cement Producers Association show local cement to be cheap by world standards.

One of the major benefits of the cartel is said to lie in its distribution network, Cement Distribution SA (CDSA), which avoids cross-haulage. Each member of the cartel owns a third of CDSA.

Another feeling in the industry is that political expediency, rather than economic sense, has behind the call for change towards full-blown market forces.

The idea stems from doubts that other companies can enter the capital-intensive industry, leading to increased competition and even lower prices. It costs about R1.2 billion to set up a factory.

Ironically, the cartel’s possible demise coincides with an expected boom in demand for cement because of the RDP’s mass housing projects.

Pretorius estimated a compound annual growth in turnover of 5.5 percent, or R1.6 billion, in today’s terms.

He said demand for cement could rise 11 percent, or 800,000 tons, in the first year of the project.

This could rise to 2.8 million tons in the last year, if the RDP’s target of a million houses in five years is achieved.
Cement industry will heed board

The cement industry has made it clear that while it is concerned about the ramifications of a Competition Board proposal to scrap the cartel, it will abide by any decision to go this route.

SA Cement Producers' Association (Sacpa) chairman Johan Pretorius said the industry had not yet had the opportunity of assessing the full implications or consequences of the board's recommendations.

But he said the industry believed the reasons for the exemption being granted in 1988 were as relevant now as they were then.

"However, we as an industry are committed to playing a proactive role in the reconstruction and development programme and will support and abide by any final decision which is in the best interests of all cement consumers and the country as a whole."

The industry was expecting to hold further discussions with the board and Trade and Industry Minister Trevor Manuel on the details of the board's recommendations.

The board has proposed that the cartel — Pretoria Portland Cement (PPC), Anglo Alpha and Blue Circle — be disbanded as soon as practicable, but put the deadline at two years.

PPC group MD John Gomersall said that should the report be ratified, the organisation would work together with Manuel and the board to ensure a smooth transition.

Sacpa's stoical reaction to the recommendations belied an earlier submission to the board, which argued strongly that the cartel be retained.

"The cement producers' position is that the current marketing arrangements regarding price, capacity utilisation, centralised distribution and flexible sourcing are in the best interests of the public, consumers and the industry."

The industry requires the tenure of a planned, controlled and stable environment to manage investors' risk to acceptable levels, the consumers benefit from assured supply at satisfactory prices," it said.

Sacpa stated that the benefits derived by the industry due to reduced rail rates, price stability and consistency of quality amounted to about R1.1 billion a year. This meant the average selling price of cement was lowered by about R46/ton or 22%.

However, analysts believe all the major producers saw the writing on the wall when the ANC came into power and was strongly against collusive practices in business.
Cement giant cool on cartel's demise

Business Editor

The scrapping of the cement cartel "will not make any difference" to the country's biggest producer, Pretoria Portland Cement (PPC), according to its chairman, Warren Clelow.

Mr Clelow, who was opening the company's new office block (all built from concrete) at the Montague Gardens industrial estate last night, said the cartel had been a good thing for South Africa in the years it had existed "It was also good for the users."

The cement cartel was strongly criticised by Competition Board chairman Pierre Brooks in a report published last week.

The report, which recommends that the cartel should be phased out over the next two years, is with Trade and Industry Minister Trevor Manuel for a final decision.

Mr Clelow said PPC had sold a fair product at a fair price and would continue to do so.

"The company has undertaken to hold its price increases at sub-inflation levels until 1997."

He said PPC was the only cement company to operate nationally.

It had the largest spare capacity, the best distribution capability and in most areas the lowest delivered cost to the customer.

"It is therefore well placed to take advantage of the expected changes in the market once the cartel is officially disbanded."

Warren Clelow
Board rules on cement cartel

From ROBYN CHALMERS

JOHANNESBURG — The board that fixed prices and market share in the R14bn-a-year cement industry should be scrapped, the Competition Board has ruled.

The decision — which has sent shock waves through the building materials industry — is understood to have added pressure from Trade and Industry Minister Trevor Manuel and Public Enterprises Minister Stella Sigane.

It is a major blow for cartel members Pretoria Portland Cement, Anglo-Alpha and Blue Circle Cement, Analysts believed it could lead to sharply diminished profits.

The board's long-awaited report was handed to Manuel last week following a 16-month investigation. He is expected to make a ruling on the board's recommendations within weeks.

Manuel and Sigane's opposition to the cartel is in line with the reconstruction and development programme's opposition to market collusion.

Competition Board chairman Pierre Brooks said a number of factors were considered. The investigation was conducted with the co-operation of the SA Cement Products Association (Sacpa).

"Some of the arguments advanced by Sacpa were contradictory. For example, in arguing for the retention of the status quo it points to the capital intensive nature of the industry and the high risk involved and modest return on investment. At the same time, it denies that there are substantial barriers to entry."

Cartel members were consistently able to make profits and achieve returns on investment that were better than most other capital intensive companies. This was despite operating at about 62% of their collective capacity countrywide and despite the economic recession.

Sacpa argued that Cement Distributors of SA (CDSA), which is owned by the three cartel members, left to cost savings.

Brooks said the benefits of the transportation model, when assessed in relation to the industry's size, were not significant and did not justify continuing the exemption.

Blue Circle Cement chairman Graham Hardy said the organisation did not agree with the board's recommendations, but the exact import of the report was not yet clear.

"If the recommendations are ratified by Manuel, there could possibly be adverse implications for certain cement consumers and industry associate employees."

The industry subsidised the price of cement transported to rural and distant areas. This might no longer be possible.
Anti-cartel proposals see cement shares slip

THE share prices of cement producers Pretoria Portland Cement (PPC) and Anglo Alpha both lost ground on the JSE yesterday, following the Competition Board's recommendation that the cartel controlling their industry be scrapped.

PPC's share price fell R1.50 to R16.50 yesterday against a one-year high of R11.75 achieved in May, while the Anglo Alpha counter slipped R1 to close at R10.65 compared with a 12-month high of R12.65 in May.

Analysts said the sharply lower share prices were fuelled by market fears that the proposed disbanding of the cement cartel over a two-year period could lead to diminished profits for producers.

The Competition Board's proposals still had to be ratified by Trade and Industry Minister Trevor Manuel, but there was a high level of expectation that he would agree with the Board's 67-page report.

The report showed that cartel members PPC, Anglo Alpha and Blue Circle Cement had made profits and achieved returns on investment that were better than most other capital intensive listed companies.

This was despite operating at about 62% of their collective capacity countrywide and the lengthy recession in the building industry.

In 1992, Anglo Alpha showed a return on shareholders' interests of 15.8%, Blue Circle 12% and PPC 19.4% against Groenaker's 8.6%, Group S's 6% and Murray & Roberts' 12.5%.

Analysts said there were a number of scenarios which could develop should the cartel be dissolved. These included higher prices as a result of increased risk, additional capital and marketing expenditure and reduced investment in additional capacity.

But one analyst said higher competition among cement producers in a bid to gain market share could reduce prices in the short term.

The SA Cement Producers' Association pinpointed a number of further possible scenarios in a submission to the board. It said regional monopolies could be created as not all producers would be able to serve every market.

"The absence of the flexible source procedure and the rail distribution optimisation model will cause delivery times to extend. Some cost distortions will also result from cross haulage into competitive markets."
Wine boom is over — KWV

The boom since 1990 in wine exports has levelled out and more normal growth can be expected in increasingly competitive markets, says KWV.

The co-operative said in its annual report, total natural wine exports rose 12.2% last year to 2.58 million cases from 2.3 million.

This was a smaller increase than in the previous year "mainly as a result of worldwide recessionary conditions and the large European crops of 1992, which all but saturated the distribution channels in the international markets," it said.

This indicated that the "exceptional growth of the early '90s after the first lifting of sanctions against SA had now levelled out and more normal growth could be expected from now on," it said.

Exports to Britain reached a peak of more than one million cases, an increase of 50%. Competition in this market was stiff, mainly from Eastern Europe and South America, it said.

All sanctions were finally abolished in 1993. It said 1994 sales potential was promising, particularly in Canada, Sweden and Norway.

The "massive over-production of fruit" in 1993 in the Northern Hemisphere led to the over-production of fruit concentrate. This coupled with weak domestic demand resulted in the co-operative reporting sharply reduced net income of R23.5m in the year to December 31, 1993 compared with R55.5m the previous year.

KWV paid bonuses totalling R77.1m to grape juice producers compared to R30.2m the previous year. — Sapa
The study uncovered rapid increases and generally higher manufacturing employment (Heckert 1988). Textile and footwear have provided between 17.6% and 20.2% of manufacturing employment. Over the period studied, clothing, because of their relatively large contribution to manufacturing, together, they have accounted for 22% to 18.5% of the total number of plants (Census of Manufactures).

Furthermore, these industrial groups have been selected as the total number of plants (Census of Manufactures) in South Africa, clothing and
diversity and the degree of product differentiation
the nature of production in clothing is low as a result of capital
efficiency and the minimum efficient scale business growth. In particular, the sectors were chosen since they are commonly referred to as
and clothing sectors. For the period between 1951-1979, these sectors were chosen since they are commonly referred to as

Hence, this thesis is developed with respect to the textiles

methodology.

From the perspective to the general may offer a more effective
understanding of the barriers to mobility. Working
A study of one sector may offer clues leading to a more
When Porter abandons for lack of sufficient data (Porter
level alludes for an analysis of the strategic groups.
rate of concentration cannot be referred to all
furthermore, on the one hand, a general statement regarding the
panic textile as a case study offers a "two-sided"

Clothing and textiles in South Africa

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High expectations

In driving the share price to R110, the market has set PPC management quite a demanding task if investor expectations are to be met.

When a year ago the FM identified PPC as being underpriced, it was not envisaged that the share would double from its then high of R54. It has soared ahead of the industrial market as a whole, from a parity p/e relative rating in December 1993 to a premium of 45% now. Correspondingly, the discount based on relative dividend yields has reduced from 40% to 26% — the difference compared with the earnings-based rating being because PPC’s current dividend cover of 1.5 is exactly half the industrial market’s.

The underlying reason for PPC’s spurt is, of course, the realisation that the next major growth phase of the economy will be spelled GDP (gross domestic fixed investment). It also recognises that PPC is an exceptionally well-managed company and, with adequate spare capacity, stands to benefit handsomely from expenditure associated with the RDP programme.

Expectations built into the current share price nevertheless provide an interesting background against which to assess the 1994 annual report. Comparisons with years before 1993 have been complicated by a change in accounting policy, whereby joint ventures are now consolidated proportionally instead of being equity-accounted as was the case previously.

Except for 1993, the historical data stream has not been restated, and one is, therefore, to some extent comparing apples with pears in that the operations now consolidated were less profitable and financially weaker than the rest of the group. So while EPS have not been affected by this change, the same is not true for the rest of the income statement and balance sheet, where restatement of the 1993 financial statements has produced an all-round deterioration.

So as a first observation, it is pleasing to note that PPC has held or improved upon most of its 1992 profitability ratios. Gross return on total assets, for example, is up to 1992’s 20.1% after dipping to 19.3% (restated to 19.7%) in 1993. Return on equity, thanks to a lower tax rate, has climbed to 22% from 18.6% and 18.2% in 1993 and 1992 respectively.

It had less success, however, with the trading margin which, at 18.3%, has continued to decline from 1993’s restated 19.5% (originally 22.5%). Here, apart from consolidation of the lower-margin joint ventures, the ratio has been affected by a higher proportion of exports, the acquisition of a third cement distributor, and the fact that a fair proportion of last year’s sales was directed at improving customer service which does not necessarily produce significant short-term returns.

What is interesting here, however, is that it underlines the extent to which PPC has been preparing itself for the dismantling of the cement cartel over the next two years and the inevitable increase in competition that this will bring with it. PPC’s position in this regard is likely to be complicated by the fact that it already supplies about 45% of the domestic cement market. The recent recovery of the share price to within 4% of its 1994 high (R115) is at least an indication that the soothing noises from the company have been heeded by the market.

Part of the reason for this, no doubt, is the rapid growth in the cement market expected during the phasing-out period of the cartel, and beyond. PPC is operating at 72% of “active” installed capacity, up from 64% a year ago. Its first line of defence, as demand increases, is to recommission Dwaalboom which has 600 000 t of clinker capacity lying idle. This, according to management forecasts, will become necessary within two to three years, and would increase effective capacity by 14% at relatively low cost.

If these demand expectations are met, it will not take the group long to work its way through the additional capacity from Dwaalboom as well, so it is probably not too early to start considering the impact of another heavy capex phase.

As things stand, PPC is ideally placed to cope with a completely ungeared balance sheet and close to R700m in equity funds. Nevertheless, the days of being able to distribute two-thirds of earnings must be rapidly drawing to a close, and the probability is that any acceleration of earnings growth will be accompanied by an increase in dividend cover. Scrupulous dividend as introduced with effect from the 1994 final dividend, will offer some relief in terms of cash commitments but, even so, the future distribution pattern (as in 1994) is likely to settle somewhere between inflation and the annual rate of EPS growth.

Regards 1995, chairman Warren Clewlow is fairly noncommittal and merely forecasts “a further satisfactory improvement.” From the divisional reviews it is clear that at this stage the best relative performance is expected from the lime division, but as its 1994 pre-interest profit contribution was only 26% of the group total, this may not be all that significant in terms of overall results.

For the cement division, as for the group, the forecast is a bland “satisfactory growth” — the problem here being that last year’s results, at least in terms of turnover, were significantly boosted by exports. No repeat is expected in 1995 and the outlook therefore depends largely on the extent to which the currently envisaged 8% growth in domestic sales will be exceeded.

Given the extent to which last year’s results were enhanced by tax, it seems the group will do well to maintain its 1994 growth rate of 25%. Whether this will be enough to satisfy a hungry market remains to be seen.

Brun Thompson
New cement division to focus on govt plan

CEMENT maker Pretoria Portland Cement (PPC) has formed a new business development division in response to government's call for SA businesses to support its reconstruction and development programme (RDP).

PPC MD John Gomersall said yesterday the group believed it had a major role to play in realising the programme.

The new division would look at a broad spectrum of opportunities in the emerging construction market, he said.

It would not look only at grassroots issues but at the full spectrum, including black businesses needing help in expanding their small- and medium-sized concerns.

Gomersall said the company had drawn in staff from associate companies to form the business unit.

A team was already in place and would continue its discussions with key players in the RDP arena, especially black entrepreneurs, he said.

"We are totally committed to the RDP. We are running at half our capacity and have the room to supply cement to meet the expected demand."

ROBYN CHALMERS
Domestic cement sales increase 7%

DOMESTIC cement sales grew more than 7% in the six months to July, putting the industry on target for the first real annual increase in sales in more than five years.

Analysts said at the weekend that higher cement sales were indicative of a general upturn in the building and construction industries, and were fueling fears that huge price hikes in building materials were on the cards.

SA Cement Producers' Association executive director Graham Mitchell said the figures indicated the cement industry was coming out of its five-year trough.

Association figures showed domestic sales had risen from 3,99-million tons during the first six months of last year to 4,37-million tons for the same period this year.

The biggest rise was recorded in May, when a 13,14% increase was achieved as more than 824 632 tons of cement were sold against 332 101 tons in the previous period.

Mitchell said the statistics indicated that domestic sales could grow 10% this year. However, much of the present upturn is being generated by major projects which are peaking in terms of their demand for cement. These include Absaal, Columbus and the Lesotho Highlands projects.

Analysts believed that once demand from major projects dissipated, government's reconstruction and development programme (RDP) should kick in, boosting sales figures towards the beginning of next year.

Anglo Alpha MD Johan Pretorius estimated that the RDP should boost cement sales 8,5% on an annual average compound basis over the next five years. This would increase manufacturers' total revenue R1,6bn.

Industry players have agreed to recent calls from government for a voluntary social compact between building materials and construction companies to keep price hikes to a reasonable level.

But analysts feared that the upward pressure on prices due to higher demand could not be ignored by an industry which had been devastated by the longest recession since the Second World War.

Cracks have already begun to appear in the compact, with signs that smaller manufacturers are preparing to introduce price increases - a move which would seriously damage the RDP.

The trend towards higher prices could be seen in figures released by Stellenbosch University's Bureau for Economic Research. They showed that building costs rose 12% in the second quarter of this year compared with the same period last year.
Academics slam cement cartel

BLOEMFONTEIN - SA's cement cartel, which operates even in Namibia, can no longer be justified, say two academics.

Bloxfontein economics professor Frederick Fourie and Stellenbosch economics lecturer Andrew Smith made the submission in a joint paper delivered at the Economists, Business Economics and Manpower Research Conference yesterday.

The cement market was dominated by a Competition Board-sanctioned cartel comprising Pretoria Portland Cement, Anglo-Alpha and Blue Circle.

The three companies accounted for 95% of the country's cement production, they said.

However, most of the smaller companies were controlled by the big three, which also had a controlling interest in the largest producers of the slag and fly ash necessary for producing cement.

The three largest cement merchants and retailers were owned by PPC and Anglo-Alpha.

The big three had entrenched their position in the market through regional monopolies and vertical integration which extended into the building industry itself.

The cartel had been in place for 20 years and there had been no new entry into the market since 1994 because of "formidable structural barriers", they said.

Attempts to import cement were countered by the big three by under-cutting the price or by filling complaints with the Board of Trade and Industry, claiming "unfair dumping".

Against this evidence it was unlikely that local rivals would be able to make serious inroads into the market, they said.

With competition eliminated, the average profit rates in the cement industry had been "roughly twice that of the building materials industry and four times that of the manufacturing sector" between 1972 and 1990, the two academics said.

The Competition Board could no longer justify the cartel, given the important socioeconomic role the cement industry would play in addressing the national infrastructure and housing backlogs.

Various structural features pointed to monopoly abuse. "The evidence made a very strong case that cement prices are set in excess of their marginal cost, with the normal monopolistic misallocation of resources. Evidence of supra-normal profit rates and rates of return in the face of declining productivity in the industry strongly supports this case."

However, even if the Competition Board did prohibit the cement cartel, the industry would not automatically become more competitive, because of structural deficiencies.

"Unless these structural features are addressed the cartel may simply continue in another, tacit form."

The Competition Board was reassessing the cartel. - Sapa.

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**Telecommunications forum launched**

**MELANIE SERGEANT**

The forum, through 10 working groups, plans to provide a platform for all players in the telecommunications industry to discuss issues and influence national policy.

Telkom said it recognised the forum as representing its full range of customers. It had R600 000 "in kind" to the forum secretariat for administration costs.

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**Telkom ‘must get on affirmative action’**

BLOEMFONTEIN — A new government was unlikely to accept Telkom in its present form, was told yesterday, by Telkom's Delano de Witt said at the annual Economics, Business Economics and Manpower Conference yesterday.

Discouraging affirmative action, they said it was essential for Telkom to keep abreast of changes.

Telkom's management board supported affirmative action because of shifting political pressures, the possibility of a new government imposing quotas on companies to appoint blacks and other disadvantaged people to skilled and management positions, and the shifts in the company's customer base. An affirmative action policy was in the interests of a company's long-term success and survival, they said.

Telkom's approach was to balance a top-down approach with a participative, bottom-up approach. While some supported affirmative action, the management board said it had to play a directive role in getting affirmative action off the ground. - Sapa.
Manuel to move on cement cartel

From SAMANTHA SHARPE

JOHANNESBURG. - Trade and Industry Minister Trevor Manuel yesterday told the cement industry he had accepted the recommendation of the Competition Board to disband the cartel within two years.

Cartel member Pretoria Portland Cement (PPC) group MD John Gomersall said PPC had received confirmation that the cartel was to be dissolved, a decision the industry had been expecting since the board's findings late in September.

Gomersall said the Minister's decision in favour of a gradual phasing out of the cement cartel over the next two years, coupled with rising demand, should ensure a relatively smooth transition for the industry to a free market system.

He said that his group's results, posted on the same day as the Minister's decision was conveyed to the industry, reflected a pleasing improvement in the group's trading environment.

While the year ahead would continue to show improvements, changes in the cement market arrangements had made it more difficult to forecast the company's financial performance.

He said PPC would play a role in the success of the RDP through its commitment to keep cement prices below inflation for the next three years.

Despite sub-inflation cement and lime prices, PPC posted a 25% rise in earnings to R75,1c a share for the year to September.

An improved trading environment helped lift turnover 26% to R1,33bn, with net income before tax up 15% to R254,7m.

A reduction in the tax charge, which included the secondary tax on companies, the 5% transition levy and the effect of the reduced taxation on deferred taxation, helped towards a 26% increase in net income after tax to R153,7m.

The 25% rise in earnings a share was accompanied by a 10% increase in dividends to 200c a share. PPC said it would give shareholders the choice of taking new shares in place of a cash dividend.

Turnover in PPC's cement division rose 33% to R948,3m, spurred by a sharp rise in exports and an increased share of the cement distribution market.

However, the substantial growth in the distribution and export activities, conducted at relatively small profit margins, translated to a decline in average cement and group operating profit margins.

PPC Lime benefited from a 2% increase in sales volumes, with turnover and earnings up 11% for the year.
Cement ‘in danger of price hikes’

By Ciaran Ryan

THE government’s approval this week of Competition Board recommendations to dissolve the cement cartel has opened the way for price competition between the country’s three producers.

However, the Free Market Foundation warns that a forced break-up of the cartel could lead to higher prices.

“If the cartel breaks up, prices could drop for a while but in the long term there is a danger they will rise,” says Rian Dave, a director of the foundation.

“This amounts to government intervention in a free-market arrangement. Unlike the fuel industry, the cement cartel was unfairly benged from a consumer point of view. Because the three producers did not compete on price, there was a saving which was passed on to consumers. There is no evidence of monopoly pricing.”

Mr Dave says that in a free market environment, cement producers would seek geographical exclusivity by buying and selling plants to achieve dominance in certain areas, but it is unlikely the Competition Board would permit greater concentration. High transport costs might dissuade competitors from entering distant markets.

The foundation says the cartel was a free market arrangement between producers whereby they agreed not to compete on price or across geographical boundaries.

The three producers are Pretoria Portland Cement (PPC), in which Barloways has a 65% stake, Anglo-Alpha, owned by Anglovaal and Holderbank, the Swiss multinational, and Blue Circle, owned by Murray & Roberts. A fourth producer, Natal Portland Cement, is jointly owned by PPC, Blue Circle and Anglo-Alpha.

John Gomersall, PPC’s managing director, says: “Obviously, we have considered the implications of a break-up of the cartel for some time and have developed various strategies to deal with the situation.”

“There has been an upturn in demand for cement this year which we expect to continue as the economy recovers, and this would also ease the transition.”

The market-sharing agreement covers about 70% of cement sales in South Africa, with PPC holding 40.75% of the market, Anglo-Alphas 35.75% and Blue Circle 23.5%. Natal Portland Cement produces 15% of the country’s cement sales, mainly in the Natal coastal region, and as a PPC subsidiary, Cement Sales, produces a further 15% in the Western Cape, where it is the sole supplier.

PPC is the dominant player, with a total market share of about 48%. It also has the best geographical spread of plant and the lowest unit costs in the industry.

The foundation says there are no tariffs on cement imports and no barriers to entry. South Africa imports relatively little cement because of discounts by local producers.

“Critics of the cartel claim that high capital costs are a barrier to entry,” says Mr Dave. “This is true if we are talking about the man in the street entering the industry, but it would not prevent well-capitalised companies such as Anglo-American setting up a cement plant.”

Professor FC Fourie of the University of the Orange Free State and Andrew Smith of Stellenbosch University argue that the cement producers, by backward integration, have monopolised the country’s commercially viable lime deposits, creating another barrier to entry.

This is disputed by some in the industry who claim that large, independently owned limestone deposits create openings for new entrants. There has been mention of a possible new competitor because of its large limestone deposits.

The industry has the capacity to produce about 12-million tons of cement a year, but is currently operating at 60% capacity because of the slump in the construction sector.
Cement cartel probe warning

ROBYN CHALMERS

CEMENT sales could be hit if the controversial cement cartel was dissolved, SA Cement Producers' Association (Seca) executive director Graham Mitchell said in his annual review.

Mitchell said domestic sales should rise 3% this year, showing growth for the first time since 1989.

Sales have been on a downward spiral over the past four years as building activity has been negatively affected by falling gross domestic fixed investment (GDFI). GDFI reached an all-time low of around 16% of GDP last year against an estimated 28% in the early 1980s.

But the tentative upturn could be stunted if a current Competition Board investigation ruled that the cartel be partly or fully dissolved.

Although prices could come down in the short term, the influence of higher risk which demanded higher returns, together with additional capital and individual marketing costs, could push prices up. The risks of investing in an unmanaged market would be too great at the current selling price, potentially leading to longer-term cement shortages.

Regional monopolies could be formed which tended to result in higher prices, and the absence of a flexible sourcing policy and higher transport costs could cause delivery times to extend.

"A quality race could result in the rapid depletion of the country's high-grade raw materials," Mitchell said.

These factors could ultimately have an effect on the ability of cement producers to meet demand.

"There are no artificial barriers to entry to the local industry and secondly, the sector receives no tariff protection or government handouts.

"Despite this, there have been no new entrants into the industry since 1988 and there have been no significant imports of Portland cement. This implies that SA cement is competitively priced."

In the short term, Mitchell said there were several factors pointing towards a housing-led recovery for the industry, starting later in 1994.
Cement cartel verdict delayed

A DECISION by Trade and Industry Minister Trevor Manuel on the Competition Board's recent recommendation that the cement cartel be scrapped as expected only within a few weeks.

A Trade and Industry Ministry spokesman said the report was regarded as a priority by Manuel. However, no decision was likely before he returned from overseas in November.

The three members of the cartel — Anglo Alpha, Blue Circle and Pretoria Portland Cement — have been gearing up for its dissolution.

Anglo Alpha marketing director Trevor Wagner said the group had anticipated the break-up for a number of years, and had formulated strategies.

PPC was also gearing up to provide a full range of services nationally should the cartel be officially dissolved, chairman Warren Clewlow said recently.

Anglo Alpha's share price stood at R109 on September 20, the day the report was released, and closed untraded yesterday at its ruling price of R73.

PPC's share price dropped from R73.50 on September 20 and had weakened slightly to R66 yesterday.
PPC turns in a solid half-year performance

PRETORIA Portland Cement (PPC) reported a 27% increase in earnings to R51.7c a share (R23.3c) in the six months to March as a result of improved investment income, maintenance of profit margins and a lower tax rate.

To reduce the disparity between the interim and final dividend, an interim dividend of 65c was declared, 30% up on the previous 50c paid.

Taxed profit rose 22% to R62.1m (R51m) while operating profit increased 16% to R110.6m (R94.3m).

Turnover increased 16% to R121.1m (R106.8m), boosted by exports of surplus capacity from PPC’s Western Cape factories.

PPC Lime showed a slight increase in volumes and, thanks also to production efficiencies, reported a marked improvement in results.

However, group MD John Gomersall said PPC Lime’s rate of increase was not expected to continue in the second half in the light of expected increases in energy costs.

Other investments showed significant improvements following the sale last year of the company’s investment in loss-making Parem Enterprises and better results from distribution activities and associate companies.

The group also acquired 100% of the issued share capital of cement distribution company M-Pohrer & Son for R12m.

Gomersall said cement sales in the next six months were likely to be 3%-4% above last year’s volumes but was cautious about any further significant short-term improvement.

He said real benefits from the ANC’s proposed reconstruction and development plan would not be seen in the next half, as it would take the new government some time to implement the programme.

“With a new democratic government and the emphasis on reconstruction and development, there is no doubt PPC has an important role to play.”

Company shares traded on Wednesday at a new high of R9.5 a share, ahead of today’s results.
Cement makers consider Mozambique

SA cement companies are considering tendering for a majority stake in the soon to be privatized Mozambican company Cimentos de Mozambique.

The Mozambique government wants $10m for the 51% stake, but tenders will be allowed for individual plants.

The company has three plants: Matola near Maputo, Dondo near Beira and Nacala in the north of the country. Blue Circle Cement MD Piet Strauss said yesterday the Matola plant was being upgraded, while the Dondo facility was almost unoperational and Nacala was operating on a limited basis.

The plants were using imported clinker — semi-processed cement — to make cement and were operating far below capacity. But the cost-effectiveness of increasing production had to be considered.

“We are conducting a feasibility study before making any final decision about whether to tender, what to tender for and how much to offer,” Strauss said.

Anglo Alpha deputy MD Ron Searle said the company was investigating the offer and the refurbishment costs, and had until mid-June to submit its tender.

PPC MD John Gomersall said the company was considering the matter.
SA cement companies in bid for $13m Maputo deal

JOHANNESBURG — SA cement companies are considering tendering for a majority stake in the soon-to-be-privatized Mozambican company Cimentos de Mozambique.

The Mozambican government wants $13m for the 51% stake, but tenders will be allowed for individual plants.

The company has three plants: Matola near Maputo, Dondo near Beira and Nacala in the north of the country.

Blue Circle Cement MD Piet Strauss said yesterday the Matola plant was being upgraded, while the Dondo facility was almost unoperational and Nacala was operating on a limited basis.

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Anglo Alpha deputy MD Ron Searle said the company was investigating the offer and the refurbishment costs, and had until mid-June to submit its tender.

PPC MD John Gomersall said the company was considering the matter.
Cement producers flourish

The share prices of cement companies Anglo Alpha and Pretoria Portland Cement (PPC) have soared to seven-year highs over the past month, bolstered by an expected boom in the construction industry this year.

SA Cement Producers' Association executive director Vincent Bray forecast 3% growth in cement sales this year, the first increase since 1998.

He cited a general improvement in economic conditions and the next government's expected housing and infrastructural initiatives.

Expected spin-offs from state-driven housing and infrastructural plans have boosted the confidence of local and foreign investors.

Anglo Alpha’s share price has gained from R18 to R31 this month, PPC's counter has increased by R7 to R77.

Market analysts said the PPC rise was based on expectations and a solid profit history rather than the group's performance in the year ended September 1993.

Faced with falling industry cement sales and poor building conditions, PPC posted 13% growth in earnings a share to 299.8c (265.5c) on a 9% rise in turnover to R884.8m (R809.5m).

The group's cement sales dropped 5% to 2.8-million tons. Plants operated at 56% of capacity.

Operating in the same environment, although off a low base, Anglo Alpha was helped by rigorous cost-cutting and tight asset management to boost earnings a share by more than a quarter to 211.5c (163.5c) for the year ended December 1993. Turnover rose 16% to R877.2m (R756.9m).

The chairmen of both groups were optimistic about the future in their 1993 reports.

Anglo Alpha chairman Peter Bryland said he expected the group's profitability to increase "slightly in excess of the inflation rate".

PPC chairman Warren Ciewlow said he was optimistic earnings would rise by at least the rate of inflation this year. Sustained economic improvement was likely to "translate to real growth in earnings and dividends".

Robyn Chalker
Anglo-Alpha defends keeping cement cartel

SA's cement cartel should remain intact as it offered stable prices and kept expensive imported cement offshore, Anglo-Alpha chairman Peter Bryland said in the company's 1993 annual report.

He said the cement industry's "selling arrangements" had been authorised 20 years ago when it was granted an exemption from the Competition Act. "There has been no change to justify a review of this exemption."

The cement cartel includes Anglo-Alpha, Portland Cement and Blue Circle. The Competition Board is expected to publish a report on the cartel in April.

Market analysts believe it could not be disbanded or have its powers curtailed.

Bryland said if the current pricing system was to fall away, the more powerful customers would be able to squeeze out smaller cement suppliers by negotiating larger discounts.

"The cartel's selling arrangements also reduce the risk of what is traditionally, because of its capital intensity, a high-risk business."

"The current system has been designed to ensure that customers were not prejudiced by their location during periods of possible product shortage."

Analysts said the Competition Board had found that the cartel's restrictive practices were not against the public interest and doubted whether its disbandment would affect the industry. But the worldwide swing against cartels would have to be taken into consideration.

Meanwhile, Bryland said that as the sector was largely dependent on mining, "certain suggestions on the future ownership and exploitation of SA's mineral wealth would seriously impact on the viability of the building material supply industry."

He said Anglo-Alpha was forecasting a modest increase in sales. With successful cost containment, profits would stay slightly ahead of inflation.
Cement sales may rise R400m a year

CEMENT sales could increase by R400m a year if the new government goes ahead with plans to reduce the estimated 1.4-million housing backlog by building 300,000 low-cost houses a year.

A Pretoria Portland Cement (PPC) study on cement demand and housing shows that 3.1-million tons of cement would be needed to build the required number of homes.

This translated into R6bn a year being spent on housing — about 2.8% of the 1992 GNP.

This scenario, which analysts regarded as highly feasible, would be good news for the beleaguered construction sector and the cement industry in particular.

Figures from the SA Cement Producers Association show that sales have been on a downward spiral since 1989. Domestic cement sales totalled 7.468-million tons in 1991, fell 3.7% to 7.194-million tons in 1992 and were expected to drop marginally to about 7.179-million tons last year.

SA’s three cement producers, Anglo Alpha, Blue Circle and PPC, have been operating at about 66% of their capacity.

The drop in demand was reflected in the falling level of gross domestic fixed investment. This has decreased sharply since the mid-1980’s, when the fixed investment figure was at about 28% of GNP, to its current level of about 16%.

The PPC scenario showed that domestic cement consumption would have to grow at an annual rate of 4.5%-5% until 2005 if producers were to reach their full production capacity of 12.6-million tons.

Analysts said government would have to increase their spending on infrastructure and housing in particular if the required consumption levels were to be attained.

"Government is currently spending 2.4% of GDP on the construction of houses. This compares poorly with other so-called developing countries such as Mexico, Singapore, Greece and Venezuela where the spending averages about 4.8% of GDP," an analyst said (193).

The producers' association's executive director Vincent Bray said the provision of affordable housing was the most likely area for a break in the construction industry trend. One of the spinoffs would be the release of a pent-up demand for cement and cement-based products.

Not only would associated industries benefit from the housing initiatives, but employment figures would receive a boost and communities would become empowered through skills training and delivery mechanisms.
Probe could sink cement cartel

THE Competition Board's report on the cement cartel is expected in April, with market analysts predicting it could be disbanded, or its powers curtailed, before the next government takes office.

Competition Board chairman Pierre Brooks said an investigation into the cartel — comprising Pretoria Portland Cement, Anglo Alpha and Blue Circle — had been under way since last April and had been given high priority.

Brooks declined to say what the board's recommendation would be. However, JSE analysts said there was a possibility that the cartel could be disbanded even though there were economic arguments to support it.

One analyst said it had made economic sense to maintain the cartel in the past, largely as a result of the long distance cement had to be transported and the disadvantageous volume/value ratio of cement.

But, given the importance of cement in alleviating the national infrastructure and housing backlogs, there could be pressure to dissolve the cartel. "There is a strong core of opinion that it can no longer be justified," he said.

Analysts were dubious about the effect disbandment would have on the cement industry. They believed it was unlikely that such a move would result in casualties among the three players and doubted that new players would enter the market in the short term.

An analyst said the Competition Board had undertaken numerous investigations into the cartel and had found on each occasion that restrictive practices were not against the public interest.

"But SA's political environment has changed and there is a worldwide swing against cartels which will obviously have to be taken into consideration," he said.

Another analyst said returns realised by the three companies — which produce 95% of SA's cement — had remained above the construction industry average for more than 20 years.

In a joint paper submitted to the Economics, Business Economics and Manpower research conference in Bloemfontein last year, Stellenbosch economics lecturer Andrew Smith and Bloemfontein economics professor Frederick Fourie came out strongly against the cartel.

They said the big three had entrenched their market position through regional monopolies and vertical integration which extended into the building industry.
Independence spells good times for cement

RISING use of cement in African countries after independence gives PPC's John Gomersall grounds for optimism.

Since 1980, Zimbabwe's cement use has grown at a compound annual rate of 6.5%. That of Kenya increased at 10% over 30 years and at 24% in the early years. Less prosperous Zambia's output has climbed 2.1% a year in the long run, but grew at 14% for the first eight post-colonial years.

Use of cement in Mozambique, alas, fell by 6% a year and Angola also went backwards. Mr Gomersall says cement sales measure a nation's wealth or poverty.

PPC makes cement, lime and limestone, paper sacks and other packaging. It supplies nearly half the SA cement market and 60% of the lime business.

The JSE tends to agree with Mr Gomersall's optimism. PPC's share price has climbed from R37.50 last June to R64, having touched R70 on December 31.

PPC earned R20c a share in the year to September 1993 and paid 215c, giving it a historic price-earnings ratio of 21 and a dividend yield of 3.5%.

Group turnover of R844-million was 9% higher than in the previous year, but cement sales dropped 5% to 2.5-million tons - capacity is 3.2-million tons a year.

Between 1990 and 1992, per capita use of cement in SA fell by 30% to 192kg. Its lowest in the 1970s was above 230kg. The peaks were nearly 300kg.

Mr Gomersall says that in world production terms, SA is a B-team player at below 16-million tons a year. Production in Africa in 1970 was 18.6-million tons, of which SA output was 31% - the biggest single share.

But by 1990, when African production had trebled to 55-million tons, SA had only 15%, Morocco, Algeria and Egypt all having jumped in the cement table.

Cement is difficult to export because of its high volume and low value.

Domestically, the sales pattern correlates to the level of gross domestic fixed investment (GDFI), but is heavily influenced by political disruptions.

Sales dropped after the Sharpeville and Soweto riots, boomed with the gold price in the late 1970s and crashed with the 1973 Rhodesian speech by P W Botha.

Mr Gomersall says World Bank guidelines for developing nations such as SA are for GDFI to comprise 25% to 30% of total gross national product (GNP).

SA has achieved this in the past, helped by big projects such as Sarel. But it falls short now. For SA's GNP level, it should be using 280kg of cement a head every year - nearly half as much again as at present.

The high-road scenario-planners are looking for an average compound GDFI growth rate of 8.5% until 1999 and 4.1% overall to 2005. SA is well behind in housing, which comprises only 2.4% of GNP, about half the percentage spent by other developing nations such as Singapore, Mexico and Greece and on par with underdeveloped Sri Lanka and Kenya.

Source: PPC.
Growing cement sales support upswing forecast

A further indicator of the predicted economic upswing this year was evident in cement sales, which grew 14.7% during November 1993 over the same period in 1992, according to Cement Producers' Association figures.

Analysis said SA Federation of Civil Engineering Contractors figures showed that important indicators such as tender activity and contracts awarded supported the view that the industry had turned.

Cement Producers' Association executive producer Vincent Bray said the Building Federation of SA and the Federation of Civil Engineering Contractors had both predicted an improvement in building activity this year which would boost cement sales.

He said the government's low-cost housing initiatives were expected to get off the ground this year.

This would aid the cement market, which has been hard hit by falling gross domestic fixed investment and the slump in the construction industry, Bray said.

The Columbus stainless steel project was aiding sales and the Lesotho Highlands Water Scheme was starting to take up small volumes. The Krivons Abesal project should accelerate growth during 1994.

Lacklustre sales during the first half of 1993 pulled down cumulative sales figures for the 11 months to November. They were 0.08% lower than the same period in 1992, but prospects for this year were bullish.

Producers' figures showed total sales for the 11 months amounted to 6.71-million tons against 6.72-million tons in the 1992 comparable period.

Bray said sales for the first four months of 1993 were below those in 1992, but the deficit had been reduced considerably during the year as sales rose towards the end of 1993.

The increase in November's sales was the second highest recorded last year, surpassed only by a 17.4% rise in August.

The August figure, however, was largely due to a greater number of working days than July.

Association members include the three-member cement-producing cartel of Pretoria Portland Cement, Blue Circle and Anglo Alpha. The shares of both Pretoria Portland Cement and Anglo Alpha have moved up sharply over the past four months, indicating the market's confidence in the cement sector this year.

Pretoria Portland Cement's share price hit a 12-month high at the beginning of this month, trading at 7 000c against a 12-month low of 3 750c in June 1993. It closed at 8 230c yesterday. Anglo Alpha's share price closed at 8 500c yesterday, just below the 12-month high of 7 600c it reached last Friday and well up on the 12-month low of 3 100c in January 1993.

Domestic cement sales
Cement price rises at sub-inflation levels until 1997

PPC makes pledge of support for RDP

BY JOHN SPIRA

PPC, SA's largest cement producer, has undertaken to hold its price increases at sub-inflation levels until the end of 1997.

The initiative can be viewed as a major contribution to keeping a lid on the cost of affordable housing and other building and construction programmes.

MD John Gomersall says the undertaking—a social compact with the people of South Africa—is at the core of his group's contribution to the Reconstruction and Development Programme (RDP) to which PPC is fully committed.

PPC promises that it will not raise its ex-factory prices at a rate exceeding the rise in either the consumer price index or the producer price index (whichever is the lower) between now and the end of 1997.

Although cement comprises only 5 to 8 percent of the cost of an average house, Gomersall hopes that the PPC undertaking will convey a message to other suppliers of building materials.

"The message reads that by keeping a lid on price increases, SA will be able to build more homes from its limited resources."

"For the reconstruction and development process to succeed, a crucial component is the provision of affordable housing on a huge scale and of schools, hospitals, roads, fresh water and sewerage facilities."

Gomersall stresses that PPC's price commitment will stand, whether or not the controversial cement cartel is to be scrapped.

"We will compete in any market system. As long as there is certainty over the rules, we shall continue to conduct our business in the best interests of our consumers and our stakeholders."

Would not the undertaking to keep prices down impact negatively on the returns of investors in PPC?

"Not at all," says Gomersall. "What we might lose in price leverage, we expect to more than compensate for in terms of volume leverage. We are already witnessing a heightened demand for cement and we expect that trend to remain in place as growth gains momentum."

The price undertaking aside, PPC has invested much time, effort and money in the realisation of the aims of the RDP.

"We are investing in the necessary facilities to widen the availability of more affordable cements aimed at meeting the needs of the RDP. But our commitment goes beyond a simple focus on our market."

"We are ensuring that all our employees have proper housing, healthcare, schooling for their children, and a cleaner environment in which to live and work."

"And we are empowering and developing our people to play a meaningful role in our business and in the communities in which we operate."

Additionally, PPC has formed a new business development division to bridge the gap between the formal and informal sectors in building and construction.

The unit is busy creating a nationwide series of commercially operated development centres containing businesses run by local entrepreneurs.

Gomersall explains: "These centres will act as focal points for economic empowerment and development in the spheres of brick and block manufacture, the transport and retail and wholesale distribution of building materials, as well as building and contracting.

"The centres will provide access to finance, mentoring and the development of business skills."
Cement cartel ‘ready to face the competition’

By SVEN LUNSCHIE

THE cement industry is preparing for a possible break-up of the cartel agreement that for years has enabled the three producers to fix prices, control production and share the market.

The Competition Board is handing the government and the industry its recommendations this week after a plenary board meeting on Wednesday. Early indications are that the cartel’s life will not be extended.

“We are not aware of the recommendations that the Competition Board has made, but we are confident that we can compete in any market structure,” says Clive Tasker, PPC’s director for cement marketing and distribution.

Johan Pretorius, managing director of Anglo Alpha, adds: “We have been preparing ourselves for the worst-case scenario by measures such as staffing up our marketing departments.”

Industry sources say the impact of a possible break-up will depend on whether the government will go for complete deregulation or only partial measures, such as allowing the jointly controlled Cement Distributors of South Africa (CDSA) to continue.

“The government has committed itself to strong anti-trust policies and they will want to be seen to deliver,” says Mr Pretorius.

Critical to the government’s decision will be the impact on cement prices, particularly as its housing programmes are about to kick-off.

Industry sources do not expect a major change in recent cement price trends although they admit the initial impact of a break-up could lead to a fall in prices.

Mr Pretorius goes further: “There might be a price war for a short period, but in the longer term companies will not be willing to expand if they lack the security of the cartel.”

Recent price increases have not been excessive, the industry claims. Over the past few years ex-factory prices of cement have consistently been lower than the CPI.

However, it is the steeper increases of prices at the retail level — over which the producers have little control — that is worrying the authorities.

While cement accounts for only between 5% to 8% of total material costs of a house, the National Housing Forum recently expressed concern at the impact of high cement prices.

“Price and availability of cement will be crucial over the next two to three years and we are examining a number of ways of keeping down costs,” says Mr Tasker.

Options include a “low-price” social compact and shortening the route from the time the cement bag leaves the factory to the building site.

This week PPC committed itself to keeping cement prices at sub-inflation levels until the end of 1997 irrespective of the market structure. Anglo Alpha is considering a similar move.

While the break-up of the cartel could turn out to be a financial headache for the companies it could also develop into an administrative mess. In the extreme scenario the three producers could be forced to break up all ventures they jointly control.

The most crucial one would be the CDSA, which, according to the industry, provides cost-effective and rational distribution of cement.

A break-up of the CDSA would represent a financial setback, forcing producers to establish new distribution and marketing networks. Transport costs account for about 25% of the price of cement and this could rise if the CDSA is removed.

Other joint ventures in the industry include Ash Resources and Slagment, two feedstock companies, cement producer Natal Portland Cement, the Portland Cement Institute which provides technical and training services to industry customers and the SA Cement Producers’ Association, the industry’s umbrella body.

Analysts say large price hikes after the break-up will be avoided simply because the industry is operating at only 65% capacity.

Announced first-half sales figures suggest a market of about eight-million tons, a rise of about 15% on 1993. Yet industry capacity is 13.5-million, enough to absorb the estimated rise of 8% to 10% in demand during the first part of the housing programme.
Cement cartel to be disbanded

BY THABO LESHILO

The cement cartel is to be disbanded within two years, says Competition Board chairman Pierre Brooks.

"At a meeting held on September 14 1994, the Board decided that the exemption granted to South African cement manufacturers in September 1988 in respect of price fixing, market sharing and collusion on conditions of supply, which are all practices prohibited in terms of Government Notice 591 of May 2 1986, should be withdrawn," he said yesterday.

Brooks said the decision followed a thorough assessment with the full co-operation of the SA Cement Producers Association (SACPA), made up of PP Cement, Anglo-Alpha and Blue Circle.

The Board's report makes the following important points:

- Price fixing, market sharing and collusion on conditions of supply are unlawful and the credibility of competition policy requires that grounds on which exemptions are granted be narrowly circumscribed and consistently applied.

- The agreement creating the 20-year old cartel places it in a monopoly situation, locking the three conglomerates in "a pact not to compete."

- The SACPA believes it is an efficient organisation and that consumers benefit appreciably from the cartel's computerised transportation model. However, the benefits are insignificant when assessed in relation to the size of the industry.

- The principal beneficiaries of the exemption were the cartel itself, with benefits to consumers being less obvious.

- Some of the arguments advanced by the SACPA were contradictory.

Brooks said: "The Board's decision remedies a situation that was at variance with its view that a competitive environment is the most effective way of ensuring the proper allocation of a country's resources, the efficiency and international competitiveness of local businesses."

Industry sources said that the Big Three had been expecting the scrapping of the cartel and had prepared contingency plans to handle the situation. How it all played out, however, remains to be seen.

Initially, additional investment would be required to help expand market coverage. But in the longer term, sources felt the industry as a whole would benefit, with the more efficient, emerging leaner and with a larger market share.
cemem producers to fix prices and determine market share as a legal cartel. Cement producers are still digesting the 67-page report. They could well decide to petition the Ministry of Trade & Industry on the board's findings.

But the news isn't all bad. The board hasn't ordered a restructuring of the industry and has given producers two years to implement its recommendations. This means Natal Portland Cement — a joint venture of the three cartel members, PPC, Anglo-Alpha and Blue Circle — is not affected and co-operation that is not anti-competitive isn't ruled out.

The board's report states "if, following the withdrawal of the exemption, there is clear evidence of inter-firm competition, this may well suffice to show that the industry does not require restructuring." Rejecting arguments that forbidding express collusion would lead to tacit collusion, the board notes that express collusion is an offence while tacit collusion is not.

Similarly, it discarded arguments that dismantling the cartel would lead to spatial monopolies "This reasoning ignores the fact that the cartel is now a monopoly that covers the entire country. From a competition point of view, it is preferable to have some spatial monopolies and inter-firm competition in the rest of the market, particularly since spatial monopolies would be vulnerable to import competition."

The board was also clearly unconvinced that cement producers are sacrificing profits in return for being allowed to operate in an almost risk-free environment. "Comparing the return on assets of the cement industry with that of other capital-intensive industries, the cement industry yields returns that are more stable than that of other industries and tend to be on the higher end of the spectrum," the report says.

Producers argue that no legal barriers to entry exist. The board disagrees. "Even the few companies with the resources to enter the industry would be reluctant to confront a conglomerate-linked cartel that covers virtually the entire market. The present exemption can be justifiably seen as an important and decisive factor in discouraging new entrants." Rejecting arguments that the cartel is an "effective monopoly that keeps prices down through lower input costs because of industry certainty," the board notes that the principal beneficiaries of the cartel are the three members.

Couched within the report is also a warning to industry that market force manipulation won't be tolerated. "There are those who oppose government regulation of the economy or any tampering by it with market forces, but who, apparently, are comfortable when such tampering is done by private sector firms."
PPC to build cement and fly ash plant in Botswana

PRETORIA Portland Cement (PPC) has joined forces with the Botswana Development Corporation (BDC) to build a R220m cement and fly ash blending and packaging plant in Gaborone, PPC said yesterday.

The move is the first step toward establishing a fully-fledged cement industry in Botswana.

PPC group MD John Gemersall said a joint venture company, Compak Botswana, based in Gaborone, had been set up by the two groups.

It would be managed by PPC and the first cement products were expected in June 1996.

Gemersall said the company’s slurry factory had been supplying cement to Botswana for many years.

PPC would supply the cement for the plant from its slurry factory, with fly ash supplied by the Botswana Power Corporation’s Morupule Power Station.

“The development of a cement industry in Botswana is expected to generate additional employment opportunities, enhance the growth of satellite companies and develop local skills,” he said.

BDC MD Michael Molefane said a number of local industries would benefit from the venture, including cement bag manufacturers and Botswana Rail.
RDP 'to boost cement sales'  

GOVERNMENT's reconstruction and development programme (RDP) should boost cement sales 8.5% on an annual average compound basis over the next five years, increasing manufacturers' total revenue R1.6bn, Anglo-Alpha MD Johan Pretorius said yesterday.

Pretorius said these figures related largely to government's aim of building a million low cost homes in five years.

"While these figures are rough estimates, they signify that cement manufacturers are expecting a large increase in demand over the next few years," he said.

"Companies are gearing up for greater demand, and Anglo-Alpha is considering building another kiln at its Dudfield plant. We will have to decide whether or not to go ahead within eight months so the kiln can come on stream by 1998," he said.

Pretorius said future expansion by the cement industry to meet higher demand could be adversely affected if the Competition Board's investigation into the controversial cement cartel recommended that it be disbanded.

Board chairman Pierre Brooks is expected to submit recommendations on the cartel to government within three weeks.

Pretorius said there had been no indication on the direction of the proposals.

"Neither do we know with any certainty what will happen if the government decides to disband the cartel. There are a number of possible scenarios, including a price war where prices could decrease in the short term and then rise sharply.

"Most producers are operating on capital returns of between 10% and 13%, which they can live with because the cartel reduces risk. But if it is done away with, producers will be looking for returns of at least 18%, and prices will rise as a result."

SA Cement Producers' Association figures showed local cement prices were relatively low SA's prices were in the bottom five out of 14 countries surveyed.

Pretorius said cement producers would be prepared to sit on a forum to discuss the best method of keeping price increases reasonable to assist the RDP.

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ROBYN CHALMERS
The end of protection?

The Competition Board is unlikely to extend the life of the cement cartel later this month if consistency in competition law is a priority. Cartels were outlawed in the Eighties but the three cement producers — Proctora Portland Cement, Anglo-Alpha and Blue Circle — continued to operate as one because of an exemption granted by the board in 1988. At the time critics argued that this type of concession smacked of crony capitalism.

After an extensive international investigation of the industry, the board decided that cement producers should be allowed to fix prices, control production and share the tariff protection that is phased out. Why should paper giants Sappi and Mondi, for example, also not benefit from an exemption?

There have been no new entrants to the cement industry since 1921, despite the availability of large limestone deposits. The cartel suggests that the large capital amounts involved don’t offer investors sufficiently lucrative returns and that it would take four years to build a new production facility. So why, critics ask, do producers need continued legal protection if entry is so unattractive?

The board will have to consider to what extent a legal cartel has deterred newcomers. Substantial spare capacity — now mothballed — also serves as a deterrent.

Competition law doesn’t rule out monopolies and a certain amount of co-operation between competitors, but it does prohibit price-fixing and market fixing.

The cartel — through its exemption — determines prices at the manufacturing level and decides on a specific return on investment for the industry. The cartel claims that price fixing ensures efficiencies, particularly since capital expenditure is generally lower. Certainly, cement prices have kept a constant 1% to 2% lower than the CPI for the past five years, and SA cement prices are among the lowest in the world.

But only market forces can truly ensure real efficiencies. If the board ends the cartel and prices are the same notwithstanding market forces this is surely preferable to prices set by a cartel. Price fixing always subverts market forces.

Anglo-Alpha MD Johan Pretorius suggests that government-imposed price disciplines would be preferable to allowing market forces to govern. He says: “A lack of co-operation on prices and production could start a price war, but it would only last a short time. Prices would soon rise again because no-one will be willing to expand capacity in an uncertain market. Shortages will result and we will become dependent on imports.” He adds that price controls, imposed by government between 1978 and 1984 had little effect.

Of course, one could argue that producers could effectively continue to decide prices without government sanction, though with the threat of prosecution hanging over their heads. Proving a charge of price-fixing in terms of the Promotion of Competition Act is extremely difficult since the test is proof beyond a reasonable doubt. Indeed, the board has yet to successfully prove a case of price fixing. It’s a somewhat competing Board chairman Pierre Brooks acknowledges. Perhaps, he suggests, the remedy is to replace criminal punishment with administrative fines.

Cement producers argue forcibly that the cartel ensures efficiencies through economies of scale. But if the cartel is abolished there would, technically, be little to stop them from merging. From a policy point of view, this is perhaps preferable to legally sanctioned collusion.

It is probably too simplistic to accuse the cartel of raising prices and restricting the supply of cement, a charge made recently by Free State professors Frederick Fournier and Andrew Smith. Fear of government intervention has probably held off any business practices.

Criticising Fournier’s and Smith’s evaluation, Wits economics senior lecturer Dan Leach (who was commissioned by the cartel) argues that conglomerates or cartels shouldn’t be prohibited simply because they are large. The test, he stresses, would be whether they manage to keep down prices to consumers — put simply — are they efficient enterprises?

He concludes that the cartel is efficient: “There are no imports because the local market effectively discounts any potential cheaper imports,” says Leach.

He adds that cement is not protected from competition from other industries. If this is true, members of the cartel have nothing to fear — except incompetence — if the cartel is ended. Anglo-Alpha financial director Trevor Wagner says an end to the cartel wouldn’t be catastrophic, though costs would be added to marketing, sales and distribution.

Pretorius says if the Competition Board decides to break up the cartel once it ends the legal exemption, it will have to guide the industry on how to restructure. “In practice we sit on many boards together and co-own distribution facilities. Changing this arrangement will take time.”
CEMENT CARTEL

Big needn't be bad

The cement industry should learn this month whether it will be allowed to continue as a cartel. The Competition Board is expected to rule whether an exemption granted by the board in 1986, allowing the industry to operate as a legal cartel, is still appropriate.

Just what caused the board to re-evaluate its decision isn't certain. A spokesman says simply that exemptions are reviewed periodically. However, there is speculation that government is worried about the effect of high building costs on its Reconstruction & Development Programme.

A report of Free State University economics professors Frederick Fourie and Andrew Smith says, "There might be justification for claims that monopolistic conditions prevail in the building materials industry. By raising prices and restricting supply, monopolistic constraints could limit the effectiveness of any reconstruction programme."

However, while the report accuses the industry of making huge profits, cement prices have kept to a constant 1%-2% lower than the CPI for the past five years. Criticising Fourie's and Smith's evaluation, Wits University senior economics lecturer Dan Leach argues the special conditions that justified the board's exemption to the industry in 1986 still exist — high and fixed and capital costs and competitive forces. Leach's rebuttal was commissioned by the cement industry, but he has argued before that conglomerates or cartels shouldn't be prohibited simply because they are large. The test, he stresses, should be whether they manage to keep down prices to consumers.

The market is controlled by Pretoria Portland Cement, Anglo-Alta, Blue Circle Cement and jointly-owned Natal Portland Cement Market share is enforced by Cement Distributors SA (CDSA), owned by the producers.

Leach claims there is no necessary relationship between the concentration of industry and monopoly power. Vertical integration of the industry, he says, has come about because of economies. He challenges Fourie's and Smith's assertion that the cartel, through this integration, has managed to monopolise the country's commercially viable limestone deposits (cement's chief component), thus barring any newcomer to the market. He says factor is probably the most likely new entrant because it owns deposits of unexplored limestone.

Fourie and Smith assert that the "derived" nature of demand keeps the cement price inelastic and makes the supplier less vulnerable to buyer discipline. Leach dismisses this, asserting that cement is not protected from competition from substitutes.

Smith and Fourie argue that peak profits in the industry were earned between 1979 and 1984 in an environment of declining productivity and rising labour costs — hardly conditions under which superior efficiency
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A report of Free State University economists professors Frederick Fourie and Andrew Smith says "There might be justification for claims that monopolistic conditions prevail in the building materials industry, but that the most appropriate policy is one of cooperation rather than the effective-ness of any reconstruction programme."

While, however, the report accuses the industry of making huge profits, cement prices have kept to a constant 1%-2% lower than the CPI for the past few years. Criticising Fourie's and Smith's evaluation, Wits University senior economics lecturer Dan Leach argues the special conditions that justified the board's exemption to the industry in 1986 still exist — high fixed and capital costs and competitive forces. Leach's rebuttal was commissioned by the cement industry, but he has argued before that conglomerates or cartels shouldn't be prohibited simply because they are large. The test, he stresses, should be whether they manage to keep down prices to consumers.

The market is controlled by Pretoria Portland Cement, Anglo-Alpha, Blue Circle Cement and jointly-owned Natal Portland Cement Market share is enforced by cement distributors SA (CDSA), owned by the producers.

Leach claims there is no necessary relationship between the concentration of industry and monopoly power. Vertical integration of the industry, he says, has come about because of economies. He challenges Fourie's and Smith's assertion that the cartel, through this integration, has managed to monopolise the industry's commercially viable limestone deposits (cement's chief component), thus allowing each newcomer to the market. He says Iscor is probably the most likely new entrant because it owns deposits of unexplored limestone.

Fourie and Smith assert that the "derived" nature of demand keeps the cement price inelastic and makes the supplier less vulnerable to buyer discipline. Leach dismisses this, asserting that cement is not protected from competition from substitutes.

Smith and Fourie argue that peak profits in the industry were earned between 1979 and 1984 in an environment of declining productivity and rising labour costs — hardly conditions under which superior efficiency can account for higher profits. But Leach points out that earlier in their report, they claim the building industry, nevertheless, enjoyed a boom period during this time.

**SUGAR PRODUCTION**

In need of go

Sugar producers, after a season in which production fell to a 25-year low, see signs for cautious optimism. No-one predicts a major recovery but industry officials now expect better results.

Last season's 1,2 Mt crop — well below normal — couldn't have come at a worse time. The drought-hit crop occurred as international markets were opening up to the industry and the world price has shown more buoyancy and stability.

Even so, says Sugar Association chairman Dick Ridgway, the industry has gone ahead with a top-to-bottom reorganisation and deregulation exercise which should enable it to be internationally competitive even under the latest GATT rules.

Ridgway says the combination of two years of drought, reorganisation and the need to adjust to the new political dispensation, made the 1993-1994 season the most difficult and complicated. Last season's drought caused production to drop to 1,2 Mt compared with a normal year which yields about 2,2 Mt.

Over the past two seasons, adds Ridgway, production was more than 1,7 Mt down on the norm.

This season, industry estimates suggest production will be limited to just under 1,7 Mt with good rains.

Output boom

Ridgway says domestic demand has remained strong and the industry continues to meet international commitments. Once again, though, diminished production has hurt potential export earnings, coming at a time when international sugar prices hold above US$1.2c/lb because of depletion of world stocks over the past two years.

With GATT looming, Ridgway says the sugar industry realises it must contain costs. That is one reason why in April the sugar industry took its first steps towards deregulation.

The most significant offered free access to the industry through phased abolition of the quota system. Other measures, though agreed on, have still to be implemented.

Ridgway says the changes give growers and millers greater freedom and responsibility for managing their own affairs and the ability to improve efficiencies and cut costs.

FINANCIAL MAIL • AUGUST • 5 • 1994 • 55
The cement cartel could soon come under review, says Trade & Industry Minister Trevor Manuel.

Manuel says in an interview in Engineering News that the three members of the cartel—Pretoria Portland Cement (PPC), Anglo Alpha and Blue Circle—are exempted from the provisions of the Maintenance and Promotion of Competition Act on the grounds that they benefit consumers.

"Some critics argue, however, that the producers appropriate most of the benefits of the lower costs."

"One study shows that cement price increases each year between 1972 and 1990 were one to three percent higher than increases in other building materials."

Manuel says a careful balance is required when considering the trade-off between regulation and full-blow market forces.

"On the other hand, the Reconstruction and Development Programme (RDP) also refers to the need to take firm action against collusive activities which undermine the drive to achieving a competitive industrial economy."

"If the criticism that the industry appropriates most of the benefits of lower costs is true, then this will be cause of great concern to us." Manuel says the sanction of the operation of a cartel in one sector creates an unfortunate precedent which encourages lobbying in others.

Historically, the cement cartel was implemented with the approval of the authorities some 20 years ago. It was designed to improve efficiency and to ensure that customers would not be prejudiced because of their location in periods of shortage.

The cartel, which fixes prices and market shares, had its collusive practices legitimised in mid-1988 by the Competition Board, which held that the cartel was in the public interest, as well as in the interest of producers.

Interviewed over the weekend, Competition Board chairman Pierre Brooks said a draft assessment of the current situation had been made, which would go to board members in two to three weeks' time.

"The crucial decision will be whether to continue with the exemption or to suggest its phasing out."

In the latter case, various legal implications would have to be taken into account, he said.

"If the removal of the exemption is finally recommended, it will probably be necessary to phase it out."

Brooks said though there might be opposition from the cartel, circumstances warranted a major review.

The question of the profitability of the cartel in relation to other industries would be crucial.

"If it is found that even during the recession this industry made substantial returns on investment while everybody else suffered, it wouldn't look good."

Brooks said the exemption was given in a specific set of circumstances when the country was in an economic decline and faced world sanctions.

"In certain systems there is provision, on a temporary basis, for cartels where particular economic circumstances require that parties work together through a period of recession or depression."

"When that cycle changes, the situation is reviewed."

Brooks said the board had, in a number of cases, granted exemptions and then subsequently phased them out after consultation with the affected industries on a realistic timespan.

Specific examples were the baking, stone and coal industries, he said.
Cementing hopes for SA's growth

JOHANNESBURG — A further indicator of the predicted economic upswing this year was evident in cement sales, which grew 14.7% during November 1993 over the same period in 1992, according to Cement Producers' Association figures.

Analysts said SA Federation of Civil Engineering Contractors figures showed that important indicators such as tender activity and contracts awarded supported the view that the industry had turned.

Cement Producers' Association executive producer Vincent Bray said the Building Federation of SA and the Federation of Civil Engineering Contractors had both predicted an improvement in building activity this year which would boost cement sales. He said the government's low-cost housing initiatives were expected to get off the ground this year, which would aid the cement market.

The Columbus stainless steel project was boosting sales and the Lesotho Highlands Water Scheme was starting to take up small volumes. The R7,2bn Alusal project should accelerate growth during 1994.

Lacklustre sales during the first half of 1993 pulled down cumulative sales figures for the 11 months to November. They were 0.06% lower than the same period in 1992, but prospects for this year were bullish.

Producers' figures showed total sales for the 11 months amounted to 6.71-million tons against 6.72-million tons in the 1992 comparable period.

Bray said sales for the first four months of 1993 were below those in 1992, but the deficit had been reduced considerably during the year as sales rose towards the end of 1993.

The increase in November's sales was the second highest recorded last year, surpassed only by a 17.4% rise in August. The August figure, however, was largely due to a greater number of working days than July.

Association members include the three-member cement-producing cartel of Pretoria Portland Cement, Blue Circle and Anglo Alpha. The shares of both Pretoria Portland Cement and Anglo Alpha have moved up sharply over the past four months. Blue Circle was delisted last year.

Pretoria Portland Cement's share price hit a 12-month high at the beginning of this month, trading at 7,000c against a 12-month low of 3,750c in June 1993. It closed at 6,875c yesterday. Anglo Alpha's share price closed at 6,950c yesterday, just below the 12-month high of 7,000c it reached last Friday and well up on the 12-month low of 3,100c last January.
Anglo Alpha raises sales by 16%**

CEMENT and industrial minerals group Anglo Alpha overcame the poor construction climate to increase sales 16% to R877,7m (R786,5m) for the year to end December, albeit off a low base.

Group MD Johan Pretorius said productivity improvement plans introduced in 1992, which included organisational restructuring, helped boost operating profit by more than a third to R199,5m (R145,5m).

Borrowing costs slipped by a fifth to R24,2m against R30m during the 1992 financial year as a result of lower interest rates. This led to a 44% rise in pre-tax profit to R199,4m (R132,2m).

The tax bill almost doubled to R83,5m (R32,4m), which Pretorius attributed to higher profitability and an increase in the effective tax rate. 1993

Preference dividend payments were substantially lower at R63 900 (R168 000) which resulted in post-tax profit before current cost adjustment up at R126,8m (R99,7m).

Current cost adjustment rose marginally to R50,1m (R47,6m) and left attributable profit up 47,5% to R76,7m (R52m).

This translated into earnings of 254,9c (173c) a share on a current cost basis, and 421,5c (331,3c) on a historical cost basis.

The group declared a 17,5% increase in the final dividend to 125c (106c), bringing the total dividend up to 175c (152c) a share.

Pretorius said it was important to bear in mind that although the percentage changes reflected a significant improvement, the results were off a low base. The group reported declining earnings between 1988 and 1992.

“However, the group remains financially sound with cash available from operations reflecting a 42,4% increase to R205m (R144m), due mainly to the improved profitability and effective working capital management,” said Pretorius.
Cement industry sales inspire new confidence

CEMENT sales remained largely stagnant during 1993, signalling an improvement on the past four years in which sales fell steadily.

Figures from the SA Cement Producers Association showed that sales last year amounted to 7.17-million tons against 7.18-million tons during 1992. The sales figures were better than predicted.

Market analysts were bullish about the industry, saying domestic sales would benefit considerably over the next few years as a result of the next government’s focus on infrastructural development.

The association’s executive producer, Vincent Bray, said the provision of housing to millions of people would have a profound effect on cement sales.

Government funds to be spent on roads, schools and other educational centres as well as electricity and telecommunications infrastructure would boost cement sales by an estimated R400m a year.

Analysts said the downward spiral in cement sales over the past four years had largely been a result of the falling level of gross domestic fixed investment (GDFI). This had dropped from about 28% of GNP in the mid-1980s to its present level of about 16%.

Lower levels of GDFI were evident in domestic sales, which dropped 2.3% in 1993 to 8.2-million tons in 1992. Association figures showed the continued decline in sales. They fell 5% to 7.8-million tons during 1992, dropped sharply to 7.3-million tons in 1991 and declined 3.5% to 7.2-million tons in 1992.

Analysts said SA’s three cement producers, Pretoria Portland Cement, Anglo Alpha and Blue Circle, reduced their output as a result and were operating at about 60% of their capacity last year.

Bray said approximately 59% of available production capacity was used in 1992, differing slightly from 58% utilisation the previous year. Actual capacity used in 1992, excluding mothballed kilns, represented 86% of available capacity, was unchanged from 1991.
Anglo-Alpha hoists profits

Anglo-Alpha lifted taxed profit by 47.3 percent to R77 million, equivalent to earnings of 254c a share, in the year to December. *Star*

A final dividend of 125c raises the year's total to 175c — 15.1 percent up on the 162c distribution in 1994.

The 1.5 times dividend cover is lower than the group's target of 2, but the directors view it as justified "because of the expected high level of cash flow and low level of capex over the next five years."

As a result of productivity improvement plans introduced in 1992, the operating margin rose from 19.3 to 22.7 percent to reflect an operating profit of R193 million (R146 million) on sales which rose by 15.9 percent to R877 million.

"It is important to note, however," says MD Jan Pretorius, "that although the percentage increases reflect a significant improvement, the results are off a very low base."

The group reported declining earnings from 1989 to 1992, while sales volumes are still below 1989 levels.
Minaco plans to expand after record orders

MINACO Granite plans to increase its output of beneficiated stone for export markets in a R4m to R11m medium-term expansion programme, chairman Fred Coetzee says in his review for the year ended December 1991.

Expansion in the past year and Minaco's record order for local and export beneficiated products "has placed the group in a position to achieve substantial growth in the next few years", he said.

However, in view of constraints placed on the group by its expansion, "the directors have deemed it prudent to conserve cash resources and not to declare any dividends for the year," Coetzee said.

Minaco's long-term borrowings rose to R8.5m at December 31 1991, compared with R2.4m the year before. Interest payments jumped to R2.1m in the year ended December 1991 from R670,000 in 1990, denting an 18% increase in operating income to R6.1m (R5.2m).

Minaco's drive for export orders took place against stiff competition which also gave substantial extended credit terms to overseas clients. Minaco had to expand its export business because of uncertainty in local markets, although domestic business was at record levels.

Coetzee said a "high level of activity" led to an increased debtors' book and higher stocks, which doubled to R9.1m from R4.5m. By reducing creditors, Minaco improved its current ratio, with current liabilities more than three times covered by current assets (193).

Minaco, which increased its stake in Prairie Granite in a R3.1m deal earlier this year, has closed its own quarries and become dependent on selling and processing Prairie's production of Belfast Black and Ebony Black granite. Coetzee said dividends received from Prairie, which was proving increasingly profitable, had been reinvested in the company.

He said that in the year-ended December 1991, Minaco achieved satisfactory results in what was "a very difficult period". Earnings a share, calculated on an after-tax basis before abnormal items and after payment of preference dividends, fell to 16.3c from 17.2c a share.

Shares in Minaco have not traded since November last year and were offered at 85c on the JSE yesterday.
British Coal heads for further decline

LONDON — Britain's once powerful coal mining industry appears headed for another big round of job cuts and mine closures, marking another chapter in its long decline. The tally of miners at state-owned British Coal could fall to 10,000 or less from 41,000 as a result of a deal for coal supplies expected soon with the country's two main private electricity generators, industry sources say. When it was nationalised in 1947 it had 718,000 miners on its payroll. Up to 81% of British Coal's coal sales now go to National Power and PowerGen but that figure is likely to be slashed under the new five-year agreements. The power companies, which want to buy cheaper imported coal, are expected to reduce their British Coal tonnage from the current 65-million to 40-million for the first two years and 30-million or less in the third and subsequent years.

That means British Coal's 48 deep mines would fail to 12 or less within the next two years. British Coal would also have to accept a 15% price cut to reflect cheaper world prices.

None of the parties will comment on the talks. But sources close to them say the pact will be a trade-off between the interests of the generators, the 12 regional electricity companies which distribute power, and the government.

The government has been pushing hard for a deal to allow introduction of a Bill late this year to privatise British Coal. It is not expected to reap big returns from the sale. But the government, which has soaring borrowing requirements, also wants to sell off its remaining 40% holdings in the generators. Cheaper fuel for the generators would boost their profits along with the worth of the government's stakes, currently valued at £2bn — Sapa-Reuter

'Disastrous' year-end expected from Marlin

MARTIN Corporation, one of the world's leading producers of black granite, would turn in disastrous year-end results, analysts said at the weekend. The company is expected to report a significant attributable loss in the year ended June 1992, later this month.

Analysts said fierce competition in the international granite trade was taking its toll on all SA producers, but Marlin had been hit severely because of its weak balance sheet, exposure to black stone and production problems at some quarries.

The company is currently trading at a huge discount to its net asset value.

All granite shares have slumped in the past year, but the slump in Marlin stock has been particularly rapid. The shares sank to a low of 15c early this month, but finished unchanged at 20c on the JSE on Friday. That is 150c lower than they were a year ago, at 150c a piece, representing a loss in market confidence which has cut the company's market value to R8m from R77m in a year.

At year-end 1991, Marlin's net asset value stood at 360c a share.

Executive chairman Peter Gaim declined to comment in detail ahead of the group's results, but said Marlin suffered "a tough year" and results would be "poor".

Gaim said in September last year: "There are reasons to expect that the current slow upturn in demand for granite blocks and products in world markets will gather momentum either within a few months or in early 1992. Marlin passed its 1991/92 dividends, but Gaim said payments would resume after demand reached "more normal levels", with an associated reduction in granite stocks.

Finance director Ian MacMillan added at the weekend that there was pressure on Marlin's balance sheet and there had been difficulties at its quarries in the year.

At the interim stage, Marlin reported a R1,3m attributable loss compared with a R7,7m profit the year before. MacMillan said depressed markets, particularly affecting Marlin's UK-based subsidiary, and local production problems were to blame.

Analysts said large amounts of black granite blocks on railway sidings in Belfast was evidence of the problem. Marlin was having in moving its stock. Stock rose to R28m at June 30 last year from R18m the year before.

One analyst believed that while demand for black granite was sustained in general by demand for tombstones, consumption in the construction industry had fallen away as customers opted for cheaper stone. He said any investor planning to buy granite shares should "exercise extreme caution".

Another said Marlin's poor level of disclosure, its overly optimistic market forecasts, and failure to meet predicted earnings targets had hit the company's rating.

Batepro plans further growth

PROJECT management and engineering group Batepro Project Holdings (Batepro) is expanding its extensive international operations, executive chairman John Horovitz said. Batepro is a leader in diamond, precious metals, coal and sugar handing technology and operates in Africa, Australia, Canada, Colombia, Europe, Israel, the US and UK.

Herselman said the group recently formed a new international division.

Batepro Engineering Pacific in Vancouver was established, and its Australian operations have been enhanced by an agreement with engineering group Kimhill.

EXECUTIVE SUITE

EDWARD WEST

Herzlan said the group recently formed an international development division.

Batepro Engineering Pacific in Vancouver was established, and its Australian operations have been enhanced by an agreement with engineering group Kimhill.
Federated-Blaikie closing 14 branches

Federated-Blaikie is to close 14 of its 56 PT Building Supplies branches and four panary manufacturing operations. The closures will begin to take effect from September 25.

MD Dick Pratt says the decision has been taken with reluctance and deep regret, but has been forced upon the company by the depressed state of the building industry, particularly for housing.

He says customers likely to be affected by the closures will be serviced by the remaining PT branches - Wardkress Homecare centres and Federated-Blaikie's other distribution companies. He says the trade unions representing the nearly 1300 employees nationwide likely to be affected have been fully informed and all reasonable steps will be taken to help them find alternative employment.
Federated-Blaikie to close 14 branches

BARLOW Rand subsidiary Federated-Blaikie yesterday announced it was to close 14 of its FT Building Supplies branches and four joinery manufacturing operations. The company has 56 branches.

The company said the closures, which were due to begin next Friday, had been forced on the group by the depressed state of the building industry, particularly in housing.

Federated-Blaikie MD Dick Pratt said: "This decision has been taken with reluctance and deep regret." He said customers affected by the closures would be serviced by the remaining FT Building Supplies branches, Wardkiss HomeCare centres and Federated-Blaikie's other distribution companies.

Most of the closures were on the East Rand and in the southeastern Transvaal. About 1,200 employees were likely to be affected and steps would be taken to find alternative employment, he said.
Boumat equity figure dives 58%

BUILDING materials supplier Boumat has been hit hard by deteriorating conditions in the building and construction industry, posting a 58% plunge in equity earnings to R37.5m in the six months to end-September from R77.7m in the comparable period last year.

The dividend was waived as the level of earnings for fiscal 1993 was not expected to exceed 20c a share and the board felt any dividend declaration should be deferred to next June.

Earnings fell to 10.5c a share (30c previously).

"Sales dropped by 1% to R609.2m (R615.1m), but in real terms this is closer to 13% chairman Sidney Borsook said.

"The gross income margin dropped by less than a percent and operating expenses, including bad debt, rose by 8%," he said.

"However, the combined effect reduced the operating margin by 2.3% to 2.1%.

Operating profit was more than halved to R12.85m (R27.81m), while lower interest bearing debt and lower rates saw interest paid fall 44.4% to R6.54m (R11.77m).

"Focused attention to asset management has reduced total assets from R425m at the end of March to R418m by the end of September, while total debt also fell by R16m during this period," he said.

CEO Adam Rhen said the group had taken active steps to rationalize its operations and had "flattened the organisation structure and lowered costs.

"We have also retained consultants to review our present strategic positioning and to assist management in developing our longer-term strategy in anticipation of the upturn," he said.
MINAco still

MINAco granite's subsidiary and associated companies have secured valuable sales for the coming months, despite poor market conditions, says chairman William Robinson.

Subsidiary Marble Lime had been awarded a R10m contract for Bank City, the contract for the new mosque in central Johannesburg and other contracts in Midrand, Illovo and Cape Town.

Robinson said Marble Lime's order book was "healthy" with over R30m in committed sales. However, Minaco was not insensitive to movements in the market and he was worried about price volatility.

Minaco's objective was to achieve more than 40% of its turnover in overseas sales compared to 1999's 5%. Orders from overseas customers have amounted to over R3m this year.
The U Build Total Homemaker Plan

A STRONG COMMITMENT TO THE COMMUNITY

The launch of the U Build Total Homemaker Plan represents a strong commitment to the community, according to Donald Hausermant, the chairman of the project.

"We have identified a real market need and come up with a package that provides design, support and advice to home builders or those improving the value of their homes through extensions and renovations," he said.

In addition, we are doing our best to reduce prices that are highly competitive, realistic and affordable.

The U Build concept in the stores in Jabulani and Soshanguve is aimed at facilitating these activities.

READY-MADE TRUSSES

The new U Build Total Homemaker Plan includes the ready-made roof truss method, introduced in South Africa by Soweto-based Steel Projects and Wood Manifesters, Ben Duma and his team of computer programmers and design roof trusses, subcontractors, representatives and manufacturers of the trusses take place, and the completed trusses are delivered to any building site in Soweto.

Up to now, mass produced trusses have only been available in surrounding areas. But with the new design roof, standards of quality and workmanship are maintained by every division in the Cabinet Group, and with a great deal care.

CUSTOMER DEDICATION

The manager of the U Build stores in Jabulani, Mr Alan Mathubana, said: "Customer satisfaction is our priority. We need to understand the needs of our customers and help them build their homes."

"We have been in operation for many years, and our system is proven to be effective. We are always looking for ways to improve our services and meet customer expectations."

THE QUALITY OF SUBCONTRACTING

"Our quality is second to none, and we believe that our customers value our work. We are proud to say that we have received many positive reviews from our customers."

A NEW HOMEMAKER SERVICE

The U Build Homemaker Plan is designed for hassle-free home making.

We will help in drawing plans, helping to arrange finance, supplying materials to organizing subcontractors.

Plus, the best prices, quality and service in the town!

Call us now on 930-2023, Jabulani Centre, or 01214 7273, Soshanguve, or get to the stores.

YOUR BEST FRIEND IN BUILDING
KELGRAN ‘is well placed to improve’

MATTHEW CURTIN

A SHARPLY lower tax bill and stringent cost control involving production curtailments at its Indian and Brazilian plants were behind a 26% improvement in the pre-tax result of granite group Kelenz Inc, which has been affected by the slump in granite business in recent months.

Director Rob Brown said the group was well placed to take advantage of any improvement in the granite trade as it had us-able stock levels and could raise output quickly to meet any sudden increase in demand.

A significant prospecting program had led to the production of two new granites which had been previously unobtainable in the market.

Chairman Fred Keeler said that it had been a long time since Kelenz had sold its products at such a high price.

Brown said that the group's policy of maintaining its prices even when costs increased had enabled the group to increase its pre-tax profit by more than 8% to $8.2m (67.5c) for the year ended June 30, 1992, compared with $7.6m (63c) in the previous year.

Kelenz's sales were up 15% to $132m from $115m, and the company's earnings before interest, depreciation and amortisation were up 20% to $8.4m.

Brown said that the group's strategy of focusing on its core business had enabled it to maintain its profitability despite the depressed world market for granite.

Kelenz's balance sheet was strong with cash and investments of $29m, and the company had a debt ratio of 30%.

Brown said that the group's commitment to research and development had enabled it to maintain its competitive edge in the highly competitive granite industry.

Kelenz's shares have fallen from 32c to 12c in the past year, but the stock has risen from 12c to 20c in the past month.
OK shares' downward spiral hits 14-year low

OK BAZAARS' shares tumbled to a 14-year low last week, closing untraded on Friday at 600c.

Market sources said at the weekend that the company would show a loss of nearly R33m for the full year to end-March.

The OK, which will report its September interim results at the beginning of November, last traded at 600c in 1986, falling from R21 in 1980. The share rose to R27 in 1983, and was trading at almost R20 at the beginning of 1989, when it began its most recent downward spiral.

In the past financial year OK reported a 37% decline in attributable earnings to R9.4m from turnover of R59m. Operating income of R49.2m was eroded by a R4.6m interest bill, and R13.5m write-back saved earnings at the bottom line.

Interest costs were reduced to 0.9 times, and gearing rose to 111% from 72%. Operating margins were just 0.9%, against the previous year's 1.4%.

Earnings of 75.3c a share and dividends of 97c were the lowest in at least a decade. In 1983 the group earned 306.6c a share and paid dividends of 142c a share.

Analysis said that expected a substantial loss for the full year as earnings had been dropping since 1986, and there were no signs of any upturn in consumer spending, which was critical to the OK's success.

In its annual review, CE Gordon Hood made no forecasts for the year ahead. He said closures of small, obsolete branches and their replacement by strategically placed, dominant stores and hypermarkets placed the group well for an improvement in the economy, "which must surely eventually materialise".

But analysts said that improvement had not happened in the six months to end-September, and was unlikely to happen by end-March.

Mass action had affected black consumer spending in particular, and the OK had a huge black market exposure.

The OK, which is 69% held by SA Breweries (SAB), contributed nearly 28% of SAB's turnover to end-March but made a minimal 1.1% contribution to attributable earnings. An analyst said the OK was "a big operation with big sales, but it generated no income for the group.

The split into hypermarkets and OK stores had helped to some extent, but analysts believed that split could have helped Hyperama at the expense of the OK stores.

Although Hyperama were trading profitably, analysts said many of the OK stores were "trying to be all things to all people", and were carrying too many different lines. The only area where the OK was saving on costs was in advertising.

Cullinan winning battle to balance brick supply

DEMAND for bricks was unlikely to increase before next year, and could still drop further by then, Cullinan Holdings group executive director Rod Stewart said at the weekend.

In spite of this, Cullinan Brick had managed to succeed in its battle to match supply with demand, and its R53m brick factory had almost overcome its teething problems of the past two years. It was producing well, he said.

"This has taken longer than we originally expected but is not unusual for the commissioning of a plant.

"Initially we experienced problems with the mechanical handling equipment," he said.

Yield

Another problem was that as production capacity was increased, the quality of bricks produced deteriorated, resulting in major adjustments to kiln equipment.

The tunnel kiln was producing at 75% of capacity, and in August and September the yield of high-quality product was at required levels, he said.

The original budget for the tunnel kiln was R33m, but the capitalisation of some finance charges and commissioning costs had added another R7m to this. "About R2m was spent on upgrADING the clay preparation facility, and we expect to spend more on this in the medium term," he said.

EXECUTIVE SHUFFLE

Audiodek posts R844,000 loss

AUDIO importer and distributor Audiodek suffered a loss of R844,000 in the half-year to end-June 6. 6. 12. 10. 17.

MD and chairman Monty Tolkin said trading conditions had been the most difficult since the company was listed in 1987.

Although the group maintained market share, turnover and margins had been under constant pressure. Turnover declined 9% to R24.6m (R27.2m). A squeeze on margins resulted in an operating loss of R11.6m compared with a profit of R1.2m in the same period last year. Interest payments absorbed R478,000. The attributable loss came to R844,000, or 4.25c a share. Last year's interim earnings came to 1.67c a share.

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Granite producer Marlin has announced a rigorous cost-cutting programme to reduce costs and the scale of its operation after reporting a 11.5c a share loss in the year to-end June.

The loss represents a 34c decline from the previous year's profit of 22.8c and has forced it to pass its dividends.

The group operated in an extremely depressed granite market, leading to a drop in turnover from R120.7 million to R90 million and a fall in operating profits to R2.5 million (R17.1 million).

Quarry costs were seriously affected by production problems at Marlin's Belfast quarry.

The directors say these problems were overcome in July this year, but they have set aside R17.3 million as an extraordinary item comprising mainly the write-off of quarry development costs in the past few years.

Taking into account the current uncertain economic climate, the group is reducing the scale of quarry operations to match demand.
Marlin plans drastic restructuring in bid to regain profitability

MATTHEW CURTIN

GRANITE producer Marlin tumbled into the red in the year ended June 1992, reporting an attributable loss of R5.8m before write-offs worth R17m. Marlin turned in an attributable profit of R11m in 1991.

The group did not declare a second interim dividend—its year-end has changed from June to December in 1992—after paying its first in June.

However, Marlin has undertaken a drastic restructuring programme, slashing staff and production by at least 35% to enable it to weather the depressed conditions in the granite business.

Chairman Peter Gain said yesterday that, in a significant change in strategy, Marlin was now “living from hand to mouth”.

In the past, Marlin sought to benefit from economies of scale, running its quarries at full production and building up large stocks in expectation of a turnaround in market conditions. Marlin took that course in the run-up to the Gulf War, but a post-war recovery in the granite trade never arrived.

Marlin’s turnover fell 25% to R90m from 121m, reflecting a drop in sales. The recession in the UK construction industry hit its British subsidiary, whose order book was almost empty. MD Graham Tytags said prices for Rustenburg Grey stone were “unnecessarily low”, with the market for black granite hit by large amounts of cheap Zimbabwean material.

Consolidated operating profit after tax crumpled to R2.5m (R17m). Gain said quarry costs were hit by production problems associated with faulting at Marlin’s main Belfast quarry but the difficulties had been overcome by July when costs began to fall.

Net finance charges nearly doubled to R5.8m from R2.5m, and Marlin reported a loss of R3.1m (R14m profit) after tax and finance charges. The group’s attributable loss was equivalent to 11.35c a share, compared with earnings of 22.8c a share in 1991.

Gain said subsidiaries Barracuda Granite and stone processor Marble Penticton were also operating in line with demand. The group had decided to write off all quarry development costs and a provision for the reduction in value of the Marlin Staff Share Trust because of the collapse in Marlin’s share price.
EFFICIENT distribution and service are two important issues in Harvey Roofing Products’ national network.

Marketing manager Eddie Arendse says that moving products in a cost-effective way and having them professionally installed are the consumer’s key concerns. “Harveytyle sells particularly well in rural areas because it is cost effective to transport. Its lightweight construction means more can be carried for a single amount of money.”

Mr Arendse says “For example, on a flat-bed truck, for every single conventional roof that can be loaded, about six Harveytyle roofs can be packed.”

“Compact design makes Harveytyle easy to store. “Over distance, economy of scale comes into play – the farther the product has to be transported, the more cost effective it becomes when measured against the cost of carrying other forms of roofing.”

“Harveytyle is sold mainly by distributors throughout the country because of the ease and reduced costs of transport. The main thrust of sales is in the Transvaal, Botswana, the Free State, Swaziland and Lesotho.

“Once the product is on site, it is important to have reliable contractors who have a proven record to install it. For this reason we devised the licensed Harveytyle roofing contractors (LHRC) scheme.”

“A national network of about 60 LHRCs is in place as a safeguard for consumers. These contractors are trained to install Harveytyle to the highest professional standards.”

“In 1981, the home-improvement market took off – people had money and interest rates were low. This boom attracted many fly-by-night contractors and a great number of consumers were taken for a ride,” says Mr Arendse.

“In 1984, South Africa went into a recession which continued through to 1986 and the home-improvement market slowed. “At that point we devised the LHRC scheme. “In the early 1980s re-roofing constituted about 40% of Harveytyle’s market, but now makes up about 25%. The rest is dedicated to new projects.”

“Traditionally, roofing is not a high priority in home improvements. This market has been affected by the loss of investment confidence for social, economic and political reasons.”

“However, people do realise that their homes are and are always likely to be their biggest single investment. There is no better way to improve on this investment than to replace the highly visible and vital component – the roof.”

“Often people make the mistake of not worrying about the roof until something goes wrong.”
A STRONG marketing strategy is in place at Harvey Roofing Products and the company regularly undertakes extensive advertising campaigns to attract and maintain market share as well as strengthen brand awareness.

Eddie Arendse says, "In the last five years we have been brand building our products to users — creating awareness of our range of roofing products.

"Traditionally, South Africans are house-proud, but they tend to disregard the roof until problems occur."

"The vehicles we've used to create this product awareness include television, radio, newspapers as well as trade and consumer journals.

"We advertise in areas where we can be served and to those where we see a need for our products exists."

SI Times (Sinnet)

Colourful

"Because Harveytile is versatile, we are able to sell the same product to different markets, stressing the unique features applicable to each.

"In the urban market, the focus is on aesthetics and waterproofing. In rural areas, the emphasis is on durability and maintenance-free aspects."

"Our three primary goals are brand building, reaching the vast black market and the promotion of licensed Harveytile roofing contractors."

In addition to Harveytile, which makes up about 90% of our sales, we promote and market additional roofing products in some exciting new markets.

"An aluminium Coastal Tile developed for use in areas with excessive corrosion rates can be used in new roofs or, like Harveytile, be placed over corrugated iron or asbestos cement sheeting."

"Tuftspan, a coated S-rib sheeting, is ideal for use in mass-housing developments, high on the list of South Africa's priorities."

"It is a colourful roofing alternative for affordable housing developments and has also proved acceptable to specifiers looking to capture the traditional appearance of corrugated steel in commercial developments and domestic dwellings."
INTERNATIONAL trade doors have opened for
South African companies in the past few months
and Harvey Roofing Products is promoting the
export.

According to the company's export manager, Louis
Ferreira, now that sanctions have been lifted,
many opportunities have presented themselves
and the growth potential of the export market is
exciting.

"For the high-quality management of the manufacturing process, we have

been awarded the SABS 0197 mark of approval
which in export terminology is called the ISO 9002
—the worldwide quality standard."

Mr Ferreira says: "We export to countries around
the world under the brand name Tuftitle

"We're sending products to
the UK where there is a
large underutilised build-
ing systems market.

Houses are built in factories and loaded on trucks for delivery."

"This industry lends itself to
a lightweight product and

Tuftitle is an ideal solution.

The home renovation mar-
ket, particularly council
houses and flat complexes,
is an attractive market
for our products."

"Elsewhere in Europe, in
countries like France, Bel-
gium and Germany, there
are many old houses and
again the home improve-
ment market has consid-
erable potential."

"We receive many orders
from these areas.

"Israel is a country where
there is an influx of people
and many houses are be-
ing built. In settlement
areas there are many Har-
voytle roofs.

"Our division negotiates daily
with new markets and
inquiries are coming from
Greece, Poland and coun-
tries in South America."

"We are exporting to the
Ivory Coast, Malawi, Be-
runia and Zambia. In the
Indian Ocean islands, our
products go to Mauritius,
the Seychelles, the Co-
moros and Reunion."

"We're looking at new re-
gions to improve company

performance in the export
market."
Tiles to cover the populace

Times [Bryanston] 4/10/92 (93)

A QUARTER of a century after beginning operations in South Africa, Harvey Roofing Products is a company that has positioned itself as a leading manufacturer and distributor.

Managing director Ted Jarvis says Harveytile sales account for about 90% of products sold.

**Offices**

They have been installed in more than 850 000 residential, commercial and industrial sites in SA.

Mr Jarvis says: "The light, steel-based Harveytile, was developed in New Zealand in the early 1950s by manufacturer L.J. Fisher & Co.

"The new roofing system was found to resist weathering. Once the name was firmly established, market horizons for the product broadened.

"In South Africa, brukor negotiated a licence for manufacture. By 1987, the first Harveytile plant was operational at Elandfontein.

"In 1972, abercom investments acquired the entire share capital of brukor, including the Harveytile operation.

"By 1973, Harveytile had been set up as an independent company in the group, operating out of offices and a factory in Boksburg.

"Until then, the tiles were manufactured to the formula imported from New Zealand but South Africa's high level of ultra-violet radiation and the severity of hailstorms meant that the formula had to be modified.

"We introduced an acrylic tile coating, developed in-house. The formulation proved remarkable.

"In the restructure of abercom in 1982, Harveytile became an operating unit of aberitech industries and moved to its present multi-million-rand factory and headquarters in Brakpan.

"In 1986, because of the expansion of the product range in commercial and residential applications, the company's name was changed to Harvey Roofing Products.

Mr Jarvis says: "Harvey Roofing Products became a subsidiary of the listed Standard Engineering Group last year.

"We develop and manufacture products designed for specific applications in the building industry; the main focus being on the supply of roofing materials for housing."
Demand for bricks dives

A BATTERED building industry yesterday reported that demand for bricks had dropped by 50% over the past three years as activity in the residential sector deteriorated further.

Corobrick executive chairman Errol Rutherford said there was little chance of any improvement before 1994, while the latest Stellenbosch-based Bureau for Economic Research (BER) report on the building sector released yesterday said the industry remained in the doldrums.

The BER said contractors had found conditions in both the residential and non-residential sectors had deteriorated further in the third quarter, but this was more noticeable in the residential sector and conditions here were expected to worsen.

"However, while the value of work in the residential sector is lower, this decline is expected to slow down in the fourth quarter and a levelling off in the deterioration in the non-residential sector is also expected," it said.

Business conditions remained unsatisfactory and, except for the quantity surveying profession, all sectors had a worse third quarter than second quarter conditions were expected to remain unsatisfactory in the next quarter, it said.

However, the rate of dissatisfaction had dropped from the same quarter last year but did not imply the recession had bottomed out, the BER said.

Rutherford said Corobrick was "tightly managing" its stockpile at about 200 million bricks and 20 of its 25 brick factories were producing, though at 50% capacity.

Clay Brick Association executive director Brian Moorehead would not disclose the industry's stockpile figure, saying the association was revising its statistics and

PETER GALLI  

To Page 2
Concrete benefits from Tricrete

New from Tricrete is a range of Rockface masonry bricks which offers an up-market product at economy prices.

The new range, now available in the PWV, is the first of a new generation of products from this long established company.

Indeed, in response to perceived market needs, the company will also launch shortly a product which promises to be totally revolutionary in terms of price advantages and construction techniques.

More information will be released in due course says GM Wilhelm Breetenbach. For the moment, the new Rockface range alone is bound to set the proverbial cat among the pigeons by offering a product in every way comparable with the competition but which has considerable

A totally revolutionary product, under wraps at the moment, will be launched soon by Tricrete.

and has, rather, been brought out by the sensible adaptation of the existing plant.

Mr Breetenbach says “We examined the market thoroughly and decided there was a distinct market niche, for this particular type of quality rockface brick. Clearly, however, we did not wish to merely introduce another range which had nothing specific or different to offer.

“What we have therefore come up with is a range with an extremely pleasing flecked finish in a choice of colours that meets modern needs in masonry in terms of aesthetics, intrinsc load bearing, weathering, acoustic, compressive strengths and other qualities.

“Works are under way with the run-of-the-mill to warrant expectations of a major impact upon the release of the range to the market place.” Its application is literally across the board, he says.

Moreover, the new range is an enhancement of the existing product range from Tricrete and it in no way affects the rest of the company’s products.

This includes:

- Conventional stock bricks for housing.
- The larger, more economical, cost-effective products for low-cost housing.
- The existing range of face bricks.
- A range of floor blocks which fills the gap left by other manufacturers and for which substantial orders have been achieved recently.
- A facing unit for low-cost housing and factories (The Big Max Double Diamond) which is a cost-efficient product requiring no plastering or painting.

A range of walling products for low-cost housing and lightweight internal walling in multi-storey applications.

Tricrete as such has a history extending longer than 20 years during which time it has built up an enviable reputation for quality, reliability and service.

The company has four strategically located factories – its headquarters factory in Sasolburg where stock, floor blocks and walling blocks are manufactured, Vanderbijlpark where face bricks and paving blocks are produced, Meyerton which produces stock and the Big Max line, and finally Brakpan which supplies stock brick products and floor blocks.

Interestingly, Tricrete has always been something of a pace setter and innovator in the industry.

Nor has the company neglected quality in favour of innovation. Its head office factory in Sasolburg for example has achieved SABS ISO9002 status and the factory’s stock products bear the SABS mark.

The company is also a guarantor member of the Concrete Masonry Association, a fact which provided the market place with a clear indication of its status in the industry.

Service has always been a watchword at Tricrete and its plants are locally manufactured, thus ensuring quick back-up, which, in turn, means continuity of supply.

Capacity wise the company has the ability to produce about 16 million bricks a month, making Tricrete a significant player in the context of the PWV’s construction industry.

For further information on the exciting new Rockface range or Tricrete floor blocks contact Trevor Roberts at (016) 670 800. Pietie Van Niekerk will help you with your stock and paving products and he can be contacted at (016) 76 07 40.
Kudu's shareholders waiting to see benefits

MATTHEW CURTIN

KUDU Granite pulled through another rocky year in the dimension stone trade in the year ended June 1992, but shareholders are yet to receive the benefits of the group's considerably improved operating results.

Earnings before extraordinary items jumped five times to 15,5c from 3,2c a share, but Kudu decided to write off development costs incurred in recent years at a cost of R9,9m. That left the group with a bottom-line loss equivalent of 18,5c a share after the write-off.

MD Piet du Toit said Kudu, which merged with unlisted granite producer Impala earlier this year, had passed its final dividend, after a 4c interim payout, to place the group in a stronger cash position in the year ahead.

Turnover rose 55% to R61m from R39m.

Du Toit said the increase reflected Impala's contribution to Kudu's performance in the June quarter, and higher sales volumes. Prices had been static, he said.

Operating income grew 138% to R8,2m from R3,4m, of which Impala's quarries made an important but small contribution.

Kudu's operating margin improved to 13% from 9% in 1991.

Financing costs rose 36% to R4,6m from R3,4m in the previous year when finance charges cut the group's pre-tax profit to only R46 000. In 1992, pre-tax income rose to R3,6m. After-tax profit stood at R3,7m (R61 000).
Blue Circle presents last results before delisting

BLUE Circle's engineering division had budgeted for improved profits this year and progress was being made to improve the efficiency of its cement opera-

tions, chairman Andre van der Colf said.

Blue Circle, which was acquired by Murray & Roberts (M & R) this year, is to suspend its shares tomorrow, row ahead of its delisting on October 30, 1992.

The group was first listed in 1947.

Newly appointed chairman and M & R director Van der Colf said in his 1992 annual review that rationalisation of underutilised capacity and staff reductions were necessary in the year to end-June 1992 to combat lower demand.

Van der Colf said trading conditions deteriorated for the engineering division, which resulted in some harsh actions to protect future profitability, but the division's performance was expected to improve.

Good progress was being made on several capital expenditure projects in the cement division.

He said the group expected volumes to stabilise in the current year with earnings slightly lower than the previous period.

Longer-term prospects were better and reduced cost structures and under-utilised capacity would ensure immediate benefits from a stronger demand for construction materials.
PPC pushes up profit on low sales

Own Correspondent

JOHANNESBURG — Pretoria Portland Cement (PPC) marginally increased profit in the year ended September 1992 in spite of a 6% drop in its sales volumes of cement and lime, today's published results show.

Turnover was 10% higher at R999m (1991 R818.6m), attributable mainly to good results from cement distribution operations, which upped their contribution to sales by nearly half to R147.8m (R100.5m), said financial director Chris Wrogemann.

However, the effect of pressure on margins in the lime and packaging divisions and generally lower volumes resulted in operating profit increasing only 6% to R195.9m (R185m). Pretax profit was 5% higher at R207.2m (R196.6m), but a higher effective tax rate reduced the rise in taxed profit to 1% at R119m (R116.2m). Wrogemann said lower mining asset spending resulted in reduced capital tax allowances.

Earnings increased 1% to 287c a share (284.8c) — a decline in real terms. However, the year's dividend was lifted 13.4% to 185c (172c) resulting in dividend cover dropping to 1.5 times.

Wrogeman said the cement division — which contributed 61% of operating profit — benefited from productivity improvements. Although turnover was only 5% up at R505.9m (R438.1m), divisional operating profit was 8% higher at R131.4m.

Contributions from the lime and packaging divisions declined slightly from last year's, while net investment income, mainly from the distribution operations, was virtually static. Borrowings of R35.9m (R37.2m) equalled 6% of shareholders' funds. Liquid funds increased to R52.1m at September 1992 against R16.3m in 1991.

The group had ample scope for further investments, and though it was not "on the acquisition trail" it would investigate all opportunities, said Wrogeman. He forecast trading conditions would remain difficult in the first half of the current financial year, with a slight upturn in the second half. However, long-term prospects were more promising in view of the infrastructural development backlogs in sectors such as housing, roads and water storage.
COMPANIES

Tight margins restrict PPC

PRETORIA Portland Cement (PPC) marginally increased profit in the year ended September 1992 in spite of a 6% drop in its sales volumes of cement and lime, today's published results show.

Turnover was 10% higher at R899m (1991 R819,6m), attributable mainly to good results from cement distribution operations, which upped their contribution to sales by nearly half to R147,8m (R100,5m), said financial director Chris Wrogemann.

However, the effect of pressure on margins in the lime and packaging divisions and generally lower volumes resulted in operating profit increasing only 6% to R195,9m (R185m). Pre-tax profit was 8% higher at R207,3m (R196,5m), but a higher effective tax rate reduced the rise in taxed profit to 1% at R118m (R110,2m) Wrogemann said lower mining asset spending resulted in reduced capital tax allowances.

Earnings increased 1% to 28c a share (28c) — a decline in real terms. However, the year's dividend was lifted 13.4% to 19c (17c) resulting in dividend cover dropping to 1.5 from 1.6 times. Earnings per share were 18.6% higher at 42.3c (36,4c).

Wrogemann said the cement division — which contributed 61% of operating profit — benefited from productivity improvements. Although turnover was only 5% up at R505,5m (R463,1m), divisional operating profit was 8% higher at R131,4m.

Contributions from the lime and packaging divisions declined slightly from last year's, while net investment income, mainly from the distribution operations, was virtually static. Borrowings of R53,9m (R57,3m) equalled 6% of shareholders' funds. Liquid funds increased to R52,1m at September 1992 against R15,5m in 1991.

The group had ample scope for further investments, and though it was not "on the acquisition trail" it would investigate all opportunities, said Wrogemann. He forecast trading conditions would remain difficult in the first half of the current financial year, with a slight upturn in the second half. However, long-term prospects were more promising in view of the infrastructural development backlogs in sectors such as housing, roads and water storage.
SAFICON/BOUMAT

Into the slow lane

SAFICON’s results reflect the tough times being felt by motor vehicle and building materials distributors. Interim EPS dropped to 6c (1991 38c). Apart from the motor distributors, SAFICON holds 54% of listed Boumat, a manufacturer and supplier of building materials.

Management can be thankful for its diversification into building, as Boumat accounted for roughly 4c of SAFICON’s EPS. Though motor vehicles and building materials have little in common, it seems Boumat will provide SAFICON with a steady foundation when building activity picks up.

However, Chairman Sidney Borsook reckons the motor operations will account for the larger slice of group EPS when both the motor and building materials arms are operating at full capacity. This indicates the extent of the motor operations’ underperformance in the first half. Interestingly, motor vehicle unit sales were maintained, but the consumer has tended to buy cheaper models.

For instance, in the VW range, sales of the City Golf and Fox Jetta have overtaken those of the more expensive Golf GTI and Jetta CLi lines. Similarly, in the Mercedess/Honda outlets, rising Honda sales have made up for slower Mercedes activity. The 9% drop in the motor arm’s turnover indicates the severity of the switch. Results were

worsened by narrower trading margins due to fierce competition in the motor industry to maintain market share.

Though one may believe motor servicing activities should provide the group with a strong underpin, particularly as servicing costs can be relatively high, CE Kurt Hipper maintains servicing is not a very profitable business as overheads are also high.

On the outlook, Borsook declines to give forecasts, an abrupt yet understandable change from the past when precise predictions were given. The volatile political and economic scenarios make it “virtually impossible” to read the future. Furthermore, he reckons the chances of improvement within the next 18 months are remote. Fortunately, as Borsook is financially disciplined, the group is in capable hands.

Though SAFICON’s share price has dropped by more than two-thirds over the past year, and Boumat’s by more than half since January, there seems little reason to buy the shares, given the gloomy outlook.

William Giffith
A RESTRUCTURED Plate Glass & Shatterproof Industries (PGSI), recently incorporated into the SA Breweries group, has reported a 10% rise in fully diluted earnings to 13.8c (12.6c) a share in the six months to end-September.

The glass and wood group's earnings a share for the previous year have been restated as some of the previously equity-accounted central African operations were now accounted on cash received. Chairman and CEO Ronnie Lubner said results were not comparable with the previous year due to changes in accounting policy, the acquisition of minority interests in Glass SA and PGanson, the issue of 12.9-million preference shares and the effects of the R54m rights issue in April.

Turnover of R1.4bn was 33.2% higher than the previous year's R1bn. Operating profit was R117.2m (R157.1m), and finance costs were reduced.

Net income after tax was marginally higher at R37.6m (R37.2m), and attributable income was R24m (R30.8m). The dividend was unchanged at 65c a share.

Lubner said the results were encouraging, and indicated that "major restructuring to improve focus and increase global competitiveness" was bearing fruit.

He said the SA glass and wood operations had been hard hit as their markets slowed down. However, they had minimised the adverse effect on profit.

Glass SA was being restructured to improve market focus and production efficiencies in order to meet competition, particularly from imports. Lubner said the full benefits of this move had not yet been felt, and margins remained under pressure.

PGanson's markets had continued to show negative trends, especially in the domestic and office furniture industries, where a decline in volumes put pressure on margins and operating profit.

In offshore operations trading profit had increased at Belron International, losses in the US operations were reduced, and reorganisation in Australia would bear fruit when conditions improved.

Lubner said there had been a sharp decline in SA and international sales. However, he said the group should show similar fully diluted earnings in the second half.
There was a huge market for prefs for people looking for tax-free income without capital growth.

RMB has introduced a novel attraction in future trading with its Dow Jones index futures, an informal market to test if it is feasible to establish it as a Safex contract. It is an overnight market in which players can take a view on how Wall Street will trade that evening, allowing them to hedge local positions.

RMB futures head Hugh Osthuszen said: "It has taken off like a rocket after attracting much more interest than we expected."

MINORITIES may have cause for complaints in the wake of the deal between the Pickard family and Powertech for the acquisition of the Pickard group. They have the power to block a deal as minorities own 49.8% of Picheld, 31.3% of Pichold and 6.8% of Picapl, and the transaction requires approval by a majority representing not less than three-quarters of minorities.

Some analysts say that, taking into account the cash in the group, it appears the split between the Pickard family and minorities is not quite fair. In effect, all that minorities have been offered is the cash already in the group, and not a share of the other assets. The value of these assets accrues only to the Pickard family, who also participate in the cash assets.

This could be justified by the fact that the Pickard family is to bear the risk of warranties for substantial future risks and liabilities, but some argue that even discounting the maximum risk, the minorities still get a raw deal and suggest that perhaps the minorities should participate in both the risk and a higher cash payout for their shares by Powertech.

An adviser to the Pickard family rejected the allegations as having no substance.

**Minaco’s turnover increases 68%**

MINACO Granite & Marble's turnover increased 68% in the six months to end June in spite of difficult trading conditions in the granite industry.

Minaco’s turnover climbed to R29.6m from R12.2m in the comparable six months last year, operating profit increased 61% to R4.49m (R2.78m).

However, pre-tax profit rose 15.5% to R3.06m (R2.65m) as the company had to foot a higher interest bill of R1.45m (R1.13m 000).

Earnings decreased to 7.2c (9c).

Chairman Bill Robinson, who was "very pleased" with the growth in turnover and profit, said the greater earnings in the first half reflected the company having to fund its foreign orders by allowing 120 days for payment.

Robinson said Minaco had started negotiating for trade finance. An arrangement was expected to be finalised during the current financial year.

**Income boost for Af Cable**

AFRICAN Cables, boosted by the recent acquisition of Roslyn Cables (formerly Siemens Cables), posted a sharp increase in attributable income to R20.7m from R11.2m for the 15 months to end-September.

Directors said the figures of the current period did not make for comparisons with those of the previous year due to a change in the financial year-end and the inclusion of results of Roslyn Cables from October 1991.

The company continued to provide adjusted results for the previous year. But, on an annualised basis, Af Cable’s turnover and attributable income advanced by 44% and 49% respectively.

The directors said the weak trading conditions experienced in the previous year had continued and sales volumes had remained under pressure. The company had embarked on rationalisation of production facilities. The closure of the Alucab division and the costs related to the discontinued operation were reflected as extraordinary.

Emphasis had been placed on working capital management, which had contributed to an improved cash position.
Fewer cracks showing

Plate Glass & Shatterprufe Industries's 10% advance in interim EPS to 138c (1991 126c) comes on the back of reduced foreign losses rather than improved profits. Though this is welcome, it masks severe trading conditions being experienced by 96,8%-held Glass SA, the largest profit contributor, and 71,7%-held PG Bison. The dividend was pegged at 65c.

PGSI's two core activities involve manufacture and distribution of glass and chipboard/wood locally, and motor vehicle window installation locally and abroad.

A positive development is that foreign losses have been reduced— which is material, as the losses were in hard currency. In the 1992 year, foreign losses dragged EPS down from 309c to 121c. Though these losses may suggest the offshore foray has been unsuccessful, chairman Ronnie Lubner denies this. He maintains the losses result largely from development (start-up) costs because some of these operations are new ventures.

This is probably a fair defence of the European losses, but it can hardly explain the losses incurred in the US and Australia, both mature markets. Rather, stiff competition and an unfavourable economic climate are to blame. On the other hand, PGSI seems to have understood the UK market well, as profits there continue to rise. Perhaps this has to do with its dominance of that market.

Turning to the local operations, Lubner says profits at both Glass SA and PG Bison are down, describing local conditions as “bloody awful.”

A change in accounting policy at the Central African arm, comprising Zimbabwean, Malawian and Botswana operations, is material. Aside from the Botswana operation, earnings will now be accounted for only when cash is received. As Zimbabwe and Malawi have strict foreign exchange regulations (and dividends can’t leave the country), this cuts 1992's EPS 100c to 209c.

While one must admire Lubner's entrepreneurship in setting up window installation outlets in foreign countries, one must also ask when the benefits will be reaped. The world economy remains depressed, suggesting significant profits won’t be achieved for some time.

William Galphill
Flexibility gives Stone and Allied the edge

WELKOM-based Stone and Allied Industries was formed in 1946 with the growth of the Free State goldfields to supply crushed stone or aggregates for civil engineering, building construction and roadwork.

The aggregates are produced from waste rock obtained from Transvaal and Free State gold mines.

MD Doug Rowland says the company adheres to SABS specifications on all quartzite aggregates produced and has steadily modernised its plant and equipment to keep pace with the changing character of the construction industry.

Stone and Allied uses waste rock to produce various sizes of crushed stone, crusher sand and crusher run, which is sold to municipalities, provincial roads departments, railways and civil engineering contractors.

Rowland says the company is operating in a particularly depressed segment of the market. He is accordingly pleased that nobody had to be retrenched last year.

Rowland says the company has the ability to respond rapidly to changes in demand. Between 1982 and 1991, it expanded from four to 13 plants and then rationalised back to eight.

It recently completed the relocation, upgrading and refurbishment of two of its Welkom plants and established an ultra-efficient high volume state-of-the-art plant.

Other forms of management flexibility include the move out of traditional areas of business into profit-substitution activities, establishing value-added products and restricting the product price increase to 8.5% for an 18-month period.

Despite reluctance to re-trench, Stone and Allied's profit levels are close to normal for the first 10 months of this year.

It has reached the finals of the SA Non-Listed Company Award for six of the seven years that it has been running, which, Rowland says, indicates a consistency in management activity, planning and innovation.

He believes Stone and Allied is in line for the award because the company has displayed a great deal of flexibility while gold mining industries were going into liquidation and its competitors reported losses.
There was an editing error in the Non-Listed Company Award survey yesterday. A report on Stone and Alhed Industries stated that the company had displayed 'great flexibility while gold mining industries were going into liquidation.' This should have read 'while companies operating in the gold mining industry were going into liquidation.' Business Day regrets the error.
Cement and lime volumes dropped roughly 6% in financial 1992, in line with lower activity in the heavy construction and mining industries. Volumes have been dropping for some time. Cement is used mostly in the heavy construction industry on dams, bridges and roads.

Lime is used as a flux in the mining industry, helping to remove impurities in the refining phase.

Activity at Pretoria Portland Cement’s remaining division, packaging (held through a 55% interest in Kohler Sacks), which makes bags for items from tea to cement bags, fell about 5%.

Lower overall activity converted into a nominal 1% rise in EPS to 287c (1991 284,8c), well down in real terms. Despite this, the dividend was raised 13% to 195c (172c). Finance director Chris Wrogemann explains “If we’ve got money and have no productive avenues of investment, we may as well give it back to shareholders.”

**Makes a change**

This approach makes a change from any number of groups which diversify rather than return money to shareholders. The dividend hike also reflects the strength of the balance sheet. Long-term liabilities of R34,2m compare with shareholders’ funds of R602,3m. Wrogemann adds the decision was also taken because this year’s capex will be moderate, in line with the prediction of low activity.

Cement dominates group trading profit, accounting for R131m of the total R214m. Lime contributes R50m, packaging R11,3m and investment income (dividends from associates and interest) R21m.

Two further items warrant mentioning. There is a new competitor in the lime industry and PPC is carrying out a feasibility study for a plant in Botswana, where there is considerable development of infrastructure.

The share price has dropped R14 to R36 in the past six months. Controlling shareholder Barlow Rand is probably not too concerned, as it takes a long-term view.

The p/e is still on a relatively high 12.5, against Anglo Alpha’s 8.5, indicating PPC’s blue chip status. Further downward rating is probably warranted as it is difficult to justify a price equivalent to more than 12 years’ earnings.

*William Griffioen*
SA-made glass sheets get world attention

THE challenge facing a new glass supplier in Cape Town is that architects and specifiers have to be visited one by one, which can be extremely time-consuming, says Trevor Millar, managing director of Africa Glass Cape.

"We have learned that specifiers in Cape Town are, quite understandably cautious about new products lines," he said. "However, we have now reached the stage where at least two-thirds of the Cape architects are aware and have begun to accept the virtues of SABS approved Saf-T-Lite glass and its related products."

Saf-T-Lite is a laminated glass bonded by a polyester resin and is applied in thicknesses between 4.5 mm and 12.8mm. It was developed in Durban in 1985 and has since been tested and approved by government or other specifying authorities in Germany, Australia, the United Kingdom, the USA and many other countries.

The patented horizontal caste-in-place lamination process uses clear polyester resin which, by means of the meniscus process, results in an even and consistent distribution of resin throughout the laminate Saf-T-Lite glass in its various forms has excellent sound absorption, security, fire retardation and light reflection properties.

A number of concerns, voiced by Cape Town specifiers, said Mr Millar, related to technical details such as glazing methods, edge finishing and applications.

A strong factor in its favour is that tints are contained in the monolithic glass used in manufacture, and not in an interlayer, thus eliminating the possibility of fading.
more, at most institutions. "This is considerably better than the 16.25% one can get on Standard Bank's Prestige home loan, and goes to show how competitive the market is."

The effect of lower short-term interest rates will be even less on the commercial and industrial property market. Rode says there is a long lag involved in the relationship between the two. "Ultimately, the market reacts to changes in demand for space, which in turn will increase only once the economic upturn is under way. The problem is compounded by the overbuild of office space," he says.

Luss says the drop in interest rates might benefit the industrial property market as costs of finance decrease and returns on other investments decline.

Sanlam Properties GM Dolf Muller says the industrial and commercial property market is little affected by short-term rates. "Investment decisions of this nature are guided by the long-term view, which is still clouded by sociopolitical uncertainties. Rates at the long end of the market don't seem to be coming down."

**Low-Cost Housing**

The FM in the past suggested that one way to bring down the costs of housing for low or no-income people is the re-use of building materials from demolition sites. Now, Portland Cement Institute has come up with some ideas of its own.

It has been suggested that at least R700 could be sliced off the cost of a R20 000 house if industrial waste were used in the manufacture of cement bricks or blocks. Institute executive director Graham Green says analysis and testing of waste material for sectors such as mining show that by-products of many metal smelting processes — such as silica fume, blast furnace slag and fly ash — could be blended with Portland cement to form products similar to cement.

Investigations are also being carried out into the use of charge chrome tailings and waste silica for possible use as aggregates. Large volumes of these waste materials are often dumped and could damage the environment.

Green says, "Some waste materials have been used as sources of aggregate for use in concrete or concrete products. Blast furnace slag produced by Iscor, which, when used in the manufacture of blended cements, has already attained a quality covered by a Sabs specification. Fly ash, derived from Eskom power stations, can also be used for the manufacture of Sabs quality-approved blended cements."

"A recent introduction is condensed silica fume, a dust collected during the production of silicon metal or ferro-silicon alloy, which has found use mainly in special applications with cement. The quality of all these materials can be specified to meet Sabs standards."

"All of these supplementary cementitious materials have the ability, when used correctly, to enhance the quality and durability of the concrete end-product. As waste products, the energy consumption of production as a cementitious material is generally low. The process of slag and fly ash are well below the cost of building materials."

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**Greener Pastures**

In a surprise announcement, Werkmans' property partner Laurence Kaplan (35) is to switch from the legal profession, where he has earned an enviable reputation in the field of commercial property law, to commodity trading. He will make the move early next year.

"Why the change? The FM understands that one of the attractions for Kaplan in his new job is the opportunity of relocating to Europe."

Says Kaplan: "Opportunities in life are few and far between and when something as exciting as this job came up, I grabbed it. I have had an incredibly challenging and stimulating time in the property department at Werkmans and I leave a highly motivated and competent team headed by Fatima Rodrigues."
PLATE GLASS & SHATTERPRUFE

Waiting for the breakthrough

PGSI has great potential — once overseas business turns really profitable

Is Plate Glass & Shatterprufe Industries (PGSI) ready for recovery? The 10% rise in interim EPS suggests profitability is improving, the quandary for investors lies in deciding whether the share should yet be considered a recovery stock.

The share has significantly underperformed the JSE Industrial index in recent years, partly due to a lack of profits in certain of the foreign operations. Its price has dropped to R40 from its 1990 peak of R68, dragged down in part by the large issue of preference shares. The share was trading at R58 last September, so the market has taken a jaundiced view on the company's immediate prospects.

At least from a short-term standpoint, Liberty Life was astute in swapping its investment in Placor — delisted holding company of PGSI — for blue-chip SA Breweries (SAB) paper late last year, particularly as SAB paid a 20% premium for its controlling interest. PGSI's share has underperformed SAB's since the deal.

That does not necessarily mean SAB made a poor investment — even though it has poured in roughly R1.45bn including scrip payments, rights issues and other outlays for its 67% stake. It is too soon to evaluate it thoroughly and SAB claims to be a long-term investor.

But the new parent company's involvement is material in an assessment of PGSI — it plainly intends to play an active role. The investment is large even for SAB and it now has four representatives on PGSI's 12-man board.

As SAB planning and development director Malcolm Wyman puts it, SAB has "an ongoing financial and strategic relationship" with all its subsidiaries, though the underlying operations are responsible for day-to-day activities. Effects of this relationship have already been seen in the change in accounting policy for the Zimbabwean and Malawian...
profits is an example.

In September, PGSI announced a major financial and structural reorganisation in its local and foreign operations - a move planned before the deal with SAB.

At Glass SA, the distribution chain was streamlined to reduce costs, following stiffer competition from cheaper imports. In the US, the president and CEO of subsidiary Windshield America took early retirement, and was replaced by the chief operating officer. At the Australian subsidiary, the head office function was removed and the business units became self-standing operations reporting directly to Belron.

The recent EPS increase, though off a low base, indicates profitability is improving. The directors have forecast that full-year EPS of 276c could be achieved under the new accounting policy, whereby earnings from central Africa, excluding Botswana, are to be accounted for on a cash-received basis. (This reduced 1992's EPS to 209c from the previously reported 309c.) On a comparable basis, 1993 full-year EPS would jump roughly 32%.

PGSI's two core activities involve glass and chipboard/wood. It is SA's sole glass manufacturer and controls a significant portion of the distribution chain. The PG Auto-glass centres - where a motorist drives in and has a motor vehicle window replaced on the spot - is an integral part of its glass distribution business. The group also makes chipboard, enjoying the largest market share of the four local manufacturers.

The central African operation, with activities in Zimbabwe, Malawi and Botswana, makes chipboard and distributes chipboard, wood, glass and other building products.

For the rest, foreign operations, which account for half PGSI's turnover, concentrate on installation of motor vehicle windows, again where the motorist drives in and has a window replaced immediately. In total, there are about 800 outlets in Europe, the US and Australia.

In the past year PGSI acquired 48.4% of Glass SA from Pilkington for R235m deal, taking PGSI's stake to 96.8% and bought 23.9% of P G Bison, lifting its holding to 71.7%.

The R354m rights issue held in mid-April has significantly strengthened the balance sheet. Of this, £28m is being used to refinance the foreign operations.

At the interim stage, after taking account of the Glass SA and P G Bison acquisitions, the rights issue and the new accounting policy for central Africa - shareholders' funds stood at R511m against total interest-bearing debt of R188m. Taking the R29.3m short-term preference shares as debt, gearing is 45%, well down on the year-ago 70%. Interim interest cover was a healthy 7.4 times.

The buy-out of the Pilkingtons stake in Glass SA must be considered a highlight of the past year. Glass SA is a strong cash generator enjoying high historical margins, around 20%, though these have recently come under pressure from imports.

PGSI ran into problems during the Eight.
res, after management expanded forcefully abroad. Originally this included both wood trading activities and wide-ranging glass operations. Underperformance of the wood trading business persuaded the group to withdraw in 1991, writing off £84m on the disposal. It sold the building glass half of its glass business to Saint-Gobain for £100m, the entire business had originally been bought for £7m.

In a major strategy change, management set about concentrating its foreign resources on the glass installation outlets. But some of the foreign activities continued to lose money.

In financial 1992 net losses fell in Europe and the US, while the Australian business moved from profit to loss. Though profits increased in the UK, this was insufficient to offset the after-tax losses elsewhere. The loss per share from the foreign arm, wholly owned by Belron International, jumped to £121c from 63c in 1992's results were also weakened by lower activity on the domestic front. Glass SA's EPS contribution declined to 307c (£3.45c).

The 1993 improved interim performance came from reduced losses at many offshore operations rather than increased profits. Profits are also down at Glass SA, the largest earnings contributor, in a business climate which PGSI chairman Ronnie Lubner describes as "bloody awful." Activity has diminished in both the building and automotive industries. Glass SA's main markets. Latest forecasts for this year's new car sales have been lowered by roughly 30,000 to 178,000.

Glass SA's results have been cushioned by activity in the commercial building sector, but activity is diminishing there too—a trend partially offset by the more streamlined distribution chain.

There is concern about the increased competition from, in particular, Chinese and Taiwanese imports. Lubner, who has applied for import protection, maintains the Chinese are dumping their glass to generate foreign currency. (At present, an import duty of 10% is in place.) Of course, this is a common response from most SA businessmen when their own operations are challenged by cheaper imports.

Output at Glass SA is split roughly 50:50 between the automobile and building industries, itself shared equally between nonresidential and residential activity. Affordable homes provide some light, as SA faces a critical housing shortage.

Also, when the foreign auto installation outlets enjoy greater activity, that will result in increased exports from the local glass plant.

Higher housing activity is also expected to benefit P G Bason, whose products find their way into homes in the form of shelves, cupboards, furniture and so on.

Though there are four local manufacturers, P G Bason enjoys the largest market share and is the only operation to have exposure in the full chain, including manufacture through to retail distribution.

The central African operations have made a significant contribution in the past, but the new accounting policy has marginalised this arm in terms of profit contribution. However, the quality of earnings has substantially improved.

Lubner maintains losses in the foreign auto glass installation businesses—which account for half PGSI's turnover—result largely from start-up or development costs, as a number of these are new ventures. This is probably a fair defence of the European losses, but it can hardly explain the losses in the US and Australia, both mature markets and pricing, which simplify a large customer's paper work. PGSI is seeking to entrench its position in these markets by offering a broad range of services.

Though in adolescence, the Belgium, Holland and Luxembourg arms are making profits. It has been easier to establish operations in these smaller countries.

Germany and France, where the outlets were acquired in the Saint-Gobain deal, are taking longer to establish, and large assessed losses have been created.

Originally, management predicted the German operation would break even in the second half of 1993, but this has been moved back by a year.

In France, break-even was to have occurred in mid-1994, but this in turn has been moved back at least half a year. Though turnover is growing in both countries, continuing high set-up costs mean trading losses are continuing. However, when the operations become profitable, they will generate cash until the assessed losses are used up.

In Australia, where the industry is more mature, PGSI's operations have come under extreme pressure from local competition compounded by the harsh economic climate. In America, where the concept is well established and there is competition, losses were reduced in the six months to end-June. Presumably with SAB support, PGSI could buy out one of its American competitors, increasing its position there (Lubner says a further rights issue is only likely should there be a major foreign acquisition.)

Recently the American dollar (in which large losses are being incurred) has been strengthening against the rand while the pound (where profits are being made) has been weakening. If these trends continue they could become more pronounced. But change rate fluctuations over the past year have not been particularly significant, and have cost PGSI about $1.5m.

Total automobile population in the European countries in which PGSI is established is roughly 119m, America's population is around 185m and Australia's 10m. This compares to SA's 5m. As the average glass damage rate is 8%/year, the potential is large.

So, are PGSI's prospects improving? This largely depends on when the world economy picks up. However, imports will continue to challenge Glass SA, and local building and automobile activity will probably remain depressed for some time. This suggests the group isn't in the clear yet.

A central task is to get the offshore operations profitable as soon as possible. Threats from imports is another key issue — and management intends to fight this through becoming globally competitive.

The relatively high 14.7% profit reflects the medium-term outlook given that immediate prospects remain fairly bleak. Investors considering the share now need patience — but there could be good recovery potential later.
A sure way to raise money

SOUTH AFRICA 19.92

SUPPORT for glass recycling is growing countrywide as more and more bottle banks are placed.

Bottle banks are those blue round fibreglass containers, which can each hold up to 2 500 glass bottles and jars at a time.

Any type of glass can be deposited into the container, from jam jars and medicine bottles to beverage bottles. All you have to do is remove the lid and rinse the container if it contained a foodstuff. The labels do not have to be removed.

Among the communities who have realised the benefits of glass recycling are the people of Mitchells Plain and Strandfontein, who are benefiting from the bottle banks placed at schools and shopping centres by the municipality.

Debbie Sherman, a spokesperson for the Glass Recycling Association, says the amount of glass collected is increasing, but many people still do not fully realise the benefits of recycling.

She says: "About 2 200 bottles make up one tonne of glass and as each bottle bank yields approximately 1.5 tonnes a month, a lot of glass is being removed from the environment."

"Communities benefit not only from tidier surroundings, but their waste disposal costs are reduced and the cost of expensive raw materials necessary for glass production is being reduced."

"For each tonne of glass collected, the bottle bank owner receives R35. Schools use this money for school funds and businesses often donate money to charitable causes."

The major glass manufacturers, Consol Glass and MB Glass, formed the Glass Recycling Association (GRA) to encourage collection and re-use of used glass (cullet).

They rely on support from commercial sector, municipalities and schools to buy the bottle banks, which are then emptied by glass collection agents.

Sherman adds: "Bottle banks are being under-utilised in these communities and we strongly urge the public to avail itself of the benefits of glass recycling by depositing used glass in our bottle banks."
Depressing, says PPC boss

PRETORIA Portland Cement (PPC) was unlikely to maintain earnings achieved in the 1992 financial year in the current one, chairman John Hall said in his latest annual report published yesterday.

The earnings of PPC, SA’s largest cement producer which supplies 45% of the country’s requirements as well as limestone and gypsum, increased marginally in the past year to K276c from K262c a share in 1991.

Construction activity declined from lack of investor confidence and the poor economy.

Urban unrest, mass action, and bond and rent boycotts materially affected activity in low-cost housing.

National cement sales fell 5% over the past year compared with 1991. PPC’s sales fell 6%.

Industry prices — controlled by a legal cartel consisting of SA’s three producers, Anglo Alpha, PPC and Blue Circle, increased 12.8%.

PPC’s average cement price a ton increased by 10.8%.

Capital expenditure for 1993 was projected at K53m, most of which was for customer-service facilities at the slurry works, upgrading of the cement milling plant at Port Elizabeth, a new computerised plant control system at De Hoek, and replacement of equipment in all divisions.

Capacity utilisation at PPC’s cement operations slipped to 58% from 61% the previous year, and capacity utilisation at the lime operations dropped to 45% from 47%.

Hall described the coming year as depressing, adding that the world economy was unlikely to show any meaningful recovery. The SA economy would show little if any growth, and the political situation was cause for concern.

On the JSE yesterday 1660 PPC shares were traded at K38.50 in three deals. This was slightly off its November 24 annual low of K38 from a June 9 high of K50.
EVERTE FM 412/92

Year of change

Activities: Manufactures fibre-cement and other products, mainly for the building industry
Control: Group Five and Fedlife through Evertone Holdings
Executive Chairman: T J Kotzee
Capital structure: 88.8m ords Market capitalisation R187m

Share market: Price 210c Yields 3.1% on dividend, 9.1% on earnings, P/E ratio, 11.0, cover, 2.9 12-month high, 310c, low, 210c
Trading volume last quarter, 275,000 shares
Year to June 20 89 90 91 92
ST debt (Rm) 4.7 22.6 15.6 98.6
LT debt (Rm) 11.7 2.2 2.6 3.5
Debit equity ratio 0.04 0.02 0.08 0.28
Shareholders interest 0.88 0.68 0.78 0.67
Int & leasing cover 23.3 12.1 7.1 4.4
Return on cap (%) 15.4 12.0 7.6 6.1
Turnover (Rm) 373.2 352.2 334.2 393.3
Pre-int profit (Rm) 64.2 50.1 30.7 31.8
Pre-int margin (%) 13.8 13.3 8.0 7.1
Earnings (c) 34.1 31.3 18.8 19.1
Dividends (c) 13 13 6.5 6.5
Net worth (c) 273 256 316 343

1992 was a year of momentous change for Evertone, so much so that it would probably be unfair to read too much into the latest financial statements. Indications are that at least another year will be needed for consolidation and, possibly, further restructuring before there is a clear picture of the new capabilities.

The changes all stemmed from last February's deal, whereby Fedlife and Group Five acquired joint control of pyramid Evertone Holdings from Swiss-based Nueva, with Group Five assuming management control from February 14 — four and a half months before the financial year-end.

Two immediate consequences were an almost total change of Evertone's board of directors and a review of accounting policies which led to the scrapping of the previous current-cost system (which substantially increased stated earnings) and the adoption of the fully comprehensive basis for providing deferred tax (which, compared with the previous partial method, reduces earnings slightly).

This was followed, with effect from April, by a decision to down-sell Group Five's non-construction interests to Evertone, which had the effect of adding three additional divisions to the activities. A fourth new division was added, being a consolidation of the extensive property portfolio which is now managed as an independent profit centre.

Finally, new management decided to do something about the over-traded and unprof-

rived from acquisitions, R891,000 from equity-accounted income of associates and R865,000 from investments — leaving Evertone's own operations down by about R705,000

Another concern is that Evertone, historically under-gearing, had to take on substantial additional debt to fund acquisitions. While one accepts new chairman Theuns Kotzee's view that the 0.29 debt equity ratio is reasonably conservative, the full impact of these borrowings is not yet shown in the income statement. Based on the June 30 net debt of R89.8m, 1993's net finance costs could double from last year's R7.5m if borrowings are maintained, making mincemeat of the presently satisfactory 4.4 times interest cover ratio — not to mention profits unless there is a substantial improvement there too.

In rating the share on an 11 p e and 3.1% yield, the market seems to take the view that the present anomalies are temporary and that the new Evertone will be in better shape after a full year's trading.

Kotzee's view is that the reorganisation and new policies will produce a "vigorous new life-cycle." But he cautions it will not perform to its full potential until the economy improves.

From November 30, Evertone Holdings' issued capital trebled because of a two-for-one capitalisation issue. Evehold shares should now be worth about the same as those of its operating subsidiary, which means either that Evehold (at an adjusted price of 236c) is substantially over-priced relative to Evertone (210c) or that the latter's recent weakness has been overdone.

Braam Thompson

Companies
JSE suspends listing of Bester Investments

By Roy Cabeys and Patria Ibba

The Johannesburg Stock Exchange (JSE) has suspended the listing of building and property development group Bester Investments Ltd following the provisional liquidation of the group’s main operating subsidiary, Bester Homes (Pty) Ltd.

Bester Investments Ltd executive chairman and Bester Homes (Pty) Ltd director Tumelo Bester said the provisional liquidation did not mean the company was on the verge of collapse and final liquidation.

"This was confirmed by Gerfr van den Berg, Northern Transvaal regional general manager corporate division of Associated Banks of South Africa Ltd (Absa), which brought the provisional liquidation application in the Pretoria Supreme Court on Wednesday," Bester added.

"The final liquidation of Bester Homes (Pty) Ltd is definitely not on our agenda," said Van den Berg. He said that because there was more than one creditor bank involved, they had opted for the provisional liquidation as a mechanism to make it easier for the creditor banks to enter into a scheme of arrangement.

Bester said: "The absent of the court is the downgrading of the company, and a deal is expected to be struck with banks to keep them going.

Absa, which inherited the Tollgate accounts when it took over Bankorp, applied for liquidation as a last resort after unsuccessful attempts to keep the group afloat.

The banking giant should recover some of its money and when Tollgate’s remaining assets are sold off.

But with Tollgate’s debt to Absa topping R300 million, the plan is thought to have already written off most of the liabilities as a bad debt.

Holdains to raise R180m

Holdains, the paper and packaging group in the Malbock stable, has announced a R180 million rights offer to finance its acquisition of a 50 percent stake in Crown Cork Co. Ltd.

Beverage can maker Crown Cork is the local subsidiary of US group Crown Cork & Seal.

The proceeds of the rights offering will also be used to finance Holdains’ 20 percent interest in Crown Cork & Seal’s operations in Zimbabwe, Zambia, Kenya and Nigeria.

Holdains says the funds will also allow the group to facilitate future expansion of its operations.

Malbock will underwrite the entire rights issue, which will be announced in January.

Holdains said the group’s 1992 financial results would be significantly affected.

The group accounts for 15 percent of the turnover in South Africa’s paper industry in terms of value of output, and 4 percent in terms of capacity.

BUSINESS

Business as usual for Tollgate subsidiaries

By Stephen Crichton

CAPE TOWN — Four major companies employing about 2,500 people are carrying on business as usual after the collapse of their parent company, Tollgate, in the biggest Cape town company crash this year.

Tollgate Holdings was placed in provisional liquidation in the Supreme Court on Wednesday.

Holdain Ltd was appointed to run the company and a deal is expected to be struck with banks to keep them going.

Holdain, which inherited the Tollgate accounts when it took over Bankorp, applied for liquidation as a last resort after unsuccessful attempts to keep the group afloat.

But with Tollgate’s debt to Holdain topping R300 million, the plan is thought to have already written off most of the liabilities as a bad debt.

Holdains said the group’s 1992 financial results would be significantly affected.

The group accounts for 15 percent of the turnover in South Africa’s paper industry in terms of value of output, and 4 percent in terms of capacity.

Greyhound

An employee at Greyhound Citihome confirmed that service was still running.

Motor Racing Enterprises (MRE), which manages the Kykland racing track, is not affected by the provisional liquidation order against Tollgate Holdings.

In a restructuring of MRE and Tollgate Holdings,

"Greyhound is our major mover of vehicles and we are its biggest customer," he said.

Cemenco in black but skips payout

By Stephen Crichton

Despite a marked decline in turnover, engineering group Cemenco said shareholders would receive the same dividend.

Cemenco, through its 10 percent partnership with Standard Bank in McCarthyn Finance, is taking action to enforce a claim for R3.5 million against TGH after its accountant last year of the full maintenance issue business.

Cemenco returned to profitability in the year to end-September.

However, in view of the poor outlook for trading conditions in the current financial year, the directors have decided not to pay a final dividend on the ordinary shares.

Turnover in the 12 months fell from R325.8 million to R255.3 million but operating income showed a strong turnaround from a loss of R3.3 million to profits of R1.1 million.

Attributable income recovered to R323.0 million (loss of R3.7 million), which translates to a sharp improvement in earnings per share from 4.6c to 8.4c from a loss of 8c.

Great steel margins were tight, but the operating margins improved from 4.5 percent to 4.9 percent.

"But sales are the result of a highly focused and focused management team," he said.

Ms McCulley said the group achieved a marked improvement in full year results, demonstrating the group’s resilience in a difficult environment.

"They work to well-defined profit and performance Program, all dividends experience shrinking markets," he said.

Tight controls help recovering Metcash

By Stephen Crichton

Macro Cash and Carry (Metcash) continued its recovery, with earnings per share up 14.7%, compared with a loss of 2.6% in the four months to October 31.

A dividend of 6c has been declared.

In the year to June 1994, prior to its merger with Premier and the appointment of Carlos dos Santos as group CEO, Metcash reported losses.

"This is a turning point," he said.

"The directors are satisfied with the progress and with the results."
Round-the-clock commitment

A project the size and complexity of the Lost City posed severe challenges and raised major questions, not least of which was the choice of material for the basis of the structures.

Quite aside from exotic materials, there must have been a strong temptation to utilise what some would call "space age" materials for the main structures.

That temptation, if it existed at all, was resisted and in fact the planners of the project opted for traditional clay brick with its proven characteristics.

Various suppliers were considered and the choice fell upon BERT'S BRICKS of Potchefstroom. That choice was based on a number of criteria, namely quality, pricing, logistical support and service.

Jacques Marais, marketing manager of BERT'S BRICKS, says "We have an excellent track record and the quality of our bricks is proven. We are also one of only a few brick manufacturers who could supply on the scale envisaged for the Lost City project, which involved mind-boggling quantities. We were able to offer a privately owned, well-managed factory with its own transport which could manage logistically and provide the service."

Approximately 25 percent of the company's output had to be allocated to the project.

Marais says "When the brick-laying phase started in all earnest contractors on site and BERT'S BRICKS were involved on a scale, and co-operated in a way, that was never experienced before in the brick industry."

"Such was the flow of demand that trucks departed from Potchefstroom and arrived on site around the clock to deliver bricks on pre-designated routes to off load bricks as required, by foremen."

"The supply contract extended over a period of a year, during which time about 30 million bricks were delivered at a rate of no less than 130 000 bricks a day."

"That amounts to about 3 000 loads of brick in heavy trucks and the total distance travelled by the trucks amounts to 1.200 000 km — a truly stupendous logistical effort."

The company's record for delivery to a particular site on one day was 420 000 bricks within 24 hours after the order was placed, over a delivery distance of 170 km.

BERT'S BRICKS (Potchefstroom) and its sister company MOLOPO BRICKS (Mafeking/Mbatho) are both well-established privately owned factories.

BERT'S was founded by Bert van der Merwe on borrowed land. In those difficult early days, the mixer had to be turned by borrowed donkeys as there was no power. After taking a degree in economics at Stellenbosch University, Gerald van der Merwe took over from his father.

Today BERT'S is one of the largest brick manufacturing factories in SA and produces 70 million bricks annually, about 20 000 bricks (enough for an average house) every hour.

MOLOPO BRICKS is a heavy-weight producer in its own right, with an output of about 48 million bricks a year. Between them the companies manage and own a fleet of more than 30 crane trucks.

Please telephone BERT'S BRICKS at (0149) 92-1613 or MOLOPO BRICKS at (0140) 810 209 1.
Italy and the US picked up as did contract work.
Sales were 12% better at £31.8m but the surplus was only 1.5% up to £6.7m.
Pandrol is expanding in France — acquiring two companies with combined revenues of £4.2m — and the UK in a joint venture with another French group.
Coal mining equipment saw a 61% improvement at the UK arm, Anderson, previously blighted by the run-down of British Coal, offset at National Mine Service in

Chairman Edwardes

JM's shadow

North America: Overall turnover was fractionally down and earnings flat.
Quarrying suffered a slight downturn because of aggressive competitive prices but by cutting costs Hargreaves managed to raise profits by 12.5% at £1.8m.
Creditable as all this is, Charter's investment standing continues to shadow Johnson Matthey. With the holding valued at more than 57% of Charter's market capitalisation, the shares moved up to their 12-month high of 555p in London — echoing a JM advance.
A historic yield of 5.2% and p/e of 13 compares with 2.7% and 20 for JM. Stripped of JM, at current prices and on a maintained dividend which could be 1.5 times covered, Charter would yield 9% and stand on a multiple of 7.5 — before any assumptions about what the liberated cash would earn.

John Cottrell

CHARTER CONSOLIDATED

Interest rate dent

The sharp fall in sterling interest rates makes the only dent in Charter Consolidated's otherwise good first-half performance in the face of depressed markets and margins. At the operating level, profits to September 30 rose by 3.6% to £31.5m, but the combination of lower interest rates and a £20m reduction in cash balances to £102m cut net receivables by 30% to £5.8m.
That left pre-tax earnings 4% off at £37.1m. EPS were marginally less affected at 21.8p (22.4p) and the interim dividend is pegged at 7p.

Leaving aside the contribution from the 38% stake in Johnson Matthey which accounts for 57% of £606m group turnover and 40% of profits — the four legs of the operating business coped well. Their combined pre-interest surplus increased up by nearly 2% to £16.9m on turnover of £262m, a 15% gain.

Buildings products and services (Cape) grabbed a bigger market share in the UK and Continental acquisitions with major contracts in Brunei and Australia raised turnover by 31% to £128m. But a devastated UK construction industry meant lower overall margins and no change in profits at £6.4m.
Rail track equipment (Pandrol) had a mixed six months. Maintenance suffered in the US but sales of fastenings to Belgium,
One for the long term

Activities: Manufactures and distributes cement, lime and lime stone products, paper sacks and other containers

Control: Barlow Rand (60%)

Chairman: J Hall, MD J Gomersall

Capital structure: 40,6m ords Market capitalisation R1.8bn

Share market: Price R37.50 Yield 6.2% on dividend, 7.6% on earnings, p.e ratio, 13.1, cover, 1.5 12-month high, R50, low, R30

Trading volume last quarter, 0.67m shares

Year to Sep 30 '89 '90 '91 '92
ST debt (Rm) 7.8 2.5 1.7 1.7
LT debt (Rm) 1.8 30.0 38.0 34.2
Debt equity ratio n/a n/a 0.03 n/a
Shareholders' interest 0.52 0.61 0.62 0.64
Int & leasing cover n/a n/a 28.2 n/a
Return on cap (%) 20.4 19.2 19.8 19.8
Turnover (Rm) 689 740 818.5 899
Pre-interest profit (Rm) 178 180 195 200
Pre-margin (%) 25.8 24.3 22.8 22.1
Earnings (c) 252.6 266.2 284.8 287.0
Dividends (c) 130.0 150.0 172.0 185.0
Net worth (c) 1 345 1 401 1 535 1 628

Prenteria Portland Cement has all the symptoms of the global malaise, falling capacity utilisation, declining volumes and pinched margins. Its nominal earnings growth averaged 18.2% over the past five years, but this trend looks as though it might be flattening out with only 1% growth in 1992.

Of the four divisions, cement, lime, packaging and investment & other, only the last outstripped the average divisional compound annual sales growth since 1988, the others fell short. Growth in operating income (before interest and tax) tells the same story, except that all the divisions fell behind compound annual growth since 1988, the lime and packaging divisions had negative growth.

PPC's cement operations, the largest division contributing 36% of turnover and 61% of operating profit (before tax and interest) in 1992, saw domestic sales volumes fall 6%. Just under two-thirds of cement production is sold to merchants, which makes pinpointing the main cause for the deterioration in demand difficult, says finance and administration director Chris Wrogemann. But he believes the fall in sales is primarily due to the further slowdown in the construction industry and in low-cost housing because of continuing violence and unrest.

The slump in international demand for metals (including gold, uranium, steel and ferro-alloys) is the main reason for lower demand for lime products (17% of sales). Sales volumes decreased by 6% over 1992. Wrogemann expects sales volumes for the cement and lime divisions to improve in 1994.

Price increases for lime and cement rose by 8.2% and 10.8% respectively in 1992, a fall in real terms Group sales rose by 10% in nominal terms, but this was largely due to a significant increase in the contribution from the "investment & other" item, which accounted for nearly three-fifths of the increase in turnover.

The operating margin has steadily declined in recent years because of the high proportion of fixed costs and falling capacity utilisation, which declined in cement and lime divisions to 58% and 45% respectively.

Wrogemann does not expect a recovery in the present stagnation in PPC's main markets for 1993. Despite this, he is optimistic about future demand, especially for low-cost housing once conflict and disruption abates. He says "My favourite hobbyhorse is that there is massive pent-up demand for low-cost housing.''

He believes there is demand for 250 000 additional housing units a year until the end of the century to catch up with the backlog. If only 100 000 of those units are built, each one requiring, say, 3 t of cement, a total 300 000 t/year of additional demand would arise. This represents a near 5% volume increase on the existing 7 M t of cement demanded annually, a significant boost to sales.

But what should the investor do between now and then? A look at the dividend since 1988, shows an annual increase which keeps pace with inflation. PPC also paid out a special dividend in 1991 because capex plans were underspent. But is this sustainable given current earnings and the fact that divi-
Cementation set to grab advantage

THE Cementation Group is confident this year's earnings will be an improvement on last year's, chairman Ronny Shaw wrote in his valedictory annual review.

A strategy to increase penetration of its services for export should be evident in the current year's performance, Shaw said in the diversified engineering and mining contracting group's 1992 report.

The management team was well geared to take advantage of any upturn, though the virtual zero economic growth forecast for next year would adversely affect the industries in which the group operated.

In the year ended September 1992, Cementation converted its R10.5m loss of the previous year into a profit of R384,000 after providing R1.1m for the group's portion of the loss in associate company Barracuda Granite Tile.

Shaft sinking remained the dominant contributor to earnings, even though activities had declined over the past two years. Underground drilling, cementation and backfill operations had increased market share.

Demand for raise boring improved, but prospects for declining surface exploration activities remained uncertain. In sympathy, sales at the diamond crown manufacturing operation were lower.

The mining division's order book was enhanced by the award of a major long-term contract for sinking the Amandelbult No 2 shaft.

The mechanical and structural engineering divisions' workloads were unsatisfactory and further shrinkage of these operations was not ruled out.

The railway division experienced difficult trading conditions as the local market was reaching a record low. Export orders were not being executed because financial guarantees were not materialising.

Negotiations to dispose of a substantial share of the group's specialised forging plant — which produced satisfactory profit in the past year — to Denel were well advanced.

Results of the smaller sales divisions in the past year were disappointing. The chemical division was nominally profitable, as was the Comtec-Fenzy division. But the pump, valve, Comwall and Cemtron divisions incurred losses.

Shaw said he planned to retire in January after serving the company for 46 years.
Italtile ponders staff share plan

ANDREW KRUMM

ITALTILE proposes to replace its failed employee share incentive scheme with a new one which could release 15% of company equity to employees, says director Peter Swatton.

An employee share incentive scheme had been implemented in 1988, but due to financial implications of changes in tax legislation, such as the introduction of fringe benefits tax and exemption of dividends from income tax, it had failed in its aims, he said.

The new scheme, to be put to a shareholders' meeting on January 12, was "fairly flexible" and would be of greater use to those it was intended to benefit, mostly managers and other executives.

"The scheme is not designed exclusively for management, but the guys on the shop floor are more interested in short-term benefits, such as productivity bonuses," he said.

Meanwhile, Ceramic Industries, formerly part of the Italtile group, has proposed a virtually identical employee share incentive scheme.
Inca sees no upturn yet

By MAGGIE ROWLEY

THE most optimistic scenario for the construction industry was that it would now stop declining and bounce along the bottom in a new measure of stability before an upturn in mid-1994.

So said Rob Low, executive chairman of Inca, the newly established entity comprising three of South Africa’s major concrete masonry manufacturers.

In an interview preceding the launch of Inca yesterday he said any upturn in the industry could not be expected before a newly elected government.

The formation of Inca, he said, would hopefully go a long way to improving staff morale in the three companies, Cape Town based Calsica, Transvaal based Tricrete and Border Concrete in the Eastern Cape.

While Calsica had weathered the recession better than most, Tricrete had been forced to downsize in recent years and its staff had been almost halved, he said.
GuardianBank unit trusts outstrip JSE indices

Payout knocks Minanco
PFG application comes under fire

By Stephen Cranston (193)

There has been widespread criticism of PFG Building Glass's application for anti-dumping duties on building glass.

PFG argues that its application for protection is within limits set by the General Agreement on Tariffs and Trade (GATT), which recognises the need for tariffs when goods are exported at a price lower than the price at which similar goods are sold in the exporting country.

PFG has been forced to cut its prices by up to 40 percent since building supply companies started to import glass at lower prices.

Gerald Haumant, MD of the building supplies retailer Cashbuild, says the chain cancelled its import orders when PFG matched the price of imports.

The price of 40 panes of glass, totalling five square metres, plunged from R109.74 in December 1990 to R87.28 in June 1991 and to R61.06 in July that year.

It has since risen to R88.73 and Haumant fears that it could go back to 1990 levels if the PFG application is successful.

He warns that anti-dumping duties will ultimately encourage the illegal import of glass as it is difficult to police the contents and origin of each containerload brought into the country.

Grinaker Building MD Howard Jones says that an anti-dumping duty goes against the free enterprise system and that the building industry does not need additional costs when demand is low and margins are tight.

Last June the Board of Tariffs and Trade threw out an application by PFG, then Pietermaritzburg, for anti-dumping duties.

The board said that the export price of glass from China was higher than its domestic price, which indicated that glass was not being dumped.

In the current application, according to spokesman Brian Gibson, PFG intends to prove that glass is being exported from China at a price below the domestic price as well as proving that PFG is suffering material loss.
Argus has no interest in FW

In response to the South African Union of Journalists' (SAUJ) call for the major publishing groups to stop vying for control of Finance Week, he reaffirmed that his group was not interested in buying Finance Week, and never had been.

Finance Staff (1975)

Rumours of an Argus interest in acquiring Finance Week were entirely unfounded, Doug Rand, chairman of the Argus Newspapers, said last night.

57 eat 14/11/75.
BTT to probe glass dumping

The Board on Tariffs and Trade (BTT) is to conduct an investigation into the dumping of flat glass in SA from Thailand, China, Hong Kong and Singapore, according to Friday's Government Gazette.

The application for the investigation was made by PFG Building Glass, the only flat glass manufacturer in SA. PFG is a member of Glass SA and eventually a subsidiary of Plate Glass & Shutterprufe Industries.

The BTT says that evidence of dumping and material loss suffered by PFG is "sufficient and accurate" enough to justify the probe.

PFG says production of flat glass has declined by 22% in the past two years, 12% of its labour force has been cut and imports have cost the company R20-million. It was also necessary to lower prices to match imports. During the same period, demand for flat glass has declined by 16%, but imports have increased by 38%.

The Gazette notes that recent imports have been landed at between 34% and 78% below the domestic prices in the country of origin.

Cyril Gebbhart, managing director of Triangle Glass, one of the main importers of glass, is to encourage other independent traders to oppose the introduction of dumping duties.
Glass-dumping claim under investigation

By Stephen Cranston

The Board of Tariffs and Trade has found sufficient cause for an investigation into the alleged dumping of glass from the Far East.

If it finds that dumping has taken place, anti-dumping duties will be imposed.

PFF Building Glass, the only local manufacturer of float glass, has lost R20 million in the past two years because of imports of dumped glass, according to Rod Fehrsen, MD of holding company, Glass SA.

Employment

Fehrsen says that employment levels in the company have fallen by 12 percent over the same period.

Overall demand for clear flat glass has fallen by 10 percent during that time, but PFF's production of clear flat glass has declined by 22 percent during the past two years and its profitability by 42 percent.

Imports now account for 10 000 tons out of the 54 000 ton building glass market.

An application by PFF for protection against the dumping of glass by mainland China was refused by the Board of Tariffs and Trade in June 1992 as the board did not find that dumping injurious to PFF had occurred.

But Fehrsen says over the past year imports have grown dramatically from both Thailand and mainland China, often through Hong Kong and Singapore.

There is significant excess capacity of building and automotive glass and Fehrsen believes that much of the glass exported to South Africa is sold below cost in order to earn hard currency.

The free-on-board (FOB) price of glass is between 54 percent and 73 percent less than the manufacturer's selling price to domestic merchants.

Clear flat glass 3 millimetres thick sells for R13.48 a square metre in Thailand, but comes into South Africa at a free-on-board price of R3.82 a square metre. Glass of this quality from China has a free-on-board price of R5.83.

But Fehrsen questions if much of this saving is passed on to the end-user.

PFF also sells glass at a lower price internationally than locally, but more in the region of 10 percent to 20 percent lower, which it claims does not constitute dumping.

Glass will still be imported, even if anti-dumping duties are introduced, and Glass SA's ex-factory prices will still mirror world prices.

The coating at PFF's plant in Springs is internationally competitive.

It is a major exporter of glass, but it is unable to sell in Thailand and mainland China because Thailand has a 50 percent import duty on glass and China does not allow glass imports.

Glass manufacturing is capital intensive.

The replacement value of the Springs plant is R350 million. If imports continue to grow unchecked, then PFF might not be able to recoup sufficient margin to survive.

“Glass is readily available today, but supply could become short in the future if international demand outstrips supply and if there is no local manufacturer to rely on.”

Objection

Glass importer Triangle Glass has registered an objection to the application and is petitioning objections from its 400 retailers. Triangle's Cyril Gebhardt says it is a waste of taxpayers' money to undertake yet another investigation.

Should further duties be levied, PFF could resume the monopoly pricing it carried out before glass imports began to make an impact.

Nothing has changed in the past six months except that the building industry is being harder hit by recession, Gebhardt claims.

Independents are petitioning the board to lift the existing 10 percent import duty.
Probe follows complaint of glass 'dumping'

The Board on Tariffs and Trade (BTT) is investigating alleged dumping of clear flat glass in SA following PFGBuilding Glass's application for protection against dumping.

Notice of the board's investigation was published in the Government Gazette on Friday and was welcomed by the chief executive of PFGBuilding Glass's holding company Glass SA CEO Bob Fehsenfeld who said dumping of flat glass by Far East countries had cost PFGB more than R30m over the past two years.

The board said evidence presented by PFGB was "sufficient and accurate enough to justify accepting the complaint for a full investigation".

The Board said it appeared exports from the People's Republic of China, Hong Kong, Thailand and Singapore were "made at prices that constitute dumping" PFGB's loss in sales correlated directly with the imports from the Far East.

Although PFGB was seeking anti-dumping tariff protection, Fehsenfeld said Glass SA was opposed to tariffs barriers and supported their gradual removal.

"We will probably be accused of seeking to en-tranche a monopoly position. But we are not asking for an exclusive supply position. All we want is to compete against imported glass on equal terms," he said.

Independent glass importers last week claimed that BTT's investigation was a waste of taxpayers' money, and that new duties would lead to a monopoly situation.

The glass investigation is the second major inquiry to be initiated by the BTT this month. Last week it announced it was looking into alleged dumping of tube and pipe fittings from China, Hong Kong and Thailand — Sapa
Anglo Alpha feels pinch of product demand slump

EDWARD WEST

Higher costs and taxation depressed Anglo Alpha's earnings a share which fell 10.3% to 172c in the year to end-December 1992 compared with 192.9c in 1991, today's published results show.

An unchanged final dividend of 10c was declared, maintaining the total dividend for the year at 152c covered 1.1 times (1991 1.3 times) at current cost.

Recession continued to affect results and demand for the group's cement, stone aggregate, building sand, lime and limestone products and industrial minerals declined 7% on average compared with 1991.

However, turnover increased 3.9% to R757m (R728.2m). Operating income rose 7.5% to R146.9m (R135.7m) mainly from improved efficiencies, resulting in higher profit margin of 19.3% (18.8%).

Finance costs climbed 43.2% to R30m (R21m) due to an increase in average monthly borrowings. Long term liabilities climbed to R161.5m (R139.8m). Cash on hand jumped to R144.2m (R75.5m). The debt/equity percentage was 19.2% (22.5%).

The group's tax charge 32.5% up at R32.4m (R24.4m) because of an increase in the effective tax rate to 24.5% from 19.1%. Thus, according to a statement from the group, resulted primarily from lower tax allowances.

After revaluation of assets and removal of general sales tax, current cost adjustment increased only 5.8% to R47.6m (R45.5m). Taxed income fell 10.3% to R52m (R56.5m).

On a historical cost basis, earnings fell 3.3% to R99.7m (R103.8m). An extraordinary item of R6.9m was written off, which financial director Trevor Wagner attributed to closure of two mine operations, and the write-off of an investment in Sallies gold mine closed during the year.

Wagner forecast static sales volumes in 1993, but benefits of cost reduction measures taken in 1992 would filter through this year.

Directors said though group policy was to cover dividends 2.0 times on average by current cost earnings, present cash flow level and estimated capital expenditure over the next five years permitted lower cover.
Anglo Alpha proves to be a good buy for AVI

By Stephen Cranston

Anglovaal Industries has reported a 21 percent increase in earnings to R477,2 million but because of an increase in the number of shares in issue, earnings per share increased by just nine percent to 464c.

A notable feature was the contribution from the 25 percent holding in Anglo-Alpha, acquired in the second half of last year. It contributed 10 percent of the group’s attributable earnings.

Top earner

Once again National Brands, which holds Bakers, TW Beckett, Pakco and Yardley, was the biggest earnings contributor, with a 28 percent contribution. Packaging and rubber group Consol followed with an unchanged 27 percent.

This was followed by AVI Diversified Holdings, which has interests principally in textiles and engineering. It provided 17 percent of the bottom line. This was down from 21 percent. The textile division reported lower profits, largely because of continued unrest around Mool River Textiles.

IDJ, which reported a 19 percent earnings decline saw its contribution fall from 20 percent to 13 percent. The troubled electronics and construction group Greenwich had an unchanged three percent contribution.

Group turnover increased by six percent to R4,109 billion but profit before tax was up by just one percent to R371,4 million.

A decline in the effective tax rate from 44,6 percent to 41,2 percent, the maiden contribution from Anglo-Alpha and reduced income for minorities turned this into a 21 percent increase at the attributable level.

The net cash position of the group fell by R327,5 million to R141,9 million as a result of the acquisition of 25 percent of Continental by Consol from Transcor and group capital expenditure of R144,2 million.
Cullinan Holdings on the upswing

EDWARD WEST

CULLINAN Holdings expected further losses in the six months to end-December 1992, but was on track for a small profit in the year to end-June 1993 after restructuring, MD Ed Harbuz said yesterday.

Harbuz said the group, which is involved in contracting as well as producing refractories, bricks, electrical ceramics and precision engineering equipment, was restructured after the R36m loss at year-end in 1992.

New management was installed at the group’s six divisions, an entire management level at executive director level was removed and several hundred employees at all levels were retrenched.

Three businesses outside the group’s focus, Cullinan Bleach Clay, Cullinan Minerals, and African Cables were sold, as was a small interest in a pallet making company.

The property division was virtually closed and the large industrial property portfolio still held by the group was being sold through agents.

Harbuz described the new R36m brick-making facility in Olifantsfontein as the group’s previous “archilles heel” due to commissioning problems last year which resulted in a R3m cost overrun.

Executive director Rod Stewart said the problems had since been resolved.

Harbuz believed a building industry upswing could result in a brick shortage because of recession-linked closures of other brickmakers. “Making bricks could again become extremely profitable.”

The refractories division, one of only four operations in the world able to produce refractories for aluminium smelting, was recently awarded a maintenance contract for both major Gulf producers, Aluminium Bahrain BSC and Dubai Aluminium Company, said marketing manager Mark Lawless.
GLASS Fm 22/1/93

A fragile case (193)

It’s often said that government merely rubber-stamps big businesses’ pleas for protection whenever it feels the chill winds of competition.

That being the case, it will be interesting to see how it reacts to an application to the Board on Tariffs & Trade to investigate charges that building glass from the Far East is being dumped to the detriment of local manufacturers.

The application — the second in six months — was made by PFG Building Glass, a subsidiary of Glass SA, owned by PGS1, which dominates local manufacturing.

PFG claims that glass from Thailand and mainland China lands in SA at 54%-73% less than the manufacturer’s domestic selling price — a practice which fits squarely into the Gatt definition of dumping. It also claims this has caused profits to plummet by R20m in the past two years and jobs have been cut by 12% because imports now account for 10 000 t of the 54 000 t building glass market.

Importers of the cheaper glass dispute that dumping is taking place. Their explanation for the manufacturers’ problems is that demand has dropped due to a slump in building activity.

Opposition to the application is intense.

Importer Triangle Glass MD Cyril Gebhardt says PFG, in its application, has misleadingly used export figures from Thailand rather than China and claims the Chinese statistics are unsuitable because China doesn’t have a free-market economy and allows no glass imports. Explains Gebhardt:

“We import from China, not Thailand, and China has one standard export price, so one could argue that all its glass exports constitute dumping.”

He adds that he is able to land 3 mm flat glass from China (all duties and surcharges included) at R9.50/m². Local manufacturers charge about R13/m². He says the new investigation is a waste of time and taxpayers’ money since the board recently released a report stating that there was no dumping from China. The report was the result of a similar application by PFG in June.

“If anti-dumping measures prohibit these imports, prices will increase immediately by at least 25% and the entrepreneur who buys directly from the importer will once again have to go through the more expensive established distribution chain,” Gebhardt says. This is one of the reasons why African Glass MD Jeff Saville, also an importer, is against PFG’s application. He claims PFG monopolises the entire distribution chain from manufacturing to the retail level. “We have to buy from it and compete with it — that’s why we’ve turned to importing our own glass,” he says.

PFG denies that its anti-dumping application, like any tariff-protection application, is merely geared to keeping out cheaper exports. Says Glass SA MD Rod Fehrsen: “We support a move away from tariff protection and will not contest moves in the industry to drop the 10% duty. But dumping is disruptive and no market can sustain this practice.”

Competition Board chairman Pierre Brooks says most countries have anti-dumping provisions and SA’s are probably in line with international practice. He points out that the measures are solely intended to stop other countries from dumping goods on our market at prices substantially less than what they sell for at home.

Some of the Board on Tariffs & Trade guidelines (like the Gatt regulations) on dumping require that there should be a material injury to a local manufacturer and that the dumping should not be in the national interest.

But price shouldn’t be the only consideration in determining anti-dumping policies, says Brooks. “Ultimately, though, we have to ask whether the consumer is better off. For example, is the quality of the goods consistent, will there be good back-up service? Protecting the local manufacturer is also a consideration but one has to ask at what point does one protect the local industry at the expense of the consumer?”

He suggests that companies dominating the local industry should be subject to international competition. “Anti-dumping policy should merely try to ensure that this competition is fair,” he says.
Holdains (194) offer at 10% discount 25/11/93

Holdains is pitching its rights offer at a 10.5 percent discount on current market price, thereby putting a R194 million gross value on the offer.

An added attraction, says the group, is that shareholders will receive the interim dividend in May on their new shares — barely two months after paying for them.

The bulk of the R191 million net proceeds will be used to fund recent acquisitions of a 50 percent stake in Crown Cork SA, and a 30 percent holding in Crown Cork and Seal's operations in Zimbabwe, Zambia, Kenya and Nigeria.

The balance will go to financing expansion within the acquisitions, leaving a relatively debt-free balance sheet.

The rights offer gives shareholders the renounceable right to subscribe at R40 per share for 20 new shares in Holdains for every 100 shares held.

With Holdains' shares closing last week at R44.75, this represents nearly an 11 percent discount.

The offer is fully underwritten by parent company Malbuk.
—Sapa
Three firms with concrete proposals

Three companies have been formed to offer a range of products and services. The companies are PCC, PPC and Zepcon. The companies offer a range of products and services, including concrete, cement and precast concrete products.

Betram

Betram was founded in 1986. For six years the company has been developing new products and services. The company offers a range of concrete, cement and precast concrete products.

Zepcon

Zepcon is a company that offers a range of products and services, including concrete, cement and precast concrete products. The company offers a range of products and services, including concrete, cement and precast concrete products.
Cement producers say things should improve

SLUGGISH construction activity could improve in early 1994 when the effects of state spending on clinics, housing, schools and social upliftment are likely to be felt, says the Cement Producers' Association. The association represents the cement cartel comprising SA's three producers - Anglo-Alpha, Blue Circle and Pretoria Portland Cement.

In its annual review, the association said although certain indicators such as falling inflation and interest rates showed promising signs of economic improvement, any meaningful recovery was unlikely in the short term.

After an inflation adjusted 9% decline in civil engineering turnover in 1992, compared with 1991, a 1.5% and 15% increase in turnover was forecast for 1993 and 1994 respectively.

Drought, violence, slow progress with political negotiations and lack of domestic and foreign investor confidence were delaying the start of a long awaited upswing, the association said.

There was a shift in the contracting industry away from large infrastructural work to township, water, sewerage and industrial building work in 1992. Contract sizes tended to move from mega-projects to smaller jobs, it said.

The volume of public sector work released to the construction industry, at a rate of 3.5% of GDP, reached the lowest level in 1992 since 1986. Private sector building investment had dropped by about 14% over the past three years.

The residential market suffered through continuing high mortgage rates and depressed disposable incomes. The backlog for affordable housing had reached about 1.4 million units.

Domestic cement sales in 1992 dropped 3.7% to 7.18 million tons from 7.46 million tons in 1991.

Production capacity utilisation, including mothballed kilns, remained virtually unchanged last year compared with 1991 at 99%. Cement and clinker exports, mainly to Zimbabwe and Mozambique and a few overseas destinations, were 29% down in 1992 compared with the previous year because of low levels of economic activity and drought in southern Africa.

The contribution of construction to GDP fell to 16% in 1992 from 26% in the mid-70s. Total investment in building in 1992 of R14.9bn was 6% down on 1991's R15.5bn.

However, although recession in the industry was one of the worst, a number of recent projects would impact positively on the construction industry and cement sales. Concreting of the main wall of the Katse Dam - chief source supply for the Lesotho Highlands Water Project - was due to get under way this year with the cement pouring rate peaking at 800 000 cubic metres a month.

The Rand Water Board planned to spend R1.7bn over the next seven years to upgrade water supply to the PWV, and the Johannesburg City Council was planning a R600m extension to its sewer network and wastewater treatment system.

The R7.2bn Alusaf project and the R2.5bn Columbus stainless steel project would also boost growth in the construction industry.

The greatest potential for growth in the construction industry remained the provision of housing and its attendant infrastructure, the association said.
Cement upstart in new challenge

PETERMIX, one of the few independent cement producers to challenge the cartel operated by the big three, is to open a second blending plant at Nelspruit in October. It will have a capacity of 180 000 tons of SABS-approved blended fly-ash cement a year. The cement will be sold in the Transvaal, Lowveld, Swaziland and Mozambique.

The factory will cost R4.5-million, low by comparison with larger ones which cost more than R200-million.

Petermix took on the cartel in 1988 when it opened a 216 000-ton capacity plant at Pietersburg.

The company is owned by a family trust, Tobara Investments.

Director Keith Baragwanath says the cartel, operated by Pretorius Portland Cement, Blue Circle and Anglo-Alpha with the permission of the Competition Board, opposed the new plant. The cartel has excess capacity.

Mr Baragwanath says about 65% of production from Nelspruit will be sold to the informal sector as is the case at Pietersburg.

"The new plant will not only provide job opportunities, but will shorten lead times for users, cutting costs and ensuring a reliable supply," Petermix buys the fly ash from the SA Cement Produce.

By DON ROBERTSON

The code will govern the production of cement and ensure that the user, especially the small builder, is not exploited by the supply of inferior products.

The Portland Cement Institute is supported by the three major producers, but it also conducts investigations on its own.
New tax keeps Cementation in profit

The Cementation Company more than doubled its earnings in the interim period to end-March 1993, but was operating well below potential, according to results published today.

The reduction in the company tax rate to 49% from 43%, as announced in the Budget this year, saved the shaft-sinking, tunnelling, cementation and manufacturing group from reporting a loss over the period.

Earnings a share climbed to 3.7c in the six months to end-March 1993 from 1.5c in the same time period in 1992. However, earnings were still well below the 78.3c a share achieved in the interim stage in 1990. The dividend was passed.

Turnover was 7.2% up at R258.5m (R126.2m), but operating margins took a beating with operating income dropping 89% to R22.0m (R2.04m). Finance director Anthony Watson said Cementation was generally obtaining its share of work, but margins had shrunk in the interim period to maintain workloads.

Interest paid was R1.5m (R1.8m). The pre-tax loss was R874,000 compared with a R355,000 profit in 1992. However, adjustments to deferred tax of R1.3m raised the pre-tax loss to a taxed profit of R403,000 (R147,000).

The group planned to improve its income statement and had targeted a reversal of the interim pre-tax loss in the second half of 1993, said Watson.

During the six months, Cementation's 55% held La Forge subsidiary was sold, reducing gearing to 11.9% (35.1%).

Directors said there were signs that the industrial sector had bottomed out, while the mining sector, as it affected the group, remained uncertain.

They did not forecast a marked improvement in the interim results for the second half of the year.
Cement sales remain below expectations

CEMENT sales for the seven months to end-July 1993 remained below expectations at 4.8% lower than over the same period in 1992, figures from the Cement Producers Association (CPA) showed.

CPA executive director Vincent Bray said sales in the second quarter were higher than in the first quarter even though sales for the seven months were below initial expectations. First quarter sales were 7%-8% lower than in 1992.

Blue Circle commercial director Peter Keit said improved sales in the second quarter and indications of further improvement in the third quarter could indicate falling cement sales had bottomed out, but no real upward trend had yet been discerned.

The informal housing sector was underpinning current sales. The Columbus stainless steel project was starting to take up small volumes, but expected rising demand from the Lesotho Highlands Water Scheme had not yet materialized.

July cement sales were 2.9% lower at 579,522 tons compared with 596,681 in the same month in 1992. Sales for the first seven months totalled four million tons, 4.8% lower than the 4.21 million tons sold over the same period in 1992.

Earlier this year the CPA forecast a slight improvement in annual sales, but sales for the seven months were slightly below this, said Bray.

Cement sales have been hit by falling gross domestic fixed investment and the decline in building activity. In contrast to the market, the two cement counters on the JSE have been trading close to their annual highs. Blue Circle, the third member of the cement cartel, was de-listed last year.

Anglo Alpha was traded at its 12-month high of 3.550c compared with its 12-month low of 2.800c in November 1992. Pretoria Portland Cement was untraded at 4.450c yesterday, just below its 12-month high of 4.470c in March and its low of 3.600c in November 1992.

Cement producers had sustained earnings growth through the recession — mainly through cost cutting measures — and any off-take in volumes could improve profits. Anglo Alpha last month reported a 30% increase in earnings for the year to end-June, he said.

Sales volumes next year were expected to grow between 5.5% and 6% per cent, the analyst said.
Cement cartel announces a second increase in prices

The cement cartel will raise its prices by 3.5% from July 1 to counter rising costs.

This was disclosed yesterday by Vincent Bray of the Cement Producers' Association, who added that no further price increases were expected this year.

The move follows a 6.5% increase in cement prices in January by the cartel made up of SA's three main producers - Anglo Alpha, Blue Circle and Pretoria Portland Cement. No further price hikes were expected this year, said Bray.

Competition Board chairman Pierre Brookes said the board had undertaken a more detailed analysis of the cartel to evaluate its activities. Price increases were determined by the producers, he said. A study into the cement and brick industries was completed last week and was being studied by the ANC and Cosatu, a source said.

PPC MD John Gomersall said cement sales had been affected by declining building and construction activity and were on average 8% lower than at the same time last year.

Few major projects were coming on stream. Those that had were taking up demand from projects that were winding down, he said.

A JSE analyst said substantial funds had been set aside by cement producers to promote the interests of the cartel later this year. Bray said the funds would be used to promote the generic properties of concrete over other building materials.

Anglo Alpha and PPC's share prices showed little movement because of low cement sales and static earnings potential this year, the analyst said.
LOCAL cement consumption would grow by 8.5% a year over the first five years of reconstruction, Pretoria Portland Cement (PPC) MD John Gomersall said at the Access Soweto conference in Johannesburg yesterday.

Demand would be boosted by the reconstruction effort which would involve housing and infrastructure, the building of schools and clinics, he said.

Cement Producers Association (CPA) executive director Vincent Bray said the industry was well placed to take up the increased demand. Producers had capacity for 12-million tons a year, but were currently only producing about 7-million tons a year.

Cement sales in 1992 fell 3.7% to 7.18-million tons from 7.46-million tons in 1991. The CPA forecast a rise in sales this year.
Quagga in black after asset sale
Finance Staff

Granite producer Quagga Holdings reduced its loss before extraordinary items to R215 000 in the six months to August from a loss of R1,7 million in the year-earlier period. Proceeds from the sale of assets (R733 000), set off by theft losses of R367 000, brought a bottom-line profit of R156 000, or earnings a share of 0,55c (loss of 3,96c).

Quagga — one of nine companies warned by the JSE of suspension or termination of their listings after late reporting — only met the JSE's extended deadline today.
Glass imports levied

EDWARD WEST

The Board on Tariffs and Trade has cleared the way for glass price increases by stopping cheap imports from mainland China with the imposition of import duties, distributor Glass Triangle has claimed.

Glass Triangle said all imported glass would become uncompetitive, allowing SA's only flat glass manufacturer PPG Flat Glass to increase prices.

However, Rolf Fehrmann, CE of the flat glass manufacturer's holding company Glass SA, said there were no immediate plans to increase prices.

The action was linked to PPG Flat Glass's second application in six months to have anti-dumping duties levied on glass imported from mainland China, Thailand, Hong Kong and Singapore.

The Board on Trade and Tariffs was empowered to apply a preliminary payment or deposit if it felt the applicant's business could be damaged during the time needed for the investigation. However, the board said the import deposit in no way indicated the investigation's outcome, but was based on existing import volumes.

Triangle lodged an objection to the application and won a 30-day extension for representations.

Fehrmann said glass was being dumped in SA at prices way below world prices and a manufacturer could not be globally competitive against such opposition. PPG Flat Glass exported about 30% of its production, all of which was value-added product.
Cement industry outlook dismal as sales fall 3.5%

CEMENT sales in 1992 were 3.5% less than forecast at 7.2-million tons, compared with 7.46-million tons in 1991, SA Cement Producers’ Association statistics show.

Production for the year fell 2.3% to 7.56-million tons compared with 7.43-million tons in 1991.

Association members include the three-member cement producing cartel of Pretoria Portland Cement, Blue Circle and Anglo Alpha.

Last year the association predicted that 1992 sales would be 4.5% lower than 1991 sales, which were 6.4% lower than those of 1990.


The SA Federation of Civil Engineering Contractors echoed this view, predicting little improvement in the civil engineering and construction industries this year.

Bray said the Columbus stainless steel project, Alusaf’s expansion and the Lesotho Highlands water project would boost sales to a degree, but only over an extended period of years. About 2% to 1.5% of annual sales would be destined for the Lesotho Highlands project.

Production capacity utilisation last year was about 68%. This meant about 2-million tons out of 12-million tons of capacity lay idle.

No significant increase in production capacity was expected for at least the next five years, Bray said.

The month-long metal industries strike in August affected the industry. Sales during the month showed the largest decline of the year, falling 17.5% to 566 209 tons compared with 654 670 tons in August 1991.
Anti-dumping duty to apply

By Stephen Graustein

The Board of Tariffs and Trade has imposed anti-dumping duty over the next four months on building glass imported from the Far East.

Duties varying from 82c a square metre to 479c a square metre have been imposed on building glass from Hong Kong, China, Thailand and Singapore.

Rod Fehrsen, CE of Glass SA, the only local manufacturer of building glass, has welcomed the board's decision to impose interim relief on local products.

But glass importer Triangle Glass says that imported glass will now become uncompetitive and allow Glass SA to increase its prices.

Triangle has collected 800 written objections to the application.

Triangle has been given a 30-day extension to give it time to gather evidence from China before making submissions to the board.
Italtile is on course to hold earnings level.

EDWARD WEST

ITALTILE expects to maintain earnings at the end of its new financial year to December 31 1993 in spite of expectations of continued poor trading conditions, directors reported in today's published results.

Since August 31 1991, Italtile disposed of its ceramic manufacturing operations to Ceramic Industries in exchange for shares distributed to Italtile shareholders as a dividend in specie.

Following the restructure, Italtile has become a retailer of ceramic tiles, sanitaryware and bathroom accessories.

As a result of a change in the year-end, the interim report for the retail trading operation was produced for the 10 months to end-December 31 1992.

Earnings a share was 25c and a dividend of 5c a share was declared.

Comparative figures for the year ended February 29 1992, which reflected six months trading of the manufacturing division and 12 months trading for the retail operations, showed earnings a share at 67c and the dividend at 6c.

Figures for six months trading of the manufacturing and retail operations to end-August 1991 showed earnings a share at 50.1c and a dividend of 6c.

Directors reported that in spite of losing traditional markets to Ceramic Industries, Italtile's retail turnover improved in relation to previous periods. Management was satisfied with margins and had been successful in containing overheads and improving the management of working capital, they reported.
PORTLAND HOLDINGS FM 5/2/93

Earnings up, but activity is softening

Activities: Makes cement and lime, pre-cast and pre-stressed concrete, owns property
Control: Security Nominees 19.1%
Chairman: J R Sly, MD J H Stubbs
Capital Structure: 43m dirds Market capitalisation R18m
Share market: Price 35c, Yield 15.2% on dividend, 67.1% on earnings, P/E ratio, 0.6, cover, 7.9 12-month high, 45c, low, 30c
Trading volume last quarter, 1.000 shares

Year to Jul 31

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<td>ST debt (Z$m)</td>
<td>4.9</td>
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<td>Pre-tax profit (Z$m)</td>
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<td>Earnings (Zc)</td>
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<td>Net worth (Zc)</td>
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<td>Z$ (Zimbabwean dollars)</td>
<td>Zc (Zimbabwean cents)</td>
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Portland Holdings more than doubled earnings last year, having overcome such problems as the devaluation of the Zimbabwean dollar, a water crisis and power restrictions. Profit showed a marked improvement, as 1992 was the first full year the Bulawayo-based Portland was able to trade without price control restrictions. However, cement sales were down 6%. The balance sheet also weakened, long- and short-term debt doubled, and debt/equity reached a high 86% Management says sales declined largely because of breakdowns in major production units, rather than a fall in demand. For most of the year, Portland was unable to satisfy the high market demand. Unfortunately, the position has since changed. The drought and the steep increase in interest rates have reduced building activity. Cement sales are down more than 30% from the 1991 peak. Production in 1992-1993 is not expected to exceed 500,000 t of finished cement.

The devaluation of the Zimbabwean dollar and massive price increases, especially of steel, whose price has nearly quadrupled over the past two years, have considerably boosted cost estimates for the Colleen Bawn project. Latest figures indicate a final cost of Z$250m. Portland has therefore approached the market for additional funds of about Z$30m to finance the shortfall, mainly by a private placement of convertible debentures.

After the dividend increases of the past three years, the share stands on a high historical yield of 15.2%, but the rising funding requirements and the prospect of weakening profitability discourage investment. This is reflected in the p/e of only 0.6. —Kez Rathbone
Figures show benefits of Kudu merger

JONO WATERS 193

KUDU Granite, reporting its first financial results after its merger with Impala, turned in a profit and declared an interim dividend of 2c a share in the six months ended December 1992.

Kudu merged with unlisted granite producer Impala in September last year. Impala offered Kudu minorities 65c a share and received acceptances of 1.3-million ordinary shares.

In the 12 months ended June 30, the company lost R8.66m as a result of development costs in previous years that were written off.

Turnover in the six months to December 1992 amounted to R50.3m against R80.6m in the year-earlier period. Operating profit was R6.78m.

Finance charges amounted to R8.16m on debt of R85.8m, reducing pretax income to R3.61m.

The company did not pay tax and retrenchment costs. Losses from suspended operations amounted to R1.34m.

Kudu produced attributable earnings of R2.27m. Retained income for the period was R1.49m.

Last month the company converted interest bearing debt of R12.5m into preference shares, placed with the group's bankers.

MD Peet du Toit said yesterday the merger with Impala had been completed and was "very good for us".

He said benefits from rationalisation at Kudu's quarries were expected to flow through in the next six months. The company could expect maintained or improved earnings.

The company's performance in the next six months was dependent on a stable international granite market. "The granite industry is no worse off than it was six months ago, but no better off either," he said.

"We don't expect it to deteriorate any further."

The share closed unchanged on the JSE on Friday at 60c.
Anglo-Alpha

lifts cash (92)
flow 90,2pc

By Stephen Cranston

The cement, stone, lime-and industrial minerals producer Anglo-Alpha has reported a 3,2 percent reduction in earnings per share to 331,3c based on historic cost and of 10,3 percent to 173,0c on the current/cost method used by the group.

At the halfway stage, management predicted that they would be hard-pressed to restrict the earnings decline to 15,3 percent.

Cash flow was up sharply, increasing by 90,2 percent to R144,2 million. This enabled the group to maintain its dividend at 1,52c a share.

The Group’s sales volumes declined by seven percent on average due to the continued depressed economic conditions throughout the year. Turnover was up by 3,9 percent to R757 million.

Despite this, operating income increased by 7,5 percent due mainly to improved efficiencies. The operating margin improved from 18,6 percent to 19,5 percent.

The group’s stone operations reported an operating loss of R6,7 million, up from R2,9 million, in 1991. But cement’s operating profit increased from R105,6 million to R110,8 million.
Countering slack demand

Anglo-Alpha's operating margins were strengthened in the 1992 year by "improved efficiencies," which included staff reductions. Operating profit increased 7.5% on a modest 4% rise in turnover. The gain in operating margin was an achievement, as demand for group products (primarily cement, stone and lime) fell 7% on average, because of low domestic fixed investment in projects.

Such as road building, housing and large public projects.

Higher tax and interest charges eroded year-end historical earnings by 3.3% (inflation-adjusted earnings were 10.3% down). The tax charge increased, giving an effective rate of 25% (1991 19%).

Finance director Trevor Wagner expects the effective tax rate to be about 40% by 1995, because of lower capital allowances. This could undermine profitability but the possible hike in the tax charge could be offset by a reduction in the interest charge, which increased more than two-fifths in 1992.

Capex plans have been scaled down from R716m, as stated in the 1991 annual report, to R300m over the next five years. Wagner describes this as an opportunity to reduce gearing from 19% now to nothing.

Of the three main divisions, stone performed worst, with an operating loss of R6.7m in 1992 against a R3m loss a year earlier. Discontinuation of two stone division operations contributed to an extraordinary loss of R7m.

The cement division, accounting for three quarters of operating profit, showed a nominal 5% improvement in operating profit. The industrial division (lime, industrial minerals and packaging) lifted profit by a sixth, and contributed about a third of total profit.

Cash flow nearly doubled to R144m in 1992 due to the nonrecurrence of a high deferred tax payment in 1991. Low projected capex has enabled Anglo-Alpha to maintain the final dividend at 152c, despite low cover of 1.1, on inflation-adjusted figures.

Falling demand is being countered by stringent cost controls but, when fixed investment improves, earnings growth will take off. After high fixed costs are covered, 60% of the turnover generated by each additional unit sold is profit.

Fundamentally, Anglo-Alpha is strong with good cash generation, low gearing and solid operating margins. Comparisons in the sector are difficult since PPC is the only listed close competitor. Its p/e is over 14, against Anglo-Alpha's rating of over 10.

Earnings have significant growth potential, though this will depend on the stability of the price cartel between the three major players. Says Wagner "It's in the interest of cement producers and consumers to sustain the cartel." But it may be too early in the cycle for the share to be interesting yet.

Lester Rendell
Making lasting investment sense

Activities: Granite quarrying
Control: Destag 53.6%
Chairman: J W Houghton, MD P J du Toit
Capital structure: 38.9m orts Market capitalisation R23.3m
Share market: Price 60c Yields 6.7% on dividend, 9.6% on earnings, p/e ratio, 10.3
12-month high, 75c, low, 50c Trading volume last quarter, 71 800 shares
Year to June 30

Debt
Short-term (Rm) 3.6 0.7 15.2 31.9
Long-term (Rm) 6.5 6.0 6.3 5.8
Debt equity ratio 0.47 0.32 0.14 0.13

Performance
Turnover (Rm) 28.2 35.7 39.1 60.6
Pre-tax profit (Rm) 8.6 9.8 3.4 8.2
Taxed profit (Rm) 7.7 7.8 0.7 3.7
Earnings (c) 49.1 50.1 3.2 15.3
Dividends (c) 15 16 4 4
Net worth (c) 124 163 163 98

Granite producers, generally, have not exactly been the investment flavour of the last two years. Annual results from Kudu for the year to June 1992 certainly confirm the industry’s comparative gloom.

However, these results are eight months out of date and have been overtaken by the interims for the six months to December 1992. The two need to be read together, because the interims illustrate clearly and for the first time the stunning effects of the Anglo American-engineered merger between Impala and Kudu. Those investors who stuck to their shareholdings in the face of a fragile future stand to reap good rewards down the line.

Granite’s predominant use is in the building industry, as a cladding material. There is now a serious over-supply of new office buildings worldwide. One analyst estimates London has a seven-year supply of new office accommodation standing idle — and much the same picture emerges in other international cities.

Demand will remain muted for some time. This is compounded to some degree by granite’s own success story, it is so adept at looking good and resisting pollution that it doesn’t need to be replaced. Once installed, it becomes its own worst enemy. One area in which granite stands some chance of expa-

KUDU GRANITE

That is the kind of synergy which makes immediate and lasting investment sense.

David Gleeson

QUAGGA HOLDINGS

Uncertainties continue

Activities: Producers, processors and beneficiates dimension stone
Control: Directors 56.5%
Chairman: E J Manning MD C R de Wet de Bruin
Capital structure: 51m orts Market capitalisation R22m
Share market: Price 4c 12-month high, 11c, low, 2c Trading volume last quarter, 1.3m shares
Year to Feb 29

Kudu’s Du Toit a significantly larger group

Kudu Granite

A fortnight ago, Quagga Holdings published interim results at the eleventh hour, avoiding suspension of the share, or possible termination of its listing, under the JSE’s stricter application of its reporting requirements. The uncertainty did not end there.

A cautionary notice last week advised shareholders that negotiations were under way which, if successful, would affect the share price. MD Rudolph de Wet de Bruin says an acquisition is planned, but he won’t disclose details.

Financing of such a deal will be interesting. Financial director Michael Gaylard says management has “used brains together with money” and the financing methods are “brilliant.” Indeed they will have to be.

In last year’s accounts, auditor P R Botha & Co noted that unless profitable operations are resumed, the company would be unable to continue as a going concern. At year-end, Quagga needed finance to fund operations until it could meet obligations.
Msauli capitalises on world asbestos demand

ASBESTOS producer Msauli turned in a 41% jump in earnings a share to 174.7c (121.5c) in the year ended December 1992, the result of better dollar prices, the weaker rand and good cost control.

The company, which owns a chrysotile asbestos mine in KaNgwane, declared a 32.5c dividend, up from 25c last year.

Turnover improved to R68.5m from R78m. Operating profit nearly doubled to R15.6m from R8.52m, reflecting the mine's successful retreatment of tailings dam material which relieved pressure on costly underground operations.

Financing charges rose sharply from a low base to R12.66m (R8.60m). Higher tax charges of R4.17m (R5.69m) ate into pre-tax profit of R15.4m (R8.44m). After-tax profit amounted to R11.3m (R7.27m).

Chairman Pat Hart said after a good year when demand for chrysotile fibres outstripped supply and pushed prices higher, the outlook for 1993 was less favourable. Increased supplies quickly made up the market imbalance, and any price increases would be slight.

"Given our higher effective tax rate, it is likely that net income for the coming year may be slightly lower than in 1992. Once again, the movement in the rand/dollar exchange rate will play a major role in determining profitability, and provided there are no unforeseen setbacks, a further slight improvement in dividend distribution might be considered," Hart said.

Msauli's main markets remained in the Far East, with good demand in Taiwan, South Korea and Japan where the fibre was used in roofing, wall paneling and flooring construction.

Msauli dominated these markets because of their distance from the other chrysotile producers in Canada and was hoping to capitalise on emerging Indonesian and Malaysian markets.

Hart said Msauli's joint venture with sister company Gelco to mine gold from the Van Brandsie mine in KaNgwane remained in mothballs, its future dependent on higher gold prices.
Asbestos producer Msauli Asbestos has announced sparkling 1992 results, bucking the trend in the mining sector. Operating margins rose from nearly 11% to 17.5% due to tight cost control, higher selling prices and a beneficial exchange rate.

Earnings for the year to December increased more than two-fifths, despite a hike in the effective tax rate from nearly 7% to 27%, because of the withdrawal of export allowances and increasing profitability. The effective tax rate is expected to move closer to the corporate rate of 48% during the next few years.

In a global recession, high asbestos prices almost seem an anomaly. Chairman Pat Hart says this is purely a cyclical phenomenon and partly linked to problems that other producers, like those in Zimbabwe, were having at the beginning of 1992. He adds: "Asbestos has short three-year cycles." He expects prices to ease in 1993.

Exports account for about 95% of asbestos sales, the main export markets being Japan, South East Asia and Europe. Export sales, quoted in US dollars, benefited from the rand dollar exchange rate in 1992 and will benefit from the strong dollar in the early part of 1993. Msauli hedges between 10%–30% of its currency exposure, depending on the strength of the dollar.

Volumes were static during 1992 and the group was operating at full capacity, which is about 100 000 t/year, give or take 10%. Hart says it is now a buyer's market and pressure on prices will continue in 1993 given the expense of holding stocks.

The end-users are in the low-cost housing sector. According to Hart, the Japanese and
Masonite’s earnings plunge by two-thirds
By Des Parker

Recession both domestic and abroad chopped the heart out of the earnings of Masonite in the year to December 31.

While the building materials and systems manufacturer managed to limit to R6 million the drop in turnover (R150.47 million from R125.49 million in 1991), net after-tax earnings were down by close to two-thirds at R3.61 million (R11.41 million).

Earnings per share were 53c against the previous year’s 167c.

The group, which is controlled by Masonite Corporation of the US, elected to write down its investment in loss-making subsidiary Ezebilt by R2.6 million, reflecting it as an extraordinary item in the income statement released today.

The final dividend was passed, meaning shareholders saw their total distribution for the year — 10c a share — down by 500 percent from 60c in 1991.

Chairman and MD Alan Wilson says the weak economy and the poor rand-dollar exchange rate had hurt all the group’s markets, which included furniture, housing, motor, packaging, doors and commercial building ceilings.
Anglo Alpha expects same-again sales year

CEMENT, stone and limestone supplier Anglo Alpha expected static sales and taxed income in its financial year to end-December 1993, chairman Peter Byland said in his annual review for 1992.

The forecast was based on a further 1% decline in gross domestic fixed investment levels — a key indicator for the group's business activities — the average inflation rate at 10% and an average prime overdraft rate of 15%.

He said the group's cash available from operations — R144m at the end of 1992 from R168m in 1991 — was expected to increase by between 15% and 20% in 1993.

The debt-to-equity ratio, which fell to 19.2% in 1992 from 22.5% in 1991, was expected to decline further because of reduced borrowings.

MD Johan Pretorius said higher cash flows would allow consideration of new investment opportunities. Capital expenditure and investments from 1993 until 1997 were estimated at R363m, R46m of which would be for expansion, R245m for plant and equipment replacement, and R12m for quality-of-worklife improvements.

Cost reductions had been achieved in the fields of fuel consumption, raw materials, transport and rationalisation of plant and equipment.

But further efficiencies could be achieved with the benefits materialising in 1993, he said.

The number of employees dropped to 3,459 from 3,991 in 1991.

Byland said SA particularly the cement industry had growth potential because of the pent-up demand for housing and the backlog in fixed investment expenditure. However, recessionary conditions were expected to continue well into 1993.

Foreign investors required some certainty regarding social welfare, unbundling, nationalisation and taxation, said Byland.

Anglo Alpha's shares were thinly traded and only 3.1% of its share capital was traded in the 1992 financial year at an average 3.167c.
Revamped Ceramic earns R6m
Duma Gouuble

RESTRICTED ceramic tiles and sanitaryware group Ceramic Industries has reported attributable earnings of R6.5m on a turnover of R190.7m for the 11 months ended January.

This was equivalent to earnings a share of 35.2c, from which a dividend of 7c, a share was declared.

Ceramic previously traded as Androbuild Holdings.

The business was sold by Abacus to Italtile, which integrated its manufacturing operations into the listing and renamed it Ceramic Industries.

Ceramic then disposed of a number of non-core businesses.

In a statement published today, the group gave comparative figures for the year ended February 1992, which represented the results of Ceramic Industries for the six months ended on that date. Executive chairman Gianni Ravazzoli said the group's interim report for the 11 months to end-January took into account a number of factors.

These were a major restructuring operation, the establishment of a new sales and distribution operation, and a change in its financial year end to 31 July.

He said Ceramic Industries was now the largest manufacturer of ceramic tiles and sanitaryware in the country.
Everite earnings slump

By Stephen Cranston

The depressed state of the building and construction industry led to a sharp fall in Everite's income for the six months to December to R3.9 million (R12.3 million profit in the same period in 1991).

Turnover was up 20 percent to R220 million, but operating income fell by two-thirds to R6.2 million.

Earnings a share dropped from 13.8c to 4.3c. The interim dividend has been passed.

Executive chairman Theunis Kotze says a number of businesses were sold or closed in the review period, with the costs having a negative impact on results.

He expects operating results for the second six months to improve marginally.

But he warns that any further fall-off in activity could result in a loss-making situation.

"What we need is increased business activity countrywide, and in particular an increase in fixed investment, including the much-needed housing effort.

"Only when people begin to believe in a more stable political future will fixed-investment decisions be made, after which it will still take some time before economic activity gets under way. Until that happens, it is unlikely that Everite will return to a growth pattern," he says.
merely represented a normalisation of this situation, as interest charges moved more into line with borrowings.

- The tax charge for the year rose R7.9m and the effective tax rate increased from 19.1% to 24.5%. This was attributable to lower tax allowances on capex, and knocked 26c down EPS, and
- Total contribution from associate companies was down R3.7m on 1991, reducing EPS by a further 12c. This did not affect cash flow, as dividends from associates were up from R10m to R11.4m.

However, while the performance is acceptable in this economic environment, the attrition in absolute profitability has been severe. 1989's profit peak was earned from a total asset base of only R898m (excluding the revaluation reserve), which total has since grown to R1.131bn. Equity funds (also excluding the revaluation reserve) have risen proportionately from R622m to R785m.

The decline in profitability can be illustrated by comparing 1992 results against the group's own goals. Using its definitions (which differ from those normally used by the FMI), gross return on net assets — a NOPAT-based calculation — last year was 11.9% against the target of 18%, while the 13.1% net return on average shareholders' funds was almost nine percentage points off the mark.

These ratios should correct themselves, given an improvement in trading conditions. An increase in volume sales would have a strong ratchet effect on profits as underutilised capacity is taken up.

For the future, a more worrying ratio is dividend cover. The group aims to cover dividends twice by current-cost earnings, which ratio has now slipped to a slender 1.1 times. While the present 152c dividend total itself is not in any obvious jeopardy — Anglo-Alpha expects to remain a net cash generator over the next few years and could, therefore, maintain its distribution even if profits fall further — restoration of cover when profits finally start to improve is likely to prove a severe dampener on future dividend growth.

The other area which underlines the severity of the recession, is the extent to which Anglo-Alpha has cut back expansion plans.

The 1991 annual report recorded capex plans for the five-year period 1992 to 1996 of R716m. After spending a net R83m last year, the latest report shows capex plans for the five years to 1997 cut to R303m — with most of the decrease attributable to expans...
In need of discipline

Activities: UK-based multinational with mining, agricultural, commercial and industrial interests and 60 countries

Controlled by Doughty, 19% is the largest shareholder

Chairman: M J R Lecleano, Joint MDs R W Rowland & D Bock

Capital structure: 66.1m ordinary Market capitalisation R3.8bn

Share market: Price 585c Yields 3.2% on dividend, 1.0% on earnings, p/e ratio, 105, cover, n/a 12-month high, 800c, low 350c

Trading volume last quarter, 14.1m shares

Year to Sep 93 89 90 91 92
Turnover (£m) 5 108 5 476 4 846 3 866
Pre-tax profit (£m) 273 272 297 279
Pre-tax margin (%) 5.3 5.0 4.3 4.6
Earnings (p) 2 71 23 14.2 1.2
Dividends (p) 14.2 18.7 13.0 4.0
Net worth (p) 222 218 204 171

Someone out there knows a lot more than the rest of us. Why else would Lonrho, whose earnings at 1.2p a share were last this low in 1965 and which has returned sharply declining results for three successive years, be sitting on the extraordinary price earnings ratio of 105?

Perhaps someone is the German financier, Dieter Bock, who has just become Lonrho’s joint MD and CE. Effectively, that brings to an end the unusual one-man control exercised by Tiny Rowland, an unscrupulous manager possessed of a life-long love affair with Africa

Romanticism is one thing, hard facts are another. This multinational trading conglomerate has colossal borrowings of £849m, its net interest bill for 1992 was £99m, turnover has fallen a cool £1bn from 1991, and attributable profit has fallen to £8m from the previous year’s £90m. The company’s only saving grace came from extraordinary items, which netted £78m—nearly all from the disposal of a variety of important investments

The dividend of 4p a share, down from 13p in 1991, is still generous relative to its earnings. Rowland cheerfully tells shareholders in his annual message that the company will do better next year—that will not be a moment too soon for loyal following who have lived for years through Rowland’s triumphs and tragedies.

Lonrho does a bit of everything. It owns newspapers and hotels and prints postage stamps, it makes gold, platinum group metals and coal, it is heavily involved in motor vehicle sales and assembly and makes bed linen, it sells aeroplanes and clocks. In the circumstances, it is not surprising the group comprises 700 companies and operates in 60 countries. The wonder is that anyone can keep track of such a diffuse and amorphous conglomerate.

Lonrho and Rowland have not exactly been one thing. Unfortunately, it has probably harmed his company and its shareholders in the process. Research for this article led to the interesting discovery that very few major London finance houses or brokers covers Lonrho on a regular basis. There’s not much interest in it in the UK, old boy,” drawled one superluminous sounding analyst. “The chips on the Continent seem to follow us.”

What Lonrho needs is more cash by way of equity and less through borrowings—recognising this, it has held a rights issue and sold substantial investments, most of it at a profit. But the debt mountain is still daunting. Suggestions that Lonrho is seeking to capitalise on its past successful and unlisted—Western Platinum mine by doing a deal with partner Gencor, haven’t been confirmed.

Lonrho needs tighter management control and less in the way of African buccaneering and spectacular vendettas about Harrods, which derive as much from pique as from lost opportunities. Bock will probably bring qualities of discipline and order to the company. No doubt he will introduce well established Teutonic ways and means and, in time, it will make good money again.

That will make Lonrho predictable and safe, shareholders will applaud. Financial observers and journalists will be bored.

David Gleser

Anglo-Alpaha’s Priorities

Expansion plans cut back

Activities: Produces cement and related products

Control: Holderbank and AVI through Altair Investments (64.8%)

Chairman: P Byland, MD J G Preton

Capital structure: 30.1m ordinary Market capitalisation R1.03bn

Share market: Price 3.450c Yield 4.4% on dividend, 9.6% on earnings, p/e ratio, 10.4, cover, 2.2 12-month high, 4.350c, low 2.400c Trading volume last quarter, 14 000 shares

Year to Dec 93 89 90 91 92
ST debit (£m) 42.6 15.2 46.6 38.3
LT debt (£m) 73.0 82.2 137.2 160.2
Debt/equity ratio 0.19 0.14 0.23 0.18
Shareholders’ interest 0.89 0.71 0.70 0.65
Int & leasing cover 10.5 13.0 7.1 5.4
Return on cap (p) 20.4 18.6 14.1 14.3
Turnover (£m) 625 691 728 757
Pre-tax profit (£m) 183 2 177.3 148.6 167.2
Pre-tax margin (%) 27.3 24.4 19.9 18.9
Earnings (p) 367 350 343 331
Dividends (p) 115 132 152 155
Net worth (p) 2 088 2 262 2 453 2 608

been confined to under 10%—from a peak of 367c in 1989 to last year’s 331c. While the deficit is a wider 26% on current cost earnings, even this is acceptable given the 16% decline in sales volumes experienced over the past two years alone.

Last year’s fall was due entirely to factors which, for present purposes, can best be described as “non-trading.” These can be summarised as:

□ Interest charges — 1992 interest charges rose R9m from R21m to R30m. The after-tax cost reduced the bottom line by almost R4.7m, and the effect was to reduce EPS by about 16c. This was a carry-over from 1991, when total year-end borrowings rose from R97.4m to R182.8m, and though interest charges that year increased by 54%, the R21m total for 1991 was still only 11.5% of year-end debt. So the 1992 increase to R30m

FINANCIAL MAIL • MARCH • 12 • 1993 • 83
Hammering out a deal?

The cautious response by investment company Ozz two weeks ago took the market by surprise. The company's year-end is March and a conjuring act by master wizard and Ozz CEO Gary Zulberg wasn't expected ahead of the results.

Nor is Zulberg talking. Pressed for an indication of what's in the wind, Zulberg was first reported to be unavailable and then declined to comment.

Potential synergies

However, it's been established that Ozz is negotiating with Unihold, which itself had issued a cautionary earlier. At first sight, it's difficult to see potential synergies between the two companies, until foundry activities are examined more closely. A Unihold spokesman declined to respond to questions.

Year-end results for 1992 showed most of Ozz's operating income was from its core businesses. Most of that, in turn, derived from the engineering companies, which focus particularly on supplying the mining industry. At the 1993 halfway stage, Zulberg told the FM (Fox December 18) he was especially pleased with the performance of the engineering companies, which, he said, were increasing exports, primarily in finished manganese steels.

Last year, Unihold went on a buying spree which included the purchase of Buffer, Dumbaza foundry from Lonrho, and the merger of lighting company Zumtobel with Thorn Lighting. While Unihold's latest results haven't been released, there is speculation that Unihold's acquisition campaign has left it cash-strapped. Analysis points out Unihold found it necessary to recruit Richard du Plessis from Venter Trailers to bolster the management team.

A broker who declines to be identified says the deal between Ozz and Unihold relates to the outright purchase by Ozz of all Unihold's foundry interests. The purchase price will be settled, apparently, partly in cash and partly in shares. That will ease Unihold's short-term cash flow problems.

The Unihold foundries — at least one was bought only last year — specialise in manganese steel production for use in the mining and crushing industries. It's thought their acquisition could lift Ozz's turnover substantially — perhaps to R200m.

That, in turn, could spell a remarkable surge in earnings for 1994. On the face of it, Zulberg may be on the verge of weaving another spell for his stockholders.

David Gleason
Declining market share and falling profits led Johnson Tiles MD Ray Forster to look at updating and improving. Today, he says, Johnson Tiles is back!

The name Johnson is synonymous with tiles. And so it should be. For the British-owned company has had a presence in South Africa for the past 37 years and if a South African journeyed to Britain, Australia, India, Malaya, or even Greece, he would find himself familiar with Johnson Tiles territory.

But while Johnson Tiles dominated the South African scene for decades, it came up against tough international competition in the ’80s and found its market share slipping as an entire new generation of tiles arrived on our shores. “We had fallen behind in terms of technology, range and service to the market place,” says Johnson Tiles managing director Ray Forster, who took over the hot seat 18 months ago. “And while it was not entirely true to say that, in terms of Johnson Tiles, you could have any colour so long as it was white, we obviously had a lot of catching up to do.”

Today the famous 6x6 white Johnson tile is still very much part of the range. But so too is a host of new generation products which have catapulted Johnson right back into the lead in the local market.

Some major surgery was required, says Forster. “Having come from the plastics industry I knew little about the tile market but I took one look at the factory and concluded that there had to be a better way.”

There was indeed! In spite of declining market share and falling profits, shareholders agreed to invest in updating the plant and introducing state-of-the-art equipment which included an investment of R10 million in a body preparation plant for both floor and wall tile production.

Productivity increased by 35 percent on the strength of improved organisation and efficiencies and a tremendous effort has been made to get quality back on line.

“At one stage a box of first-grade Johnson Tiles could include upwards of 16 percent second-grade product. That was not doing our credibility a great deal of good,” says Forster.

“It is now heartening to know that less than two percent is incorrectly sorted — well within international norms.”

More fundamental improvements are beginning to make an impact — greater productivity and throughput resulting from increased market share has helped to reduce unit costs.

That, in turn, has ensured that in spite of the capex and new product development, Johnson’s new generation of products is competitively priced.

And as for quality, Forster firmly believes the local products can now hold their own with the best anywhere in the world.

In addition to the wide variety of fashion tiles that have been introduced over the past year the company is introducing some new lines which are expected to take the market by storm.

Among them are:

- 316x316 mm and 200x300 mm printed floor tiles with a variety of finishes — a first for a South African producer.
- 200x300 mm floor tile with a wood grain finish — something that has gone down exceptionally well in Europe and is expected to strike a responsive cord locally.
- 200x200 mm wall tiles with marble and printed finishes —

Stylish tiles ... Tile decor for the ’90s from Johnson Tiles.

As for range, the company researched the overseas market, in particular the Italian market, which is still the leading tile producer.

Italian glazes are imported and a strong association has been established with Gamma Due of Italy, a leading fashion design house which now acts as design consultants for Johnson Tiles SA.

The local company also has access to Johnson Tile know-how from factories worldwide. As a result some superb products have emerged from the SA production lines recently.

If you are interested in any of the vast range of Johnson Tile products and services, kindly telephone (011) 316 3135.
Granite producers in call for new tax deal

JONO WATERS

SA's granite producers are to lobby government for export tax incentives and a change in company tax structure to improve their international competitiveness and to put them on an equal footing with the rest of the mining industry.

The international granite trade, SA producers in particular, has been ravaged by the worldwide recession, which was aggravated by the Gulf war, and ironically its very success in the 1980s.

Not only has new construction business dried up, but the durability of granite as a building material has led to significant replacement demand for the stone.

The Southern African Granite Association (Saga), formed last year to represent the local industry's interests, has stepped up its efforts to present a united front for customers overseas and the SA authorities.

Saga chairman John Houghton said yesterday the association was no longer bargaining for individual producers, but for the industry.

The industry has been plagued in recent years by cut-throat pricing between producers.

Houghton said in the past there had been a high level of mistrust.

Granite was a changing industry as it no longer had low entry costs. Producers were working together to ensure a "bright future".

He said it was essential for producers to become low-cost if they wished to maintain their international market share of about 13% of total block sales.

To become low-cost producers, government had to tax granite producers as mining companies and not as quarry operators, provide incentives for beneficiation and export allowances via the general export incentive scheme (GEIS), he said.

Keely executive chairman Fred Keeley said granite producers should benefit from GEIS at the first stage of production in the quarry.

About 50 000 tons of granite are exported as beneficiated, products, tiles and polished stone.

Brown said transport and handling costs accounted for nearly 70% of the granite producer's total cost while railway transport made up about 30% of the total transport cost.

Increased competition and more efficient loading methods had resulted in a 25% drop in sea freight costs to Italy in the past 10 years.

However, the cost of rail transport from Rustenburg to Durban (600km) cost 18c a ton a kilometre while sea transport from Durban to Antwerp (13 000km) cost only 6,5c/ton/km.

Railway costs for the granite industry amounted to about R75/t, while coal producers paid R30/t and the cement industry paid R50/t, said Houghton.

About 85% of total SA's granite production of 660 000 tons a year was exported through Durban to more than 30 countries.

Aga executive director Brian Gredoff said given current growth rates, stone usage could grow to 550 million square metres by 2000 compared with 254 million square metres in 1991, making the potential "obvious."
Demand for vermiculite has grown dramatically as the world discovers this material's amazing properties, and SA is well placed to take advantage of this demand, with Palabora Mining Company being the world's largest producer of the mineral.

The medium-grade material also demonstrates vermiculite's insulating properties in the context of plants, fire walls, refractory linings and bricks and kiln lining. In short without it many of our modern products could probably not be made.

Finally, the larger grade, used mainly for insulation purposes around gyanders and in home lofts for example where, incidentally, it does not pose a health hazard.

In a typical application of this nature the steel members of a structure are sometimes encased in mesh and then cast trowelled or sprayed with the appropriate vermiculite plaster.

A incidental benefit is that vermiculite plaster can be shaped or sprayed manually so adding a decorative option to the process which is in the construction industry.

Molded with gypsum plaster it can be sprayed on to a ceiling to achieve highly decorative effects — and is an effective fire protecting the ceiling at the same time.

Mixing the material with pigment gives it another dimension, the Victoria and Alfred Dock development in Cape Town recently used vermiculite spray with blue pigment for example for 11 cinemas.

In another entirely different application vermiculite as a powdered material is used as a lubricant in pulp and paper manufacturers' systems.

As screening, it has been used by hotels, universities (RAD) the top of the Cullinan skyark, the PE Post Office and in innumerable other ways.

And in more exotic instances it is used as bedding for laboratory mice and for catching crocodile eggs no less.

In short vermiculite may be truly said to be the wonder material of the age.
Three M & R concrete companies to merge

Finance Staff

Three concrete masonry companies in the Murray & Roberts stable — Cape-based Calisca Bricks, Tricrete Transvaal and Border Concrete — have been merged to form a new company, Inca.

Bob Low, chief executive of the new company, says the decision to merge was a difficult one.

"All of the entities are major players in their own regions and are fiercely protective of their names, reputations and product lines."

Joint venture in Zimbabwe strikes gold

HARARE — A Zimbabwean mining company exploring for gold in conjunction with a Canadian firm is expected to commission a new mine which will create 600 jobs, Ziana news agency reports.

The exploration by Artair Resources of Canada and Forbes and Thompson of Zimbabwe has been successful and drilling is expected to begin within six months.

Forbes and Thompson MD Morris Thompson said yesterday exploration had cost $2 million so far.

Thompson said results of the exploration had been promising and there was potential for a mine at the southern end of the Vumbachwe mine where the drilling would begin — Sapa.
‘Bleak period’ causes Marlin to crumble

GRANITE producer Marlin Corporation crumbled to a R50.4m bottom line loss in the 18 months to December, in a market the company dubbed the bleakest in its 30-year history.

Crippling extraordinary charges of R43.9m, a hike in the finance bill to R11.8m and abnormal costs of R4.5m swamped the group’s figures.Attributable losses of R16.1m translated to losses of 35.1c a share, against earnings of 22.8c last time. There was no dividend, and none would be declared for the foreseeable future.

Marlin’s survival would be determined in the next six months through asset sales, further rationalisation or a refinancing. The company, which cut its 1,000-strong workforce in half over the period, said it was “holding its breath”.

“It’s difficult to see when the granite market will return to normal levels,” finance director Ian MacMillan said.

At the operating level the company actually scraped into profit, but this crumbled to a R1.4m loss (R17.1m profit) under charges for stock write-offs and bad debts. Sales of R165.2m were down 15% on a pro rata basis.

Borrowings leaped from R39.4m to R62.4m — 66% of shareholder’s funds, against 23% last time. Around R25m of the debt was short term and Marlin’s banks had warned the level must be cut. MacMillan said reducing dependence on short term debt was a key priority, but he was unable to give a target and declined to name those areas for sale or rationalisation.

The picture would be clearer in the next six months.

The rise in debt was due mainly to the redemption of preference shares which added R23m to the burden, MacMillan said that before this debt had dropped slightly. The figures would also improve as proceeds from the sale in February of Rustenberg Granite and Marlin’s holding in EGC began to feed through.

The extraordinary charge, which has more than doubled in the last six months, was split between discontinued operations, provisions on the company’s share trust scheme following its share price collapse and losses on trade investments. The company is thought to have sustained a R5m loss on sales so far, but it declined to break down extraordinary further.

Unveiling results which reflected “the most difficult period in the group’s history since its inception in 1963,” the company identified production problems at its Belfast quarry as central to its difficulties.

Marlin’s international interests were operating at “modest levels of profitability”. The SA-based Marble Pentelic should make a satisfactory profit for 1993, while Barracuda Granite Tile, in which Marlin has a 50% interest, had adopted a “more aggressive” selling policy.

The company added that the results would come as no surprise to shareholders “peddling by the low share price on the JSE”. On Friday, Marlin Corporation was trading at 15c a share, representing a market capitalisation of little more than R7m — just 10% of its 1991 level.
Dutton tells court of rival’s attempt to buy Interboard

FORMER Interboard Chairman Ed Dutton, on trial for forex and financial fraud involving about R150m, told the Rand Supreme Court yesterday major rival PG Bison’s MD Bertie Lubner offered to buy the company for R330m in September 1989. Dutton, who has pleaded not guilty to the charges, made this submission in a document yesterday outlining his defence.

He has alleged that the charges against him are the result of a conspiracy by his successor David Olsen, Lubner and others to destroy Interboard and himself.

Earlier in the trial the State submitted an affidavit in which Lubner denied he or others in the Plate Glass group conspired to destroy Dutton or Interboard. The State alleges Dutton, using forged invoices and contracts, obtained foreign currency unlawfully by misrepresenting that the funds were required to pay for plant and equipment brought overseas. It is alleged that most of the plant was never purchased and the value of imported plant grossly inflated.

Dutton has denied all the allegations. Outlining his defence Dutton and Lubner approached him as PG MD in September 1989 with the intention of acquiring Interboard. “He was prepared to purchase the flatboard division for R150m or the whole of Interboard Ltd for R330m,” Dutton said. “He wanted me to stay on and run PG’s North American interests in wood and boards. In the discussion I learnt that PG had done three in-depth studies on how to destroy Interboard over the past six years and they preferred to acquire it.”

Dutton said he discussed the offer with offshore parent company Interboard Holdings BV and told Lubner it was not prepared to sell for at least three years. He said Lubner was then prepared to talk about a higher offer.

Dutton said the SA representatives of the Gibbs Trust had called on Interboard Ltd in March 1989 demanding the undated resignation of each director. When Dutton and the other directors were not prepared to sign an undated resignation, the representatives returned with a lawyer.

Dutton said David Olsen arrived in SA in April and said he had taken over all responsibility for projects “He removed any authority I had in regard to Interboard Holdings BV and Interboard NAMV.”

The case was postponed to Friday.

Mine wages

zero to the trigger 5% of total profit is paid, thereafter 20% of total profit. The cap of 25% of pensionable income had not been reached to date, Ernst said.

The NUM wage proposals, based on a central committee policy paper published in February, will be discussed in talks beginning at the end of May.

On gold mines the union has demanded wage increases in the 20% to 25% range. Part of the strategy is to reduce the wage differential between the groups that pay higher rates in the lower categories and those that operate a steeper wage curve. The union’s wage demand for collieries is substantially higher — about 40% in the higher wage companies and up to 50% in the low wage ones. The goal is a R1500 monthly minimum for surface workers and R1 800 for underground miners.

The proposals contain no reference to the profit-sharing scheme but this, according to general secretary Kgalema Motlanthe, is because the scheme is already in place. The union envisions profit sharing continuing subject to certain amendments such as the removal of the cap.

Of the 12 other main items on the NUM list of demands, Motlanthe and Golding identified those relating to a “social plan for restructuring” and “adult basic education” as the most crucial. The union believed the former should include financing the training of retrenched workers and minimum severance pay, and the latter should aim to eliminate illiteracy within five years.
New face brick cuts building costs

A NEW, lighter, face brick which reduces the cost of building house walls by 18% was shown to the trade by manufacturer Corobrik at a function at the Waterfront last night.

MD Peter du Trefou said that the Coro 90 facebrick was "a significant breakthrough which for the first time brings the cost of a new facebrick home down to less than the cost of one with a plaster and paint finish.

"We have now overcome the initial affordability hurdle that has locked thousands of buyers into a lifetime of repainting costs when they would have preferred a maintenance free home of clay facebrick.

"The company aims to show home builders that by switching to the new 90mm format they can sharpen their competitive edge and attract more buyers."

Du Trefou said the 90mm format was the norm in Western Europe, the Far East and North America. He expected it to become the norm in SA now it was available here.

Apart from the lower ex-factory price, the lighter brick brought savings in transport, mortar and handling costs and the productivity of bricklaying teams increased.

"Double walls of 90mm bricks comply fully with the requirements of the national building regulations for 100mm external walling."

A spokesman explained that "the old imperial bricks were tremendously over-engineered, well over the safety requirements needed."

"The new bricks were 28% lighter but strong enough to meet the safety requirements."
Overseas division gives helping hand to PGS

A STRONG second half improvement by international division Belron International saw Plate Glass and Shatterproof Industries (PGSI) increase its earnings by 45% to 30c (26c) a share on a fully diluted basis in the year to end-March.

But directors of the glass and timber group said SA operations experienced extremely difficult trading conditions, and their markets had shown sharp declines in activity.

The prior year's results have been restated to reflect PGSI's current accounting policy, which includes some central African operations on a cash received basis only. The new accounting policy was in line with that of new holding company SA Breweries.

Apart from earnings a share, results cannot be compared due to the acquisition of minority interests in Glass SA and PG Buson, and the issue of ordinary and preference shares.

The group reported turnover of R2,8bn (R1,8bn), and operating profit of R270,1m from R212,1m previously.

Net attributable income more than doubled to R79,1m from R34,5m.

A final dividend of 85c was declared, to bring the full year dividend to last year's level of 150c a share.

On the balance sheet, which is comparable with the previous year, borrowings rose by R68m to R231m to fund working capital requirements and initial restructuring costs provided for in the previous year.

A higher level of borrowings and a reduction in total shareholders funds saw gearing rise to 62% (40%).

Directors said that during the year, local output of building glass had dropped by 9% and automotive glass for manufacturers by 6%. The traditionally resilient automotive glass replacement market also declined. Nevertheless, tight cost controls and export sales enabled Glass SA to minimise the effect on profits, they said.

PG Buson's profits declined as overhead savings only partly offset the effects of reduced levels of activity.

Its board and laminate volumes declined by 6% and 3% respectively.

The introduction in the last quarter of windscreen inspection as part of the UK roadworthy test boosted profits at Belron's UK operation.

Further growth was expected in the coming year. In the US and Europe, Belron reduced its losses.

Results from the Australian operations were disappointing.

Since the last quarter, when the operations were separated to concentrate more effectively on the automotive and building glass replacement markets, the performance by the operation had been encouraging.

Directors said there were indications of an improved performance by Belron in the coming year.

But depressed trading conditions in SA made it difficult to forecast results for the domestic operations.
Foreign operations help PGSI to 45% earnings increase

By Stephen Cranstoun

A turnaround in its international holding company Belron has enabled Plate Glass and Shatterproof Industries (PGSI) to report a 45 percent increase in earnings per share to 30c in the year to March. The dividend is maintained at 15c.

Operating profit increased from R112 million to R270 million and finance costs increased from R25.7 million to R33.9 million.

Because of the buy-out of minority in Glass SA and PG Bison, earnings attributable to minorities plunged from R99 million to R3 million.

But the issue of 13.5 million preference shares increased dividends from R5.5 million to R20 million.

Attributable income, however, more than doubled from R84.6 million to R193.1 million.

Chairman Ronnie Lubner says earnings in the second half were 168c a share, up 20 percent on the first half.

The local operations encountered an extremely difficult trading environment for the full year.

Cheap imports

Demand for building glass fell by nine percent as there was competition from cheap imports in the first half.

In the second half, however, temporary duties were imposed, which effectively curbed these imports.

Demand for automotive glass for vehicle manufacturers was down six percent and the normally resilient replacement glass market also declined.

Glass SA was nevertheless able to minimise the adverse impact on profits by cost-cutting and increased exports, but profits fell.

PGSI financial director Mike Read says a lot of the benefits of the present cost-cutting will come through this year.

The furniture and building industries were also in decline and volume sales of PG Bison's board products fell by six percent and of its laminate products by eight percent.

There was some reduction in overheads, but this was not enough to offset the reduced activity and so its profits declined.

The star performer for the year was the UK-based Autoglass operation, which saw its profits boosted in the last quarter by the introduction of windscreen inspection as part of the vehicle roadworthy test.

Lubner says this reinforces the group's confidence in further growth for the year ahead.

The Benelux operation is already profitable and in the rest of Europe, including France, Germany, Italy and Portugal, the development process continues and increased market share resulted in a reduction of losses.

In the US there was growth in sales and market share. With overheads below those of prior years, there was a significant decrease in losses.

In the fourth quarter the Australian operations were separated to concentrate more effectively on the automotive and building glass replacement markets.

Disappointing

Lubner says performance since then has been encouraging, but results for the full year were disappointing.

PGSI's borrowings increased by R88 million to R231 million and gearing from 40 percent to 62 percent to fund working-capital requirements and the restructuring costs.

Lubner says that the results in the fourth quarter and early trends in the new year indicate a continuing improvement in Belron International.

The unsettled political environment and severely depressed trading conditions locally make it difficult to forecast a turnaround for the domestic operations.

But PGSI has spare capacity to cater for any upturn locally and still has recovery opportunities internationally.
PPC stays steady despite shaky market conditions

PRETORIA Portland Cement (PPC) recorded an 11% rise in earnings per share to 137c (123c) for the six months to end March, despite further depressed trading conditions.

"Productivity improvements and a lower effective tax rate saw net income attributable to shareholders rise by 12% to R55.8m from R49.7m. Interim dividend remained unchanged at 50c a share.

Pre-tax profits increased by 5% to R51.8m (R57.2m) on a turnover increase of the same percent to R408.4m (R399.1m), achieved through continued attention to cost management and production efficiencies, PPC group MD John Gomersall said.

The dual tax rate had "a significant effect" on results. Taxation was reduced by 8.4% to R37.2m (R40.6m) and after-tax profit rose 17% to R54.6m (R46.6m) Gomersall predicted overall effective tax at year-end would be lower than last year.

He expected a slight decrease in profit before tax at the end of the financial year, due to difficult trading conditions, and predicted net earnings would remain the same as a result of the lower effective tax bill.

Turnover in the cement division increased marginally and in the lime division by 6% in the face of restricted price increases and reduced sales volumes. However, productivity improvements kept profit before interest and tax at the same level, as the half year to end March 1992, in the cement division.

In the lime division, pre-tax profit was 11% higher. The packaging division suffered slightly from the generally lower demand for paper sacks.

Capacity utilisation continued to be affected by sales falling slightly below 58% in the cement division and remaining around 45% in the lime division. In the last six months of the financial year capacity utilisation should remain more or less the same, Gomersall said. Investment income was unlikely to reach the same levels as last year, but he did not foresee further "material deterioration".

He was optimistic about long-term prospects. There were good signs that plans discussed at the National Housing Forum could impact on housing construction. Return of investment confidence from a political settlement would also boost prospects for increased construction activity.
Pretoria Portland Cement's earnings for the six months to March were up 11 percent to 137c (23c) a share. An unchanged interim dividend of 50c has been declared.

Pre-tax profit rose by five percent to R91,5 million (R87,2 million) on the same percentage increase in turnover to R498,4 million (R499,1 million).

The bottom line was further strengthened by tax rate reductions totalling R33,3 million as a result of provision for deferred taxation.

This boosted retained income, after dividends, from R32,9 million to R68,4 million.

Income (after interest and tax) from the cement division was unchanged at R19,6 million, from lime 11 percent up at R28,9 million (R26 million) and from other divisions 28 percent higher at R6 million (R4,7 million).

MD John Comynsall says the results were achieved on the back of successful cost management and production efficiency.

"We expect demand for our products to continue falling in the second half," he says, adding that attributable earnings for the full year should be maintained at last year's R110 million level.
Move to codify cement blending

THE Business Practices Committee is to publish a consumer code for Portland cement and cement blends in a move designed to govern the conduct of local producers.

This follows a number of incidents, particularly in Lohowa, Petersburg and the northern Transvaal, where the use of blended Portland cement resulted in the construction of unsound buildings.

The code — to be released next week — will govern the conduct of local cement producers and provide consumers with a product that conforms to certain standards.

Business Practices Committee chairman Louise Tager said many small builders were often unaware that the cement they were buying was blended and might not conform to industry standards.

In many cases, the percentage of fly ash mixed with the cement was not disclosed on the package.

"This tends to arise when blended cement is ordered in bulk and then repackaged. The fact that, in many cases, the cement is blended and this is not disclosed on the repackaged product constitutes a harmful business practice," she said.

Smaller builders often bought the product at a slightly cheaper price than unblended cement without realizing it was a blend and that its use could result in building faults.

The code would ensure quality principles and standards were adhered to and would play a major role in safeguarding the interests of end-users — in particular small builders — while preventing any possible exploitation through substandard construction or inferior products, she said.

The code was drawn up by the committee in conjunction with the Portland Cement Institute, but will be policed by the industry and the consumer.

Tager said it was not the committee's role to monitor the code but rather to respond to any contraventions. "In terms of the (Harmful Business Practices) Act, we have the right to investigate any situation that appears to constitute a harmful business practice and recommend to the Minister that this be stopped."

A Portland Cement Institute spokesman said small builders needed to be aware of the dangers of using substandard cement and that the code would assist in preventing these products from reaching the market.
Imperfect glazing

Earnings increases mask a difficult year for Plate Glass & Shatterprufe Industries (PGSI). Turnover rose more than 50%, but operating margins fell to 9.7% from 11.7%.

Despite restating the 1992 income statement to reflect current accounting policy, comparisons with 1993 are made difficult by a rights issue of 8.2m ordinary shares, an issue of 13.5m automatically convertible shares and the acquisition of minority interests in both Glass SA and PG Bison.

Trading conditions in SA remained difficult, particularly for Glass SA output of building glass fell 9% and original equipment

THE LOOKING GLASS

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* Re-stated to reflect current accounting policy

(OE) automotive glass 6% Margins in OE automotive glass are thinner than in the replacement market but even the normally resilient replacement market fell.

Restructuring at Glass SA to improve the distribution system, completed after PGSI bought out Pilkington, should bring lower overheads in 1994.

PG Bison also suffered, with falls in board and laminate volumes. It too is undergoing a reorganisation which will integrate previously independent business units.

Foreign subsidiary Belron International operates wholly in automotive replacement glass installation and is shielded from the depression in car making. The UK operation increased profitability in the last quarter.

A feature of the financial statements is the 22% fall in shareholders' funds after a greater provision for restructuring costs and a

downward reassessment of assets. This resulted from the acquisition of minority interests in Glass SA and PG Bison, and the increased investment in Belron.

Belron was recapitalised, using US$50m from PGSI's April 1992 rights issue to cut debt. Group gearing jumped from 40% to 62%, which is expected to add to interest charges. Most of the increased borrowings went to fund higher working capital and restructuring costs.

Markets will stay depressed till the economy shows signs of recovery. As SA's sole glass manufacturer with control of a significant part of the distribution chain, PGSI is in a good position to benefit from an upturn — despite competitive imports. The recent bounce in the share price from R42 to R50 seems somewhat premature though a turnaround in Belron could boost profitability significantly.

Louise Randall
Kelgran passes final dividend

JONO WATERS

The poor state of the world granite industry saw producer Kelgran pass its final dividend for the year ended February 1993.

Earnings slumped to 8.6c a share against 28.2c a share in 1992. Kelgran did not declare an interim dividend.

Chairman Fred Keeley said the results reflected the "extremely competitive market situation in the granite industry worldwide."

Turnover in the period increased marginally to R198m (R191m) but operating profit fell to R9.82m (R16.8m). Interest rose slightly to R2.24m (R2.06m) and after-tax income was nearly half at R7.58m (R14.8m). The company paid R1.25m in tax compared with a rebate of R5.54m in the previous year.

After-tax income was reduced to nearly a third at R6.33m (R18.4m). Net income for the year was lower at R6.07m (R20.3m) because of payments to outside shareholders.

Keeley Group Holdings, which has a 50% stake in Kelgran, reported a fall in net income to R3.93m (R10.2m).

"The group had reduced its stocks by R4.5m as a result of present market conditions."

Port operations continued to perform according to expectations. The Keeley terminal caters for all granite exports.

New marketing strategies implemented in the last six months should yield positive results in the near future. "This, combined with an expected upturn in market conditions, should enable the group to improve turnover and profitability."

Keeley was optimistic there would be an increase in demand for the group's granite products in the future.

Keeley and Kelgran shares, which both fell from a year ago high of 250c to 65c in October, were yesterday offered by sellers at the last traded price of 100c.
Survey predicts cut in Bank rate

THE odds favour a one-percentage point cut in Bank rate by October, according to economists polled by SPL Treasury Services. SPL said its loan rate dropping the same amount to 15% between July and October. Its worst case scenario was for the rate to remain unchanged, while its best case showed the rate coming down in June and continuing to fall to 14% by April next year.

However, while the sharp drop in loan rates over the past 15 months seemed to be over, two more cuts in rates in the next 12 months were possible.

SPL said the overall downward trend in interest rates remained intact, although further movements in rates would be relatively small.

The uncertainty in the country was reflected by the big difference between the expected, high and low forecasts.

Longer-dated capital market rates were unlikely to decline much in the next 12 months, any closing of the gap between long- and short-dated interest rates would be due to short-dated rates rising to meet the longer rates, which would remain flat.

Forecasts are gathered from a panel of economists and the figures are fed into SPL's interest rate forecasting system.

Economists who took part in the survey were Louis Fourie (Boland Bank), Nick Barnardt (AHI), Ulrich Joubert (Transnet), Adam Jacobs (Absa), Dennis Dykes (UAL), Wilkie Marais (Johan Marais Brokers), Edelwina Lindeque (Eskom) and Rudolf Groves (Rand Merchant Bank).

Mine safety 'compromised'

SUPPLIERS of raw materials for specialised cement for the mining industry claim that imported cement from China is compromising mine safety.

Since the beginning of the year, mining houses have been using calcium sulphate aluminia cement imported from China by Forrock, which had established a joint venture with the Chinese for the export of the cement, and Forrock chairman Anthony James.

This specialised cement maintains its strength in the humid conditions underpinned.

Fondargo MD Cecil Seymour, one of the suppliers of the specialised cement, says no long-term tests were conducted on the properties of the cement because of its recent introduction. But he claimed initial tests had indicated the cement induced corrosion in structures.

Another competitor who did not wish to be named claimed the sulphur content in the cement reacted with water and rusted steel. This had dire consequences for underground mining which used the cement for rockbolt grouting to prevent rocks from collapsing.

James denied the cement compromised mine safety and said he was considering legal action against companies making such claims.

St Helena mine 'cautious' about gold price rise

WELKOM - Marginal St Helena Gold Mines said it needed sustained gold earnings of about R40 000/kg for at least six months to feel benefits. 'We're very cautious about the gold price and its current volatility,' Gencor consulting mining engineer Peter Robinson told mine analysts.

The mine received R33 300/kg for April which includes undisclosed revenue from long-term forward sales positions. Current spot earnings would be about R39 000/kg.

St Helena is currently mining only its richest ore areas after massive down-scaling since 1989.

'We are at a point now where we can't rationalise more unless we close shafts,' acting mine manager Jaap Storm said.

The workforce was reduced to 3,000 from 12,000 three years ago.

Robinson said sustained higher gold earnings of about R40 000/kg would allow the mine to re-enter the bulk of its ore reserves. This would not entail much capital expenditure. Last October the mine turned its full focus on A-grade sections, such as the pillars in the worked-out areas of No 10 shaft which still have spectacular grades of 50 to 100g.

St Helena also began using transvac section units to recover gold dust that was washed into cracks in the carbonaceous rock of the No 10 shaft area - the first SA gold mine to use them in full production.

Officials said the contribution by the giant vacuum cleaners had significantly reduced losses.

Robinson said the mine aimed to cut current costs of R29 000/kg to R22 000 by using transvac units and by cross-training workers for a variety of jobs to improve productivity.

St Helena was still operating well below capacity, with 60,000 tons a month being mined from its peak of 240,000 tons 10 years ago.

However, current gold production of 350kg a month was expected to rise to 550kg even if B-grade areas were not re-opened, he said.

The mine has applied for government permission to work seven days a week. - Reuter
PGSI restructuring well under way

By Stephen Cranston

The restructuring of Plate Glass and Shatterprufe Industries (PGSI) to cater for the needs of the 1990s was well under way, chairman Ronnie Lubner said last night.

In a presentation to the Investment Analysts Society, Lubner said the previously autonomous businesses that formed PG Bison, Bisonbord, Laminate Industries and PG Wood had been brought together into one organisation, with unified divisions looking after sales, operations, distribution and commercial activities.

PG Bison MD Leon Cohen said volumes of its chipboard product had declined by 20 percent over three years, and it was important to reduce costs.

To do this, duplication of activity had been removed through the new integrated structure.

Instead of diversifying, it had decided to focus on its three core products, particle board, medium-density fibreboard and durable decorative surfaces.

Cohen said there was considerable scope for organic growth as only 0.7 square metres of board was sold per head in South Africa every year, compared with eight square metres a head in Europe.

PG Bison was exporting 3.7 million square metres of board a year. Cohen said that if this was converted into furniture, it would be a much larger volume than that built by the biggest local manufacturer and would equal the output of five factories.

Since PGSI's buyout of Pilkinson's share of Glass SA, there have been four divisions.

The group had been divisionalised into automotive and building units, known as ASG and PFG Building Glass, with retail arms known as PG Autoglass and PG Glass.

Glass SA's exports accounted for 17 percent of turnover, or R126 million, and it was the single largest supplier of mirrors to Japan.

Among its notable exports was the entire building glass requirement for Changi Airport in Singapore.

Both PG Bison and Glass SA would be major beneficiaries of a low-cost housing initiative.

The building of 100 000 new units would provide 750 000 square metres of particle board, providing a four to five percent growth in the total market per year.

The same houses would require 3.5 square metres of glass a year, which would give a five to six percent annual growth to the domestic building glass market.

John Mason, MD of PGSI's offshore arm Belron International, said the group was pledged to profitability in every market it served within three years, although only the UK, Holland and Belgium were currently providing acceptable returns.

He also pledged that Belron would only enter new markets where it could generate a commensurate return on investment over a reasonable period of time.

In Australia, where losses continued and there was an 11 percent decline in sales, the business had been refocused into auto glass replacement, windscreen manufacture and domestic replacement glazing. Cost was taken out by the removal of head office overheads.

In the US, Windshields America also saw costs taken out of its head office and enjoyed a 17 percent sales-growth, though it continued to make a loss.
Rock bottom?

Probably the best that can be said about Kelgran's results is that, though operating profits are down 42%, it appears as if the haemorrhaging from the balance sheet of the past two years has been staunched. There are grounds for believing the drop in profits has also reached rock bottom and that this year should see a recovery in profitability and, it is hoped, a resumption of dividends.

End-February borrowings of R58.8m were virtually unchanged from a year ago and compare with R23.4m in February last year.

FOX

1991: Management has halted the growth in inventories, which rose marginally to R43.6m (1992 R42.2m, 1991 R27.7m). However, Kelgran wrote down stocks by R4.5m to reflect market conditions.

One consolation is that at least accounting is conservative. The group writes off quarry development costs against income as working costs when they are incurred.

Recent horrendous results from competitor Marlin revealed that it did not follow this sensible procedure. Capitalised development costs accounted for a big chunk of Marlin's R34m extraordinary losses. The decision to pass the dividend cannot have been pleasing for Gencor, which bought into Kelgran with an option to take control, because of its belief that granite was a growth industry and Kelgran the blue chip.

Chairman Fred Keeley makes the almost plaintive comment that "The directors still foresee a long-term increase in demand for granite products." Precisely when this will materialise remains the big question.

Administration director Rob Brown reckons some improvement in foreign demand should come through by December but most of the benefit will only be reflected in financial 1995. He points out that rationalising in SA industry over the past year has greatly reduced cut-throat price competition but profit margins have been under severe pressure from foreign customers playing one producer off against another.

To counter this, Kelgran has implemented a new strategy, setting up its own offices in cities such as Tokyo, Singapore and Carrara to promote products directly, instead of relying on granite processors and block distributors.

The share price has turned around after a long slide that saw it drop from 625c in 1991 to 250c last June and a 65c low in October. It is back to 100c, but anyone planning on buying had better assess the state of the world economy because that's what drives Kelgran's fortunes.

Brendan Ryan
Russian cement imports planned

By David Canning

DURBAN — A consortium of disgruntled Natal cement users and merchants is hoping to import cement from Russia in a bid to bypass the sole local producer, Natal Portland Cement (NPC).

Behind the move is the Singh family of Singh’s Hardware and Electrical in Stanger. The family have interests in a number of businesses, including the Tambotiwood furniture operation and in building materials.

However, Raymond Weber, managing director of NPC, said he was not concerned about the possible competition as he did not think the project was economically viable.

It is understood that the plan for imported cement was discussed at a recent meeting of builders and merchants upset about NPC’s “closed shop attitudes and higher coastal prices, compared with inland prices.”

They said there had also been problems in getting supplies on time.

The Singh family was reluctant to talk about their plans but promised to give details in due course.

Weber said he believed the move could be traced back to a disagreement between Praven Singh and NPC, but he was unwilling to give details.

According to Weber, rumours of possible importation have been around for six to eight months.

He said the consortium would have to capture a fairly large slice of the local market of 50,000 to 60,000 tons a month because a shipment could average around 15,000 tons.

NPC itself had been offered supplies of foreign cement and had investigated the possibilities.

NPC believed continuity and delivery would be a problem.

NPC theoretically had been offered cement around R13 a bag — well below the local and foreign costs of production.

Local merchants sell cement at around R15 a bag.

There are no barriers to importation of cement, except for the low buying value of the rand and extremely high transportation costs.

Weber said NPC’s coastal prices were affected by transportation costs. Chinkor from the South Coast travels 120 km to Durban while slag from the Transvaal comes 350 km.

A major price war erupted in Natal in the mid-80s when Spanish cement was imported. At the time the rand weakened and the importers ran out of steam.

Weber said NPC had not been affected by the recession.
Finns buy SA company

THE Finnish Nordberg Group, part of the Repola Corporation’s Rauma Group, said yesterday it had acquired a 50% stake in the privately owned SA stone crushing company Nordberg for an undisclosed sum. The deal is subject to Reserve Bank approval.

Nordberg (SA) financial director Leon Chinn said yesterday he was pleased the Rauma Group had made the investment. The SA company would benefit from greater export business and access to Finnish technology.

A statement from the Nordberg Group issued in Helsinki yesterday said the acquisition supported the group’s “continued commitment to the worldwide crushing industry.”

MARIANNE MERTEN

The manufacturing plant at Vereening would become one of the three main facilities owned by the Finnish group. The others were in Finland and Brazil.

Chinn said Nordberg SA expected net sales in 1993 to reach about R200m. The group’s international net sales would be more than R200m.

In 1993, the SA company was sold in a management buyout financed through Firstcorp Merchant Bank. When the Repola Group bought the American parent company Nordberg Inc., it could not acquire its SA operations because of sanctions.

Nordberg last year won the SA Non-Listed Company Award.
Probe into parts, glass firms

THE Competition Board will investigate loading companies in the motor spares and glass sectors.

A Board spokesman said yesterday that the investigation into the motor spares sector involved five FSI Group and an acquisition by Varex in the motor engine parts market. Varex had been created by FSI subsidiary V"A"A last year through a series of mergers and acquisitions.

The board said it had to determine if a proposed transaction between Varex, Alert Engine Parts (Eastern Province) and Alert Engine Parts (Natal) constituted an acquisition as defined in Section 1 of the Competition Act (relating to takeover acquisitions and effects on competition).

The spokesman said the investigation followed a warning to FSI last year of a formal board investigation into any further acquisitions in the wholesale engine parts market.

In November the board expressed concern about the concentration of control in the market, after FSI subsidiary Yektra's purchase of Eddies Stores and certain Spares outlets.

Varex chairman Allan Schlesinger said the group held a relatively small share of the overall parts market. The proposed acquisition would not change that situation significantly, he said.

Probe

The investigation into the glass sector involved Plate Glass & Shutterprufe Industries (PGSI). The investigation — which was prompted by complaints to the board — would set out to determine whether one or more of the companies had a monopoly or was engaged in restrictive practices.

The board would also investigate acquisitions planned or made by PGSI in the past five years.

The Competition Board investigation follows January's announcement of a second investigation by the Board on Tariffs and Trade in just over a year into what POSI claimed was the dumping of cheap, clear float glass imports in SA.

Rod Fehrsen, MD of Glass SA (a division of PGSI), said it was inevitable that competitors would retaliate against Glass SA's recent application for protection against dumping of building glass in SA by Far East manufacturers.

"In addition to indignation about our dumping application, recent changes in our distribution policy have apparently contributed to complaints against us by our competitors," Fehrsen said.
SAFICON/BOUMAT

Painful turning point

Motor and building-products giant Saficon won't remember the 1993 financial year with any affection, but will remember it as an important, if painful, turning point.

The decision to acquire a majority stake in Boumat, the building materials distributor and manufacturer, virtually doubled Saficon's annual sales to R2,7bn. It also changed the nature of its business from a purely motor-related group, prompting a change in its listing from the motors to the industrial section. Year-on-year comparisons of 1992-93 pro-forma results that consolidate Boumat.

Saficon's results speak for themselves. Operating profit fell 43%, on static turnover, squeezing margins from 3.1% to 1.7%. The pressure on margins came despite the containment of operating costs, which in some areas actually declined.

The costs include a non-recurring item of R13m for consulting fees, retrenchments and a factory relocation.

Group earnings fell by more than two-thirds to R5,1m - a very thin net margin. Of this, R4,2m was accounted for by Boumat, giving a clear indication of how difficult conditions are in the motor business.

BEARING THE BRUNT

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Says Saficon chairman Sidney Bossook: "We didn't get as much market share in the motor division as we should have. But merging the three main motor businesses..."

BITING THE BULLET

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* Pro forma - assuming Boumat was fully consolidated from April 1, 1991

Cargo, Lindsay Saker and LSM, into Saficon Motors is expected to improve costs and efficiency. The shortage of VW passenger cars in the second half of 1993 isn't expected to affect 1994 results.

According to Saficon CEO Kurt Hipper, the national passenger and commercial vehicle market dipped for the fourth successive year and consumers traded down, hurting Mercedes volumes. Hipper expects the national dealer market to remain static in 1994 but says Saficon should regain lost market share, thanks to restored supply of VWS and efficiencies from Saficon Motors.

Boumat had a mixed year, with a 50% improvement in earnings during the second half but a fall of 42% in EPS for the full year. Says CE Adam Klein: "This is in the context of a 20%-25% real decline in the whole construction sector over the past 4 years."

"In response to the market decline, Boumat made some big changes in management, strategy and operations, including more emphasis on customer focus, better supplier relationships, and pricing. These changes were too late to arrest the decline in operating margins from 3.4% to 2%.

"Dwindling margins are the result of the emphasis on market share. Says Klein: "I'm a believer in market share, especially when the growth comes."

"Some relief has come from continuing emphasis on reducing gearing, which cut the interest charge by over a half. Boumat is now in a net cash position.

While most business comes from housing and housing alterations, Klein believes the future must lie in the social infrastructure.

low-cost housing, schools and hospitals. This will depend on government funding and the progress of political negotiations.

Saficon used to forecast earnings but, says Bossook: "We stopped because it's so bloody impossible in present conditions." Assuming that there is no material change in trading conditions, 1994 looks as bleak as 1993. Benefits from restructuring and cost control will filter through, but will not be the growth incentive needed. The share price is at a 57% discount to NAV which, Bossook is careful to remind the FM, is a sound equity base from which to grow when the economy improves.

Boumat's Klein: a believer in market share
Govt rulings a challenge to position of Glass SA

By Stephen Cranston

Glass SA’s control of the local industry has been challenged by two government decisions.

The Board of Tariffs and Trade (BTT) has refused to extend provisional duties on imported glass, which fall away on Wednesday.

The provisional tariffs of 13 to 26 percent were imposed in February as part of a probe into dumping claims made by Glass SA subsidiary PFG Flat Glass.

PFG said it would suffer material damage from imports during the investigation period.

The decision was taken because unfavourable exchange rates have made glass imports uncompetitive.

“But Glass SA CE Rod Fehrsen says glass distributors could easily start importing dumped glass again now that the anti-dumping duties have been removed.”

“We don’t object to fair competition, as long as it is on a level playing field. But when excess glass is dumped, it is not competing on equal terms.”

But Triangle Glass GM Mark Williamson says that although the decision on provisional payments has no bearing on the BTT’s final decision, she expects the BTT to reject the tariffs.

“Glass importers already pay duties of 15 percent on glass. Additional levies could make this as high as 41 percent, allowing SA’s only flat glass manufacturer once again to establish a monopoly.”

There were written objections from hundreds of distributors and retailers when the current investigation into imports from Pacific Rim countries began last January after an identical inquiry threw out similar claims by PFG only six months earlier.

An application by glass distributors, including Triangle, has led to a Competition Board inquiry into the structure and control of Glass SA’s holding company, Plate Glass and Shutterpane Industries.

It will examine whether one or more companies in the PGSI group are in a monopoly situation against the public interest in any sector of the glass industry, whether they are engaged in restrictive practices and what acquisitions, if any, have been made in the past five years.

Fehrsen says it was inevitable that competitors would retaliate against Glass SA’s recent application for further tariff protection.

“In addition to agitation about our dumping application, recent changes in our distribution policy have apparently contributed to complaints against us by our competitors.”
LEADING ARTICLES

CHINA

Sleeping giant no longer

Great opportunities — but we must wake up to them

Tony Koenderman, managing editor of the FM’s magazines division, spent four days in China last week learning about the world’s next economic superpower. This is his report

Less than a year ago, residents say, Beijing was empty of taxis. Today that Third-World phenomenon, the minibus, has come to China with a vengeance. Thousands choke the streets of China’s capital, causing traffic jams, pollution and nervous exhaustion in an atmosphere once resounding only with the sound of churning bicycle wheels.

The bikes and delivery tricycles are still there (China produces 26m of them a year) but they’re fighting for space with motor vehicles. In a country with virtually no private-car ownership, a crude street-corner count suggests 60%-70% of vehicles on the road are taxis, 25% are buses, commercial and official vehicles.

It’s but one visible sign of how fast this huge but still underdeveloped economy is moving. For China is shifting from backwardness to modernity (and ultimately affluence) at a pace matched in modern times only by those other Asian tigers. And with its 1.2bn people, there can be little doubt that this will be the next world superpower.

According to the IMF, it’s already almost there. Perturbed at the way currency distortions distort economic performance, the IMF now offers an alternative way of measuring national economies, using purchasing power parity rather than valuing in US dollars each country’s output of goods and services.

This controversially upgrades China from the world’s 10th biggest economy to the third — after the US and Japan.

Chinese officials are understandably concerned, not least because China may suddenly be seen as too well off to receive World Bank aid. The much-desired 35-year, interest-free loans are available only to countries with a per capita GDP of less than US$765.

"I think the new measure over-estimates the economic strength of China," says Wu Jianmin, director-general of the Ministry of Foreign Affairs’ department of information. "We are starting from a very low base. There is still a big gap with the developed countries. The interior is still undeveloped. We know we have a long way to go."

He’s right, in the sense that China is still an impoverished nation. But lots of poor people with small amounts of money can add up to a massive market. And, more importantly, China’s novel policy mixture of socialism and capitalism promises to change the equation very rapidly.

Wu was talking to a small group of journalists visiting China as guests of the Chinese Department of Foreign Affairs and Hong Kong’s Cathay Pacific Airways. It was the first officially sanctioned SA press group. As Wu said: "Sometimes journalists can achieve more than diplomats."

Since the process of reform and opening up began in 1978, the GDP growth rate has averaged 8.7% a year, rising to 12.8% last year and an annualised 14.1% in the first quarter of 1993. Before 1978, when the birth rate was much higher (it is now below 2%), the economy grew by 6.1% annually.

China seems to be managing the process of change from a centrally controlled to a more market-oriented system more successfully than any country in eastern Europe. The reason, quite simply, is that it is not trying to liberalise politically and economically at the same time. While free-market principles are being embraced enthusiastically, government is keeping a tight rein on political and social change. This is not yet a democracy — though it is some way from the repressive communist regimes of the past.

The aim, says Lu Yonghua, deputy director in the State Commission for Restructuring the Economic System, is to establish a "socialist market economy," combining public ownership with a market system. In other words, something of a mixed economy, though Lu says it differs significantly from those of northern Europe in that it does not have a high welfare policy.

"One of the shortcomings of a high welfare policy is that taxes are too high," says Lu, sounding for all the world like a Western free-market economist. "It also produces lazy people and a flight of capital. High taxes are a disincentive to investment and to productivity."

The reform process acknowledges the "obsolescence" of the original communist system of centralised economic control, says Lu. "The social system in China is different from that depicted by Marx. In addition, there is a different mentality. We now realise that we must implement the principle of 'to each according to his work, not to his need.' In other words, there are now incentives and rewards for productivity, hard work and initiative.

"The basic ideas of a market economy — the law of supply and demand, the law of competition and scientific management — have generally been accepted by the people," Lu goes on. "Economic development will be regulated by the market, not the macroeconomic guidance of the State. We will optimise the allocation of resources through the role of the market and the law of competition."

Though public ownership of land and resources will continue to be the dominant feature of the economic structure it will co-exist with market forces. But the proportion of the mixed economy will increase.

Indeed, the non-public sector already has increased its share of economic output from 0.4% in 1978 to 3% in 1992. In commercial output it has gone from 2.1% to 30%. No limit is placed on the growth of the nonpublic sector.

To achieve this, foreign investment is being courted vigorously with a package of investment incentives including a tax level of..."
Hard times ahead

A tombstone is perhaps the right symbol of the industry right now

The granite business is probably the last relic of the wild days of the great boom of the 19th Century. The men of the SA industry have been strong and unresentful. They have taken apparently unacceptable chances, they have experimented, they have fought for mineral rights, port facilities, lower rail tariffs, access to loading points. Their fortunes have oscillated dramatically.

The leaders of the granite business are regarded with a mixture of awe, respect and smirking cynicism - emotions quite in keeping with Johannesburg's image of its own pioneering past.

The recent entry of the major mining groups - Gencor in partnership with Keeley, Anglo with Kudu - does bestow an element of approbation, a sense perhaps that the industry has come of age, that the wilder elements have been called to heel.

Economic winter

Unfortunately, this has been achieved at a price. Gencor's April 1991 acquisition of a major stake in Fred Keeley's operations, for example, at a cash cost of about R95m, left Keeley with the slow smile of a satisfied tiger. It also positioned Gencor perfectly, in time to bear the full blast of an industry moving into recession.

An enduring characteristic of the industry is that it is heavily cyclical. It is inevitably and directly exposed to that most vulnerable of economic activities, the world construction business. Since the peak years of 1990 and 1991, the SA granite industry has faithfully reflected the savagery of the global economic winter. Export earnings have fallen, demand has tailed off, the granite sector is in the slough of despond and the share prices of all companies have - dare we say it? - fallen like stones.

Granite is classified as a dimension stone, and it keeps company for statistical purposes with marble, slate and travertines. Marble, of course, is considered the purest of these.

However, marble has capitulated to the environment of industrial society. Acid rains, smog, industrial waste - all these attack and destroy marble. Classical scholars have good cause, for example, to be concerned about the condition of the Acropolis, succumbing as it is to the pollution from the internal combustion engine.

Granite, by contrast, is comparatively impervious to the assaults of modern man. Its ability to withstand pollution, its established longevity and its ease of maintenance have turned granite into the favoured means of cladding and flooring - 58% of world use of granite is in these two areas.

And granite finds wide use in tombstones, or what is called the monumental business. Up to 1959, this was a market dominated by Swedish black granite, since then, fashions have altered perceptibly as the now-famous Rustenburg grey has steadily gained greater acceptance.

Among the Japanese, a people much concerned about honouring the dead, South African black granite has earned particularly high ratings. The material is dense, well marked, lustrous and (when sold to the Japanese) without flaw.

That earns it substantial premiums. In an industry loath to reveal anything about selling prices, and which is suspicious of espionage almost to the point of paranoia, it is nevertheless acknowledged that good quality black granite will fetch around US$1 200/m³ - the comparison is Rustenburg, which will earn about $400.

SA produces about 700 000 t of granite a year (see table). Most of this is exported (see graph) and the country's records were set in 1990 and 1991. By contrast, the export performance in 1992 was severely reduced - a direct result of the unprecedented slump in the international construction industry.

Examples of the comparatively disastrous state of the world property business abound. Donald Trump built a property empire from nowhere over the Seventies and Eighties; he spends all his time now defending it. Canary Wharf, the prestige London development designed to set Europe by its property ears, has proved a disaster, in the process it has dragged a successful property group to the liquidation block. In Sydney, office developments are stopped dead in their tracks, with two or three completed floors taking on the appearance of debris.

A Swiss investment analyst gloomily but emphatically says property is like a churchyard at night - decent folk give it a wide berth. "The next property cycle," says Geneva investment manager Jean-Antoine Cramer, "will begin to take shape late in the next decade." That means not before the turn of the century. On that basis, shareholders in the SA granite business shouldn't expect any dramatic turns in the fortunes of their companies.

Confirming this forecast, MD of Hooker Research in Sydney, David Rees, says there was an enormous boom in property values and construction in the late Eighties. That fuelled granite consumption. However, demand for office accommodation in the cities fell just as new supplies were reaching the market in 1989 and 1990. The office vacancy rate in Sydney CBD is now 22%, says Rees, and the Australian national average is about 21%. "That's equivalent to the CBDs of two cities the size of Brisbane and Perth standing empty."

Commercial construction has shrunk 50% in Australia since 1989 and Rees confirms other countries have experienced much the same contraction. "Very slow growth rates in the global economy indicate there will be no turn in construction until 1998 at the very earliest."

Another factor besetting the SA industry is the problem of adding value to the product. This is a country which, traditionally, has been a supplier of raw materials to developed countries, to the humiliation of our apparent inability to make full use of our own natural resources. As a consequence, the cost of buying back - at much higher prices - goods which are based upon SA minerals...
BUSINESS & TECHNOLOGY

group to determine whether any of its companies are monopolistic or use restrictive business practices. The board will also review acquisitions made in the past five years and any envisaged.

Board chairman Pierre Brooks says the investigation is the result of several factors. "In the mid-Eighties a few mergers took place in the industry that the board was not empowered to investigate. It nevertheless promised the industry that it would be sensitive to complaints." Brooks has since been inundated with complaints from the automotive and building-glass industries.

He says most of them are over the group's pricing and distribution policies. They allege that PGSI is trying to eliminate wholesalers, competitors, including importers, by going directly to retailers. Adding to these complaints is the De Loor report, which says many parts of the building industry are too concentrated and should be investigated.

"This clearly is an issue that can't be resolved merely through a discussion," Brooks says.

The most serious recommendation the board can make to the Trade & Industry Minister is that the group should divest some of its holdings, a measure that the board has never taken in its 13-year history.

PGSI suffered a second blow when the Board on Tariffs & Trade indicated that it may not impose anti-dumping duties on imported glass. The board decided that importers no longer had to make provisional payments to cover any import duties that the board would levy retroactively (Business & Technology January 22). The board imposed the provisional payments — as much as 26% of the purchase price on all allegedly dumped glass from the Far East — in February after PFG Flat Glass, a subsidiary of PGSI com-

The only local glass manufacturer, Plate Glass Industries (PGI), will be investigated. The Competition Board has been asked to conduct a far-reaching investigation of the Ailsa Glass Group, and a second look at the competition laws to ensure that they are effectively enforced.

Responding to the Competition Board's decision, the company said it was "disappointed" and that it would appeal against the $20 million fine for anti-dumping violation.

The board also expressed its concern over the current state of the glass industry, which has been described as "chaotic." The Competition Board has been asked to review the industry and make recommendations for its future development.

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Plate Glass 'striving to regain blue chip status'

GLASS and timber group Plate Glass & Shutterprufe Industries' (PGSI)'s results over the past few years had not been up to the standards achieved in the 1980s, chairman Ronnie Lubner said in the group's 1993 annual report.

‘He said in the '80s, shareholders' wealth — including share price growth and dividends — rose by an average 30% a year. PGSI aimed to regain its blue chip status through sustained and sound growth.

‘After a disappointing earnings performance over some years, PGSI increased earnings by 43% to 30c a share in the year to end-March on the back of a strong second half improvement in international division Belron International. But the SA operations experienced extremely difficult trading conditions and their markets showed sharp declines in activity.

The strong growth in earnings in the past year was a step in the right direction, Lubner said. Results for the fourth quarter and early trends in the new year indicated a continuing improvement in the performance of Belron International.

But the political environment and depressed trading conditions in SA made it difficult to forecast the performance of the domestic operations.

Lubner said the group's expectations had not always been fulfilled, but had made it realise the need to reorganise almost the entire group. Glass SA had undergone a major re-organisation to meet increased competition locally and outside SA.

Volumes and margins were under pressure. Volumes would recover in due course, but prices and margins would always be under pressure.

Board division PG Beson's domestic markets came under pressure as building activity fell by 7% and furniture industry volumes dropped 6%.

The next year would remain difficult, but some improvement was forecast due to the economies achieved from the division's restructuring. The domestic market would continue to decline in the coming year, but some improvement was forecast from economies resulting from restructuring.

Belron International, which operated mainly in the automotive replacement glass installation market, experienced demand pressure.

But activity and performance improved towards the end of the year, and sales grew by 9% to R1.4bn. Apart from Australia and Italy, all countries showed improvements and operating profit for the group “increased markedly” (1993).

Further improvements were expected in the UK, Europe and US, while Australia would show a marked reduction in losses.

PG Industries, quoted in Zimbabwe, reported a marked real decline in sales and a fall in operating profit. But earnings rose due to high levels of interest earned.

The outlook for the coming year was uncertain. But PG Industries had contributed R3m to PGSI's earnings on a cash accounted basis and this level was again attainable in the coming year.
PGSI sees vast market potential

By Stephen Cranston

South Africans have tended to under-estimate the complexity and time-consuming nature of developing offshore, says Plate Glass (PGSI) chairman Ronnie Lubner.

Writing in the annual report for the year to March, Lubner says the group underestimated how quickly it could influence consumer behaviour and create markets for the specialist automotive replacement glass market, but says there is vast potential from the 300 million vehicles in the markets in which it operates.

International sales increased by nine percent to R1,381 billion and operating profit improved in every country except Australia and Italy.

Sales in the UK increased by six percent, boosted in the final quarter by the introduction of windscreen inspection in the annual roadworthy test.

Sales in the rest of Europe increased by 12 percent.

There was strong growth in sales and profit in Benelux following the introduction of the full range of specialist functions such as 24-hour service, free phone, mobile fitting and direct billing.
Falling rand makes Msaauli an attracive buy

THE faster the rand drops against the dollar, the more the market seems to love Msaauli — the country's biggest producer of white chrysotile asbestos.

Chairman Pat Hart says the company, which formed part of the management buyout from Gencor in 1988, exports almost all the 100,000 tons a year produced at its mine about 30 km south of Barberton near the Swazi border.

Currency watchers expected the rand to decline by 10% during 1993, but it has fallen by that amount in only the first six months.

Mr. Hart says the asbestos market is tightening, however prices have been one or two percent higher than achieved last year in dollar terms.

"We sell on an annual basis without firm contracts, but usually dealing with the same customers. If they initially ask for say, 10,000 tons, then require only 8,000, we are understanding. The market has moved in favour of customers," says Mr. Hart.

He was the managing director of Msaauli and its blue asbestos-producing sister Gefco when the major shareholdings were held by Gencor. Five years ago Mr. Hart led a management buyout in which Gencor sold its one-third interest in Msaauli to 290c a share to Gefco, of which Mr. Hart's management consortium bought 48.6%.

Since then, Msaauli's share price has risen above 700c, retreated to 170c and is now advancing once again — to 405c in only three months.

Not only is Msaauli's income climbing, it is reaping the benefits of the new dedicated container depot built to control off-mine costs. Although an underground operation, its unit costs compare favourably to those of the large opencast Canadian mines because of Msaauli's high percentage fibre content.

Asbestos demand comes from builders of low-cost construction, and the Far East has emerged as a most important market. America has almost dried up on asbestos health-risk propaganda. Properly handled, it is not the wicked material some would have us believe.

Mr. Hart is mildly surprised that local demand is not greater. However, Msaauli would be hard pressed to lift production levels Capital expenditure of about R3 million to R4 million a year will be necessary to maintain an underground ore reserve.

About 1,600 work at the mine, which cannot be classed as long life although it maintains a proven ore reserve of at least five years. A tailings treatment project to boost production has been operating below design capacity — Mr. Hart says it is almost on target now.

The other attraction about Msaauli is its 30% stake in the Von Brandis gold prospect. At every opportunity, Msaauli says a final decision is near, but none has yet been taken.

With such a healthy balance sheet as Msaauli's there is no pressure to sell it, on the other hand, development of a mine would almost certainly detract from cash flow until it was properly established, and the gold price is a fickle factor. Mr. Hart seemed to hint at discussions with interested parties; gold would be very small against asbestos in any event.

Mr. Hart says last year was a very good one for Msaauli. It earned 165c a share, putting the shares on under twice historic earnings at the present price and a dividend yield of 8.4%.

He says there is no reason why 1993 should not bear similar fruit.

Gefco shares have more than trebled to 65c since September last year, but do not look to be a cheap way into Msaauli, which theoretically accounts for only 28% of the share price. Msaauli is the right choice for rand-hedgers.
BOUMAT (193) FM 91793

Truly humbled

It seems Adam Klein, CE of building supplier Boumat, is having a spot of bother. He was arrested when he arrived at Jan Smuts airport on July 6 in connection, says a press statement from the company, “with allegations of fraud, theft and forgery”

Chairman Sidney Borsook is reluctant to comment. “I hope you understand,” he says, “but as the matter’s sub judice, I really don’t think I can add anything.” However, Borsook confirms he has quickly set up a troika to superintend Boumat until, as he puts it, “matters are resolved”. The troika comprises Borsook, financial director Peter Glendining and director Richard Evered.

As usual in such cases, everyone’s develop-

Wits SRC After graduating, he spent three years as general secretary of the Garment Workers’ Union. In 1976, faced with an angry government, Klein took off for three months at Harvard and stayed on to do an MBA and then a doctorate in business administration.

Later, Klein worked at Boston Consulting, then formed his own company concentrating on strategic and organisational change for corporations and trade unions. Clients included the AFL-CIO and airlines. A US citizen by naturalisation, Klein retained ties with SA and periodically taught at Wits and Cape Town business schools.

Klein wasn’t available when the FM finally made contact, courtesy Telkom. Says wife Lindsay, “I’m really bewildered. We arrived from the US just a few hours ago I was so excited about starting a new life in SA.”

Klein told the FM a year ago, “I’m not arrogant or flippant about what I’m taking on here (Boumat). I’m humbled by the responsibility.”

Klein a little local difficulty

oped lockjaw Borsook won’t say any more than was dragged out of him, ex-CE David Gevusser, replaced by Klein and still an executive director, resolutely refuses any comment. “That wouldn’t be fair,” he said.

Klein (42) has had an eventful career. In 1971-1972 he was a fiery president of the
Stones fly in glass industry

INDEPENDENT glass distributors have thrown more stones for the Competition Board’s current investigation into SA’s leading producer, Plate Glass & Shatterprufe Industries (PFI).

Triangle Glass and other independent glass distributors made representations to the Competition Board concerning Glass SA’s proposed acquisition of Hardglass Safety Manufacturers, Triangle MD Cyril Gebhardt said in a statement. This development in the R1bn a year glass industry added fuel to the Competition Board’s recent decision to investigate the structure and conduct of Glass SA’s listed parent Plate Glass & Shatterprufe Industries.

Glass SA subsidiary PFG Toughened Glass and Hardglass are SA’s two major toughened architectural glass manufacturers. Gebhardt said the acquisition would allow Glass SA to further dominate the industry if it went ahead with the deal.

A Glass SA spokesman said the group had submitted a motivation to the Competition Board for the proposed acquisition and was awaiting its advice.

On a related front, Triangle and its allies were embroiled in a battle with PFG through the Board on Tariffs and Trade (BTT) over anti-dumping duties. The BTT had postponed its final decision on this matter after refusing an application by PFG for renewal of provisional duties.

Adding to the furor was a complaint submitted to the Competition Board by car-glass manufacturer Glasfit over PFG’s refusal to continue to supply toughened glass to it at distributor prices, thus giving PFI fence Swimming Glass, a company within the stable of Plate Glass and Shatterprufe Industries, an unfair advantage.

“Glass SA claims that the additional production capacity at Hardglass will allow it to expand its export portfolio without having to erect a new plant, but we believe the motive is to control the industry and its price structures,” said Gebhardt.
Major players weather recessionary conditions

SA’s multibillion-rand paper, plastics and packaging industries have not been immune to the recession, but most companies in these industries, which operate in markets that are linked to consumer spending, have managed to increase their profits and export volumes.

Local demand remains subdued, yet the industries have continued to prosper by improving quality, tightensing costs and increasing export drives.

The paper, glass, metal and plastics packaging market has experienced significant pressure on volumes and margins over the past year. But the major players, which include Nampak, Holdains and Consol, have improved by turning their focus towards asset management and tight cost controls. Significant investment in expansion and upgrading plant has also placed them in a position to weather the weak trading conditions.

Packaging, which has traditionally grown at a rate faster than the growth in GDP, has not been able to sustain its growth in the past year. This was largely because of the decline in consumption of beer, soft drinks and other consumer products.

Packaging groups are, to a large extent, reliant on sales of consumer products, as a significant proportion of packaging sales relates to food and beverages. Beer and soft drink volumes, which showed buoyant increases in the past decade, are currently showing no growth. Retail sales have declined in real terms for most of the past year.

Declining

Many companies operating in the packaging sector were also affected by price cutting as firms tried to increase their share in a declining market.

Most have forecast that trading will remain difficult for the remainder of the year as consumer spending and consumption remains at a low ebb. But various measures taken in anticipation of the downturn should enable them to maintain earnings off little or no volume growth.

Share prices have also held up well, and many of the major packaging groups sit with significant cash piles. The problem is how to spend the money.

Major paper manufacturers Sappi and Mondi have made significant acquisitions overseas, but it is not that easy for the packaging firms. Exports of unfilled products are difficult, although filled containers are obviously exported by their clients. Some have previously targeted off-shore acquisitions, but recent Reserve Bank actions with regard to forex deals could put a crimp on these plans.

Despite these factors, Barlow Rand’s packaging group Nampak overcame lower volumes and recessionary conditions to post a 23% rise in attributable earnings in the six months to end-March. Nampak and this was achieved largely through aggressive attention to production and financial efficiencies, and help from the new company tax rate Bevan Foodcan, the carton and sack divisions, liquid packaging and flexible packaging improved profits.

Reduced demand in the soft drink industry saw the plastics division report a lower profit. The paper and printing divisions also dropped operating profit.

In the half-year to end-February, Malbak subsidiary Holdains lifted its earnings 6% despite tough competitive conditions and reduced consumer spending. Beverage can operation Crown Cork, in which Holdains recently acquired a significant stake, improved profitability, as did Holdains Plastics. The Kobler paper division marginally increased its contribution, while Graphite computer merchanting maintained earnings.

Increased

Anglovaal subsidiary Consol increased earnings 7% in the six months to end-December, largely because of good results from its rubber interests. Industry sources said the coming year would be characterized by pressure on volumes and increased competition between the major players for market share. It is believed that Nampak, Holdains and Consol have about 60% of the market between them.
Diversity proves the strength of Consol

ANGLOVAAAL packaging and rubber subsidiary Consol was formed in 1944 with glass packaging as its only business. The company has diversified over the years. It is involved in packaging and rubber, with the packaging sector manufacturing and marketing glass packaging products, glass tableware, plastics and paper packaging, and processing industrial silica sand.

Glass packaging supplies general trade bottles and customer specials, providing packaging for beer, wine, jams and preserves, vegetables, milk products and liquid refreshments.

Printed ware bottles, used for milk and yoghurt packaging, are also manufactured. The pre-printed bottles allow for extensive re-use without affecting labelling.

Glass is 100% recyclable and remelting does not affect the quality. Consol is actively involved in promoting awareness, and bottle banks are now a common sight in public parking areas and supermarkets.

Speciality

Another important division is specialty glass, which manufactures and markets glass tableware and glass spunware, such as bowls.

In 1962, the group diversified into plastics, and the division has become a major packaging converter in southern Africa.

In 1969, the group acquired the Consol Paper division when the acquisition of an existing plant provided it with its first venture into corrugated cartons.

The 1980 acquisition of Goodyear Tyre and Rubber Company provided it with its most recent major diversification into the rubber sector, and it entered the tyre retreading and distribution business in 1990.

Rubber proved to be the cushioning factor for Consol in the six months to end-December. As packaging interests felt the effect of low consumer demand, nevertheless, some divisions, particularly the plastics and corrugated packaging, managed to maintain or improve profits.

Consol said although the market was not expected to show any significant improvement, sales volumes were not expected to decline compared with the second half of the previous year.
**Foreign boost**

Activities: Makes, distributes and installs flat and automotive glass, produces, makes, processes and distributes timber, board and aluminium products.

Control: SA Breweries 67.8%
Chairman and CEO: R Lubner
Capital structure: 24.7m ords Market capitalisation R1.4bn

Share market: Price: 5 700c. Yields: 2.6% on dividend, 5.6% on earnings, p/e ratio: 17.8, cover: 2.1 to 12-month high, 6 700c, low 3 750c. Trading volume last quarter, 247 000 shares.

**Year to March 31**

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Given an increase of 53% in EPS, this startling result for some reason seems strangely muted. Plate Glass & Shatterprufe Industries.

**Companies**

**PSGI's Lubner earnings can grow in 1994**

The latest results (PSGI)’s accounts show extraordinary all-round improvement, particularly in its hitherto Cinderella international operations. Turnover jumped nearly R1bn to R2.78bn and despite heavy financing costs (R32.5m), a high tax bill of R115.6m (a rate of 48.7%) and profit share dividends of R39m, attributable profit surged to R79.1m.

The 1992 outcome was seriously hit by what the directors call nontrading items R75.9m, including whopping write-offs of R40.9m goodwill and R41.7m on discontinued operations. Taken below the line, they didn’t affect EPS, nevertheless, the comparison with 1993’s R31.1m is stark.

Short- and long-term borrowings vary enormously between years. For example, 1993 short-term debt is R203.6m and long-term R64.1m. The previous year, almost the reverse applied short-term R49.4m and long-term R133.7m. In 1991, the situation was — yes, you guessed it — the opposite. Short-term R190m, long-term R51.5m. Group relations are related to consolidations and re-structuring but are, nonetheless, unsettling.

But one can cavil at the result. The big turnaround came from international arm Belron contributing R41m to total operating income of R270m, against a modest R10m in 1992. Finance director Mike Read confirms that trading conditions in SA were again difficult, so the contribution from Belron assumes greater significance.

Belron concentrates on the UK, Europe, US and Australia. Read says the UK, where Belron had the advantage of buying and building on an existing business, has shown good returns for some years. The trick, he explains, is that Belron can offer insurance companies a special service as it can respond rapidly to a service call for damaged windscreen assistance and bills all work undertaken in a month through a single statement.

Last year, that service was given a boost by the inclusion of windscreen in UK Ministry of Transport compulsory three-year vehicle inspections. This raised Autoglass’ weekly load from 19 000 jobs to 29 000.

The same principle of providing a user-friendly service to insurers is being applied in the Benelux countries and in producing good returns. In Germany, France and the US, however, Belron is starting grass-roots operations. Initially these are costly but Read is cheerful about them. Losses have been reduced significantly and he obviously feels profitability isn’t far away.

PSGI is much less forthcoming about local operations. A note in the directors’ report simply lumps the three SA and Zimbabwean activities (Glass SA, PG Bason and Zim- babwe’s PG Industries) together. They jointly contributed R229m to operating income.

Read says PSI is awaiting the take-off in black housing which will substantially benefit Glass SA and PG Bason, a major maker and supplier of chipboards and laminates. Where have we heard this before? There has been so much talk, for so long, about huge black housing projects which must — which will — be undertaken that shareholders will be excused if they view them as a chimera.

In a peculiar chairman’s statement, in which Ronnie Lubner asks himself questions and gives studied replies, he believes earnings can grow in 1994. A caveat is hefty capex (R100m on rebuilding the Springs float tank) and an uncertain SA economy.

At R57, on a p/e of 17.8, the market certainly expects PSGI to maintain 1993’s turnaround. Given the potential of the international arm, which lends a currency protection factor, Lubner may satisfy investors.

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By David Gleeson

**Plate Glass & Shatterprufe Industries**
Keeping an eye on PGSI

Despite losing its blue chip status, PGSI is still an investor favourite. By Mondli Makhanya

LOVED by investors, hated by the competition and well regarded by the employees. That is perhaps the best way to describe Plate Glass and Shatterproof Industries (PGSI), the country’s premier player in the glass and board industry.

The reasons PGSI is seen this way are not hard to find. One of its components, Glass South Africa, is the country’s only flat glass producer, major distributor and retailer and is constantly consolidating its position. This has prompted complaints about monopolistic and restrictive behaviour from other glass retailers. To investors the company has been given excellent returns and Johannesburg Stock Exchange analysts rate it highly in industrial relations and general employee dealings. PGSI’s board division, PB Bison, has been one of the more progressive companies in the country, and unions speak well of the company’s directors.

After a glistening Eighties in which share price and shareholder’s dividends grew by 30 percent a year on average, PGSI’s performance in the early Nineties fell victim to the recession, costing it its blue chip status on the JSE.

The nature of PGSI’s business made it particularly prone to the economic slump of the past four years.

The building industry – on which particularly the glass division is dependent – saw a seven percent fall in activity in the past year and the furniture industry’s six percent decline also hit the board division quite hard. The glass division also suffered from the slump in the motor industry to which it supplies glass for windscreens and windows.

But a company watchman says many investors are keeping an eye on PGSI as a good buy, first now after the first signs of sustainable recovery: “It will get its blue chip status back,” he notes. But it is not just the recession PGSI has had to battle. Other players in the market — mainly glass distributors — have been protesting against Glass South Africa’s attempts to consolidate its position as the sole supplier.

Independent glass distributors recently petitioned the Board of Trade and Tariffs to drop six-month-old anti-dumping regulations which had been imposed at the request of PGSI subsidiary and glass distributor PPG Flat Glass.

Another area of attack that PGSI has come under is in the vertical integration of its activities. The Competition Board is already investigating the structure of PGSI after independent glass distributors have filed hundreds of complaints of “restrictive practices” against it.

Besides having in its stable Glass South Africa as the only producer of flat glass in the country, it also has PPC Flat Glass as the major distributor and installer in the glass industry.

“You cannot have the sole manufacture of glass also having the largest downstream distribution system,” says Africa Glass manag-
Anglo-Alpha stands firm

By Stephen Cranston

There was a decline in the demand for the products of cement manufacturer Anglo-Alpha in the six months to June.

But cost-saving measures introduced last year enabled the group to increase operating margin from 18.2 percent to 21.9 percent.

Earnings per share increased by 30.4 percent to 81.8c on a current-cost basis and by 20.6 percent to 172.9c on the historic-cost basis used by almost all other companies.

The dividend has been raised by nine percent to 50c.

The cement division saw sales volumes fall by 6.8 percent, but the reduction in production costs arising from restructuring and plant refurbishment projects over the last three years led to a 17.4 percent increase in net operating income to R62.8 million.

The stone division, which made a loss of R4 million in the same period last year, reported a R4 million operating profit because of rationalisation.

Sales fell for all operations in the industrial division except Cappa Sacks.

But a more favourable product mix helped operating income increase by 28.1 percent to R24.4 million.

Lower interest rates reduced finance costs by 18.7 percent to R12.9 million, but there was an 87.2 percent increase in tax to R23.6 million.

This was partly the result of a sharp reduction in capital expenditure, which is down from R56.5 million to R33.2 million.

Gearing was reduced from 28.5 to 18 percent, the return on net assets increased from 10.9 to 11.9 percent and the return on equity from 11.5 to 13.0 percent.

The group expects cash from operations to increase by 54 percent in the full year.
Cost-cutting spurs Anglo-Alpha profit

From EDWARD WEST (Johannesburg)

JOHANNESBURG — Cement and industrial minerals group Anglo-Alpha's profit jumped nearly a third in the six months to end-June 1993 in spite of falling sales volumes.

The increased profits came from cost-cutting measures. These included cutting staff by 700 in the past 12 months, halting refurbishment in the cement division and operating kilns more efficiently, said financial director Trevor Wagner.

The group is the second largest member of the cartel of SA's three cement producers.

Earnings increased to R1,86c (R2,7c) a share, but historical earnings, excluding the R27,4m (R24,3m) inflation adjustment, were up a fifth to R72c (R43,4c) a share.

Wagner said sales volumes fell in general, but sales of an increased mix of higher priced products below inflation price increases, resulted in turnover climbing 8% to R404,7m (R374,8m).

The effect of cost efficiencies introduced in 1992 were reflected in the operating profit margins rising to 21,9% (18,2%), leaving operating profit higher by nearly a third at R86,7m (R68,1m).

Finance costs fell to R12,9m (R15,8m). Tax climbed sharply to R29,6m (R15,8m). The interim dividend was lifted to 50c (46c) Return on net assets and equity was marginally above inflation at 11,9% (10,9%) and 13% (11,5%) respectively.

Cash resources rose to R87,1m from R62,6m at the interim stage last year, but were sharply down from the R144,2m at the year-end in December.

Gearing at 18% (25,5%) was expected to decrease further after reduced borrowings, and cash flow was expected to increase by more than a third for the year because of improved profitability, the group said in a statement.
Low asbestos sales hit Gefco

EDWARD WEST

ASBESTOS and coal group Gefco reduced its loss in the six months to end-June 1993 compared with same time last year, but associate asbestos company Metafil's earnings fell by a third over the same period.

Metafil's sales were slightly up at R37.5m (R46.2m), but operating profit fell marginally to R7.7m (R8.5m).

Tax doubled to R3m (1.5m) interest bearing debt more than halved to R694 000 (R1.3m).

Earnings a share fell to 70.7c (106.3c), but the interim dividend was lifted to 15c (10c). Directors said demand had fallen in some markets and sales for the full year would probably be 5% to 10% lower than the previous year.

Gefco, the Griqualand Exploration and Finance Company, saw asbestos sales fall to R18.5m (R24.1m) while coal sales were virtually static at R5.6m (R5.6m) in the interim period.

The operating loss improved to R491,000 (R2.6m). The loss a share amounted to 1.4c (9c) and an interim dividend of 2c was declared.
Msauli lifts dividend

BY DEREK TOMMELY

Despite difficult conditions in the asbestos market, Msauli has increased its interim dividend from 10c a share last year to 15c a share this year.

Chairman Pat Hart says shareholders could still look forward to an improved dividend distribution for the year as a whole.

However, sister company Gefco has had to cut its interim from 3c to 2c.

Despite lower shipping volumes, Msauli slightly increased its sales in the six months to June to R47.2 million from R46.2 million a year ago.

A jump in the tax bill from R1.5 million to R3 million, together with the reduction in operating income, resulted in net income falling 34 percent to R4.6 million.

Hart says although sales for the year are likely to be lower than those of last year, second-half results should be better than those of the first half.

Msauli's asbestos sales dropped from R24.1 million to R13.5 million, but coal sales were almost unchanged at R5.5 million.

Operating income showed a loss of R516 000 (loss of R2.6 million previously) and net income a loss of R516 000 (R3.5 million).

But sales of amosite fibre, treated as a special item, produced a profit of R1.4 million.
Restructured Italtile's sales hold up after split

MARCIA KLEIN

A SIGNIFICANTLY restructured Italtile has reported earnings of 44.4c a share in the 16 months to end-June. Results are not comparable with the previous year as the company changed its year-end from February to end-August and disposed of its ceramic manufacturing operations to Ceramic Industries Ltd. The disposal, in August 1991, was in exchange for shares distributed to Italtile shareholders as a dividend in specie.

CE John Couzis said the split of the retailing and manufacturing operations enabled management of both to focus on their core businesses.

Italtile reported turnover of R194.9 million in the 16 months, compared with R165.9 million in the year to end-February 1992. Attributable earnings were R8 million (R11.8 million).

A 3c a share final dividend brought the 16-month dividend to 8c a share.

Couzis said the 16-month period marked "the completion of Italtile's first trading period as a dedicated retailer." Retail sales had increased, and management was satisfied with the margins achieved. He said overhead costs were "well within budget."
Glass SA buys out
Hardglass Safety Glass

"Glass SA, the glass manufacturing and distribution arm of Plate Glass and Shatterprufe Industries (PGSI), confirmed yesterday the acquisition of Hardglass Safety Glass Manufacturers.

Kees Clinton, the majority shareholder in Hardglass, welcomed the decision by the Competition Board not to oppose the takeover."

Referring to public objections by building and automotive glass manufacturers, Clinton said as far as he knew none of the objectors had been competitors or even customers of Hardglass.

"Having decided to retire, my options were to sell the business or to dispose of the assets offshore. "Glass SA made the only offer locally and I am pleased that it can be sold as a going concern."

Peter Clatworthy, finance director of Glass SA, said the acquisition would allow the group to service its fast-growing safety glass export market without having to import new plant.

Hardglass would become part of PFG Toughened Glass, a division of PFG Building Glass.

A spokesman for PGSI said the acquisition would not have any material impact on the earnings of the group. — Sapa.
Foreign interests boost Tencor

CAPE TOWN — Diversified industrial holding group Tencor increased earnings a share by 24.3% in the year to end-June. Income from foreign operations and exports, which now represent more than 70% of total earnings, boosted the bottom line.

The group also has large cash resources for most of the year, and these generated substantial investment income.

The results were achieved in the face of difficult trading conditions and a sharp increase in the average tax rate. But executive chairman Neil Jowell said the main divisions performed "excellently".

Earnings rose to 112.5c (90.5c) a share, and after the declaration of a final dividend of 15.5c (15.3c), the total was increased by 25.6% to 24.5c (19.5c) a share.

Parent company Mobile Industries declared a final dividend of 4c (3.8c) on earnings of 27.6c (22.1c), which brought the total to 6.2c (4.6c) for 1993.

Improved operating margins and lower finance charges saw pre-tax profit rise 57.7% to R297.1m (R185.3m) on a 15% increase in turnover to R740.8m (R641m).

The profit margin, however, strengthened to 23% (20.4%), reflecting the contribution from investments. Where last year the group carried a net interest cost of R8m, this year interest income of R12m accrued.

At the 1992 year-end, Tencor had R154m in cash and in December sold its Contread tyre division for R210m.

Tencor's exports and overseas operations — largely in the container industry — benefited from the rand's appreciation against the dollar, which helped offset the pressure on international container prices.

Tencor has a stake in US-based international container leasing operator, Textainer Group, which contributed significantly to earnings.

A higher tax rate of 28% (19.6%), lower income from associate companies and a higher payment to outside shareholders resulted in a 25% increase in attributable income to R163.4m (R126m). Interest-bearing debt to shareholders' funds at end-June amounted to 5% (6%).

On prospects for this year Jowell said political instability had wreaked havoc on business and he would be happy to maintain earnings during the transition period.

The profit announcement said the treatment of Tencor's share of associate companies' turnover, pre-tax income, tax and after-tax income had been changed in accordance with generally accepted accounting practice. Comparative figures had been adjusted accordingly.
SHADRACK KHOPUTSE: from fascination to business

Shadrack provides Soweto with a mould for success

By ZILLA EFRAT

SHADRACK Khoputse, 56, has come a long way from his early days as a "boss boy" in fibreglass plant life.

He now owns the largest fibreglass pool filter-box factory in South Africa. His four sons are in his company, S P Khoputse & Sons, which employs 15 people.

Among his many products, all made of fibreglass, are canoes, satellite dish covers, portable toilets, industrial housing, sandpit covers and water tanks.

Expected orders include commentary boxes for a TV company and bunkers for Viva Games. Negotiations are also under way through an agent, to export some products to mines in the United States.

The reason for his success, he says, is "not giving up in the bad times".

In 1961, fresh from school, he began work as a carpenter. But he was fascinated by the company's fibreglass works and managed to get himself transferred there a week later.

The next 23 years were spent in supervisory positions at various fibreglass factories.

In 1984, he walked past a statue-making company called Florence Art and was surprised to find it used cement moulds.

He bet its owner, Valerie Nightingale, that he could reduce the number of people employed to make a statue from six to one.

Mr Khoputse says, "She didn't believe me, a black man, but she gave me an order."

He succeeded, using rubber and fibreglass moulds, and it was not long before he was working for her.

Mrs Nightingale's business, however, ran into hard times. With her support, Mr Khoputse began making fibreglass pool filter boxes for his customers on her premises.

His workload grew. He took on an employee, opened a bank account and bought his first car.

Because he was taking up too much space on her property, Mrs Nightingale asked him to apply for a business licence so that he could trade on his own. He was turned down by the Sandton municipality.

In 1985, an impressed customer pleased the Get Ahead Foundation and Mr Khoputse's business started to move.

Get Ahead gave him premises free of rent for six months and a loan of R10,000 which enabled him to buy tools and a delivery bakkie.

Mr Khoputse says, "After that I did not have to stop at every bridge to check if I could get past with all the goods tied on top of the roof of my car."

He repaid the loan in 18 months and in 1988 had to move to new premises because he again needed more space.

Running the business has not been without hiccoughs. The recession bit hard this year and Mr Khoputse had to lay off employees.

But he can now sleep at night because trading conditions have picked up and orders are rolling in again. Summer, his best season, is almost here.

Mr Khoputse designs and develops all his products and is a master of glass reinforced plastic (GRP) products.

He is no means keeping his success to himself. He helped a businessman in Bophuthatswana to start a successful fibreglass toilet factory.

He is about to start teaching a Soweto man how to work with fibreglass. The pupil will then open his own business.
Kudu stages R11m turnaround

KUDU Granite reaped the benefits of re-organisation in the year to June, staging a near-R11m turnaround in earnings despite continued tough conditions in the market.

The company, in which Anglo American has an indirect stake, posted operating income ahead nearly 70% at R13.7m on turnover up at R101.2m (R60.6m) as it exploited its merger last year with unlisted producer Impala.

Despite a R3.1m charge to cover re-trenchment costs, pre-tax income moved to R5.2m (R3.5m), leaving attributable income ahead at R5.1m (R5.1m loss).

Bottom-line earnings a share moved to 11.7c, against a 15c loss. The dividend was held at 4c.

MD Peet du Toit said the results underlined Kudu's successful "belt tightening" in the face of conditions which had boggled the international granite market and its producers.

ANDY DUFFY

An improvement in earnings and dividends was on the cards this financial year. There were tentative signs that the market was beginning to recover.

The rationalisation with Impala was complete, Du Toit said.

The merger had linked Kudu with one of Europe's largest distributors, Deutsche Steinindustrie (Destag), in which Anglo held a 35% stake.

The move had also strengthened Kudu's balance sheet. Shareholders' funds leapt from R61m to R60.3m, while borrowings dropped from R37.7m to R19.1m.

Du Toit added that there was further room for rationalisation in the industry.

Marlin Corporation had indicated it was looking for a suitor to underpin its recovery, he said.

Kudu was not looking for further merger opportunities.
Still financially strong

Activities: Makes glass, plastic, paper packaging and glass tableware. Makes tyres and has tyre interests.

Control: Anglovaal Industries 59,6%.

Chairman: C S Monell, MD: P J Neethling.

Capital structure: 64,4m ards. Market capitalisation R2,40bn.

Share market: Price: 3.720c. Yields 1.9% on dividend. 6.5% on earnings. p e ratio: 15.3.


Year to June 30: '90 '91 '92 '93

ST. debt (Rm) 21.9 22.9 28.7 43.9
LT. debt (Rm) 144 136 51 63
Debt to equity ratio 0.67 0.61 0.63 0.9
Shareholders' interest 0.34 0.40 0.46 0.49
Int & leasing cover 7.8 10.3 52.1 33.1
Return on cap (G) 24.3 31.4 28.9 33.2
Turnover (Rbn) 1.56 2.07 2.10 2.17
Pre-tax profit (Rm) 215 319 291 281
Pre-tax margin (%) 13.8 18.4 13.9 13.0
Earnings (c) 157.7 194.3 216.7 243.3
Dividends (c) 45 55 62 70
Tangible NAV (c) 314 453 545 524

With recession having curbed volumes of almost all local businesses, rubber and packaging group Consol must derive satisfaction from holding net cash of R494m. It provides capacity to increase its rand hedge element by developing exports — now providing only 1.5% of turnover — or to make another acquisition.

Group MD Piet Neethling admits there are plans for an acquisition during this financial year, though he would not say whether this is offshore. Goodyear's ownership of all its plants outside SA means any foreign tyre acquisition would place Consol at loggerheads with its American counterpart. But there could be other options. Consol could easily place paper to fund an acquisition.

Contred, the rubber division (now wholly owned, and housing Tycoon and Tredecor), was the star performer with higher unit sales and operating income rising 7.4% to R141,8m on declining industry volumes. With a 51% contribution to group operating profit, this marked the first time the majority came from rubber operations and not packaging.

Whether this will become a trend is not clear. Though market share has been gained in the face of stiff local competition, volumes have been affected by the increasing number of tyres entering SA through the homelands despite a permit system and tariffs. The tyre industry has grown by less than 1% during the past five years, imports have increased almost 70%. Greater competition is expected to affect the industry in 1994, when the GATT rules will require removal of the permit system. In the longer term, the industry will see a phased reduction of import tariffs, now 30% on new tyres and 20% on used.

Consol's packaging division, in particular its glass bottle operation, has been the cash generator, providing the financial clout to diversify into rubber. It holds about four-fifths of the glass container market. So the 12% decline in bottle volumes impaired packaging's operating income, which slid 13%, squeezing margins to 14.8% (17.4%).

This ability to provide massive cash flow would have encouraged management to allocate about R110m in provisions over the next few years to rebuild furnaces and recondition glass-making machinery. Consol has to be equipped with the latest technology if it is to vie successfully for the business of producing containers for exports such as wine.

Capex of R150m, almost double last year's figure, will not materially affect the interest bill which, for the 1993 year, was R8.4m and covered 30 times. The increase was attributed largely to the acquisition of Treacor's remaining 25.6% minority shareholding in Contred for R210m and R50m for the redemption of preference shares. However, the higher spending will bring down the effective tax rate.

Though conditions aren't expected to improve much this year — 1993 saw turnover up only 3% with operating profit down 4% — Neethling is confident EPS will continue to grow. The 1993 year's EPS were boosted by
COMPANIES

JSE suspends Quagga shares

THE tardiness of granite producer Quagga Holdings caught up with it yesterday when the JSE suspended the company’s shares.

The company, which has been put into provisional liquidation by Standard Bank, had been warned two weeks ago by the JSE that it faced suspension unless its financial statements were produced by the end of this month.

The JSE had been forced to put a similar ultimatum to Quagga in January, but that time Quagga delivered the goods at the eleventh hour.

Quagga director Jay Voster said the 1993 financial statements had been delayed because the company wanted to announce the purchase of a smaller company in tandem with its year-end results.

He said Quagga planned to apply to the JSE to change its year-end to the same as that of the new buy, though it was not clear whether the application had been posted.

ANDY DUFFY

It was immaterial. The deal with the unnamed company fell through with failure — after seven months of talks — to agree a price.

Quagga’s fortunes declined still further earlier this month after Standard Bank, upset by Quagga’s failure to meet commitments on its R1.4m overdraft, applied for a liquidation order.

The suspension brings to an end several difficult years for the granite company. In the latest annual results — for the year to February 1992 — it made a net loss of R2.6m, on turnover slightly ahead at R4m.

The company had embarked on a sale of assets, and changed direction from extracting granite to treating it.

Voster, who joined the Quagga board three months ago, said he was unsure what would happen now. Chairman Bushy Muring was unavailable for comment.
Sasol brick is cheap and easy to use

SASOL Coal has developed a low-cost brick to replace standard concrete blocks used in the construction of ventilation walls underground.

Industry spokesmen believe the new brick will also substantially reduce the price of low-cost housing, and there are plans afoot to establish a R2.5m plant to produce the bricks on a large scale.

Sasol Coal mining projects manager Koos de Beer said the organisation had built a show house at Secunda Collieries to introduce the market to the new brick.

In addition, he said, all the ventilation walls in the Twistdrau Shaft at Bosjesgruit Mine — one of the three underground mines at Secunda Collieries — were being constructed with the brick.

The cost savings offered by the brick were extensive, said De Beer, and the pay-back period on the establishment of a new plant to manufacture the bricks was estimated at about 11 months.

The brick had an interlocking design which eliminated the need for mortar and plastering, which were used traditionally to ensure ventilation walls were airtight.

“There is no mortar in the normal sense — the bricks are effectively glued together and sealed at the vertical joints with a mixture of cement and water.”

De Beer noted that it took a quarter of the time to build a ventilation wall using the brick. This, he said, led to an average cost saving of 35% over conventional methods as a result of reduced labour and material costs.

Sasol had manufactured a purpose-made trailer to transport the bricks, said De Beer, and had produced a half brick and a special corner brick, which was T-shaped, for internal wall junctions.
Corroboree Warning on Industry Frustation
Anglo-Alpha
in buy-out

(1983) 10/13

ANGLO-ALPHA, the cement, stone, lime and industrial minerals producer has increased its investment in Brecon Precast (Pty) Ltd by buying out the Tongaat-Hulett Group and Kurt Martinussen's interest. However, the directors say Anglo-Alpha will immediately merge the new wholly-owned subsidiary with Grinaker Precast and sell off part of its merged interest to retain only a minority stake in the precast business.
PG throws the first stone in windscreen war

PLATE Glass Group has slashed the price of car windscreens temporarily in an effort to fight off importers and competitors, writes DON ROBERTSON.

The group has tackled independent glass suppliers for two years for dumping duties on flat glass from China and other countries failed last year.

It is now taking on the lucrative windscreen business. PG Autoglass has reduced prices on windscreens to as low as R175 for some vehicles, mainly minibus taxis. The offer lasts until Saturday.

As recently as two weeks ago, the recommended retail price of its windscreens for a Nissan Elgrand was R300, although sometimes considerable discounts were offered. The plate glass price for a Toyota Hi-Ace windscreens is R175 compared with as much as R300 previously.

Windscreen importers say these prices are barely above production costs. They are unable to compete.

PG Autoglass managing director, Stewart Jennings, says the lower prices are offered at only two or three centres and are "normal loss-leader strategy." He says prices have been cut to counter growing imports.

The offer, to PG Autoglass' own retailers only as seen by competitors as being well tuned. From November 1, the Road Traffic Quality System (RTQS) comes into effect and 12-seater minibuses will have to be tested annually. Vehicles with chipped or cracked windscreens will fail a roadworthy test.

It is estimated that between 50 000 and 50 000 windscreens are sold in the after-market a year, many to taxi owners.

The Competition Board is investigating the activities, past and future acquisitions of PG Group. A final report is expected in four to six weeks, says board chairman Pierre Brooks.

PG Group has had a monopoly in flat glass and windscreens for many years. Its hold on the the windscreen market was broken three years ago when Glaston, which distributes through Glastile, established a plant in Babalwa. It now has 50 franchise holders and has taken about a third of the market.
Brick mountain grows in spite of industry shake-out

THE brick stockpile held by SA’s building industry has reached about 450-million as the slump in the sector continues.

This is an increase of about 20-million compared with last year and double the stock held during the building boom in 1985.

Clay Brick Association president Mike Wilkin said the number of brick manufacturers had shrunk from about 450 in 1980 to an estimated 165 producers.

"Even though technology had given the smaller base increased production capacity, available statistics showed that in 1990, production had been 4-billion units compared with a peak of 5-billion units in 1973," said Wilkin.

This pointed to a decrease in capacity in real terms of between 25% and 40% Corobrik, SA’s largest brickmaking group, closed 15 factories between 1984 and 1991.

This left 37 plants throughout SA operating at about 60% capacity.

Corobrik executive chairman Errol Rutherford said the group held about 300-million bricks, but was reducing this because of the cost of holding stock.

He said the industry needed a stimulus soon to stop companies downsizing to the extent that they would be unable to cope when demand regained normal levels.

The most immediate boost for the industry would be government’s initiatives on low-cost housing, which had yet to get off the ground.

The construction of low-cost housing requires no importation of skills, materials or technology. It makes use of local resources and could provide work for many more people than the industry currently employs," said Rutherford.

Cullinan Brick executive director Roddy Stewart said the company’s brick stockpile amounted to about 20-million, which was lower than nine months ago.

No end to the building recession was in sight, said Stewart, who expected demand to remain stagnant until the elections next year. Thereafter, any upturn depended on political stability and the cessation of violence, but Stewart was optimistic that the tide could turn by the middle of next year.
A LIGHTER tax burden, cost controls and asset management helped Pretoria Portland Cement (PPC) overcome tough conditions in the construction industry and earnings climbed 13% in the year to end-September 1993.

PPC's cement sales reflected the difficult building and construction sector and fell 5% to 2.8 million tons. Cement plants operated at 56% of capacity and lime sales were virtually unchanged at 973,000 tons.

Turnover rose 9.2% to R884.6m (R809.8m) and operating income was 7.8% higher at R198.9m (R184.3m), helped by two cement price increases totalling 9.2%.

Earnings per share increased to 299.5c (208.5c). A final dividend of 165c was declared, lifting the dividend for the year by a tenth to 215c (185c).

Interest paid of R6.1m was offset by R20.5m investment income and pre-tax profit was 8% up at R213.3m (R197.9m). The tax rate was lower at 44.7% (48.1%) and the R90.9m (R88.9m) tax bill included R10.4m secondary tax on companies.

The benefit of the tax rate on deferred tax was reported as a R38.5m extraordinary item and transferred to reserves. Because of the distortion from the partial method of accounting for deferred taxation, the group changed to the comprehensive method and 1992 earnings were restated downwards by R4.3m.

Strong cash flows enabled cash holdings to increase to R157m (R112m). Long-term finance of R55m was raised to fund plant expansions at Slurry and Hercules which increased total debt slightly. However, gearing was 10%.

Cash generated, enhanced by the sale of the 50% stake in Parex Enterprises and low capital expenditure during the year, amounted to R67m. Major capital expenditure to be completed in 1994 included a R26.5m silo and palletising system at Hercules and a R17.6m palletising and road dispatch system at Slurry.
Wealth tax only option?

Reaction to the first volley in the wealth tax debate by the ANC's trade and industry co-ordinator, Tito Mboweni, has taken the form of instant outrage and rejection. But given South African inequalities, this is one debate that won't go away. CHRISTELLE TERREBLANCHE sums up some of the existing arguments.

Mr. Tito Mboweni's call for an "economic reconstruction levy"—or wealth tax—to supplement the state coffers has become the centre of controversy in the tax debate. An adviser on tax for both the ANC and National Party, Prof. Dennis Davis, of the Centre for Applied Legal Studies at the University of the Witwatersrand, has since pointed out that the chances of increasing personal and company tax are slim.

The other side of the tax coin, however, remains that not enough state money is available to address the country’s problems. Where should it come from?

"It is highly unlikely that a new government would impose a reconstruction levy or wealth tax similar to that in West Germany after World War II," said Davis. He stated that against the backdrop of a possible federal system, which would be expensive, such a tax would be complicated administratively.

However, Davis pointed out that a similar successful levy was raised from 1965 to 1973 in Chile to sponsor a compulsory education programme. The levy trapped about 40,000 tax evaders.

"The suggestion has caused a storm of resistance," Davis said. The National Party called it "reckless", cautioning that it will chase away foreign investors and stunt growth. The party's flagship, "Die Burger", compared it to "organised theft".

A Democratic Party spokesperson on finance, Mr. Geoff Engel, said "Tito Mboweni's statement on a one-off wealth levy or taxes will only encourage the further flight of capital from South Africa and greater tax evasion."

"The provocative statements of Mr. Mboweni are grossly undermining confidence, job creation and any chance of economic recovery," Mboweni has since pleaded that he has been misquoted and that his suggestion was not official ANC policy. He merely tried to open debate on the issue.

The notion of a reconstruction tax was raised in a document compiled last year by Labour Research Service's Gordon Young, called "The price for Apartheid: The wealth tax and how it can pay for the re-construction of black communities."

Young said it was impossible calculate the revenue that would obtained from this tax, but "rough calculations of five percent the 20 wealthiest families could be R500 million a year."

Witwaterstrand economist Neva Sandman-Maagdenberg pointed out that a three percent tax on over R200 million would amount R4.5 billion a year. This would affect only 10 percent of the population.

However Mboweni has stated that the levy he suggested would cross the board, for all earning a decent living wage.

Young dismissed several evaders, among them a capital tax on property levy, because of difficulties in administering it.

"It taxes people whose capital worked hard for them and while a wealth tax penalises those whose capital is not generated income," he writes.

He also stated that one of the problems with tax on personal assets is its low return compared to other investments.

Davis also saw a capital gains as "debatable", and cited Department of Finance research showing it could only yield R300 million and R1 billion at most.

"It is not a money spinner that will probably not feature in next year's budget," he says.

He predicts however that V. will stay since it has proven ful. "I also don't foresee a change personal income tax or capital tax, especially not an increase. Some tax incentives for export and foreign investments might necessary, though."
Own Correspondent

JOHANNESBURG — A lighter tax burden, cost controls and asset management helped Pretoria Portland Cement (PPC) overcome tough conditions in the construction industry and earnings climbed 13% in the year to end-September 1993.

PPC's cement sales reflected the difficult building and construction sector and fell 5% to 2.8 million tons. Cement plants operated at 56% of capacity and lime sales were virtually unchanged at 973,000 tons.

Turnover rose 9.2% to R894.6m (R809.9m) and operating income was 7.9% higher at R150.9m (R145.5m), helped by two cement price increases totalling 9.2% and one lime price increase of 6.5%.

Earnings a share increased to 299.6c (265.5c). A final dividend of 18c was declared lifting the dividend for the year by a tenth to 215c (185c).

Interest paid of R6.1m was offset by R20.5m investment income and pre-tax profit was 9% up at R213.3m (R197.9m).

The tax rate was lower at 44.7% (48.1%) The R90.9m (R68.8m) tax bill included R10.4m secondary tax on companies.
PGSI earnings soar on offshore success

From EDWARD WEST

JOHANNESBURG — Plate Glass & Shatterprufe Industries' (PGSI) offshore development strategy paid off in the six months to end-September, with Belron International the main contributor to a 74% increase in earnings to 241c (133c) a share.

Belron International is PGSI's overseas automotive glass operation.

The interim dividend was lifted nearly a third to 85c (55c). Attributable income more than doubled to R73.4m (R34m).

PGSI chairman Ronnie Lubner said the results were largely due to improvement in offshore operations. Most of the 600-plus overseas automotive glass outlets had reached varying degrees of profitability.

Turnover climbed 17% to R1.58bn (R1.35bn) which, with a 2.2% increase in margins, resulted in a 47% increase in operating profit to R172.5m (R117.2m). Although the tax bill increased a third to R58.4m (R43.3m), the tax rate fell to 37% (43%) from the utilisation of losses incurred during the offshore development phase and the lower company rate in SA.

Borrowings of R303m (R188.3m) remained more or less constant over the six months. The 61% gearing would be reduced significantly by year-end as current levels of profitability improved cash flow.

Lubner said domestic operations Glass SA and PG Bison also performed well in spite of the absence of any real growth in the markets they served.

Exports were a major contributor to Glass SA's results, with group companies becoming important offshore customers. PG Bison's results were good — albeit off a low base — since they were achieved in a period of reorganisation, which included voluntary redundancy for 390 employees.

Construction of a R100m board manufacturing plant in Zimbabwe was well advanced and PG Industries was expected to become an important supplier to southern Africa, said Lubner.

PGSI would show some improvement in the second half if local and overseas markets did not deteriorate, but the earnings growth of the first half was not expected to be repeated in the second.

He said the results justified an insistence that international operations would have a major effect on profits once they had moved beyond development phase.

Achieving profitability in the US and Australia was pleasing, but although the German and French networks were improving, they were not yet contributing to the bottom line and would require further development costs, Lubner said.
PGSI buoyed by its offshore interests

EDWARD WEST

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Consolidated Mining trebles its figures


ANDY DUFFY

Higher revenues and operating improvements lifted earnings at gold and asbestos company Consolidated Mining Corporation more than three-fold for the six months to September.

The firm lifted earnings a share to 2,04c (0,8c) and restored its interim dividend at 1c. Turnover rose 13% to R88,7m, while pre-tax income jumped to R15,4m (R6,2m). It also gained from a tax credit of R8,5m.

CMC chairman Gerald Rubinstein attributed the performance to "the healthy state of our gold and asbestos operations" and an improved gold price. He said all group companies, except the Witz Nigel gold operation, were paying dividends. The Droomgebult section of the formerly moribund mine was restarted in July and would begin paying dividends soon.

The company offloaded its control of loss-making diamond operation Carg on Wednesday after a deal to merge it with Rex Mining (1953).

CMC's valuation of unlisted HVL, in which it held 35%, was R15m.
KUDU GRANITE

Clearing hurdles

Activity: Granite quarrying and marketing
Control: Duet 65.6%
Chairman: J W Houghton, MD P J du Toit
Capital structure: 38.9m R shares Market capitalisation R31.1m
Share market: Price 80c Yields 5.0% on dividend, 14.6% on earnings, p.e ratio, 6.8,
cover, 2.9 12-month high, 80c low. 50c
Trading volume last quarter, 80 000 shares
Year to June 99 '90 '91 '92 '93
Debt Short-term (Rm) .. 6.7 15.2 31.9 17.2
Long-term (Rm) .. 6.0 5.3 5.8 1.9
Turnover (Rm) . .. 35.7 39.1 60.6 101.2
Operating profit (Rm) . . 9.8 3.4 8.2 13.8
Taxed profit (Rm) . . 7.8 0.7 3.7 5.1
Earnings (c) . .. 50.1 3.2 15.3 11.7
Dividends (c) .. 16.0 - 4.0 4.0

For a group that has turned in a solid performance in an industry which is supposed to be turning around after two years of recession, some of the comments made by chairman John Houghton and MD Peer du Toit are surprisingly negative.

Consider this: "The world commodity markets remain depressed, those associated with the construction industry more so than others. The relative price stability that has prevailed in respect of southern African materials appears to be under threat as the producers compete for a smaller market." That goes somewhat with what Fred Keeley, chairman of market leader Kelgran, had to say just last month, when his interim figures were released. Keeley reckons the recession of the past few years is coming to an end.

"There are encouraging signs in most traditional markets of increased activity, both in the construction and monumental industries. Additionally, the lifting of international sanctions against SA will have a positive effect on future group results, allowing the exploitation of new and developing markets," is how Keeley sees the situation.

When questioned, Houghton says Keeley is right about the recovery but he points out that profit margins in the industry are still under pressure. Kelgran's turnover rose 34.3% in the six months to end-August but operating profit fell 17.3%. Houghton adds his review was written two months ago, when the picture looked rather worse than now, and he did not want to appear too optimistic as the industry has had a number of false dawns during the past two years.

The year to June was the first since Kudu's merger with Impala Granite that was part of the shake-out forced by the local granite industry by tough years which led to intensive price competition in Rustenburg grey material, the industry's bread and butter product.

The shake-out is now largely complete, with Kelgran firmly in the Gencor stable and Kudu now linked to Anglo American Corp, which has 35% in German firm Deutsche Steinindustrie, Kudu's ultimate controlling shareholder. The merged group's operating profit was enough, after allowing for non-recurring charges, for a maintained dividend after issued shares doubled to 38.90m.

Despite lower prices for Rustenburg grey granite and lower production volumes during the year to June, Kudu's profit margins were improved through cost cutting and productivity, granite stocks were reduced to R15.1m (1992 R16.4m) Quarry rationalisation and closure costs, with repayment, resulted in a non-recurring charge of R3.1m.

Houghton avoids making concrete predictions for this year which is annoying but perhaps understandable, given the domestic uncertainties. Instead he generalises that "the company is well-poised to continue growing and to take advantage of new opportunities presenting themselves around the world.

If one were to quibble with Kudu's position, it is on the cash flow side which was a negative R7.5m for the year. That's despite conversion of R12.5m of former debt into prefs on favourable terms. Against this the pegged dividend looks generous. Houghton feels it's justified given the non-recurring nature of much of the costs during the year.

The share stands at a 12-month high of 80c, having recovered from the 1992 low of 40c and the Impala/Kudu merger offer price of 65c. Assuming Houghton and Keeley are correct and the granite market is finally turning, it should move higher.

Brendan Ryan
Moving stock

Activities: Retail ceramic tiles, sanitaryware and bathroom furniture

Control: Ravazzotti family trust

Chairman: G Ravazzotti, CE J Cousza

Capital structure: 18m ords Market capitalisation R53m

Share market: Price 180c Yield 3.3% on dividend, 18.6% on earnings, p/e ratio 5.4, cover 5.6 12-month high, 180c, low, 140c

Trading volume last quarter, 6 500 shares

Comparing 1993 results with those of the previous year is like weighing apples against oranges, shareholders have been presented with figures for the 16-months to end-June 1993 and the 12-months to end-February 1992. In the 1992 year, the tile-making operations were sold to Ceramic Industries

Realignments of the focus on to the core business of retailing through the chain of Italtile centres, CTM outlets and franchise operations resulted in the loss of the merchant network—a traditional market to Ceramic Industries. Nonetheless, by improving the product range and expanding customer service, retail sales increased. Earnings per share for the 16-month period were 44.4c, of which 19.4c came in the last six months.

The decline in local interest rates and the devaluation of the rand presented the opportunity for acquiring imported material at competitive prices last year. Management decided to convert cash resources into stocks, by year-end Italtile was holding R44m in stock and short-term debt totalled R23m.

CE John Cousza expected the high stocks would be realised in the normal course of business within six months. Financial director Peter Swatton confirms this: “Most of the stock bought at 1988/1989 prices has been sold since year-end,” he says: “This will be reflected in the December interim turnover figure.” Hopefully, borrowings, too, have reduced substantially.

Meanwhile, cash (R3.3m) and short-term investments (R25.5m) were a healthy R28.8m at year-end. There are no long-term borrowings (Debt of R18m was eliminated with the sale of the manufacturing operations in August 1991.)

Swatton says this year is promising. “Italtile should show real growth in turnover and attributable profit.”

The thinly traded stock has stagnated at 180c for three months. Rallen (the Ravazzotti family trust) holds 57.6% and, if real growth materialises, there is little chance of chairman Guarni Ravazzotti parting with any of his equity.

Kate Bouh in
PLATE Glass Holdings' (PGH) bid to buy into its only competitor in the windscreens market has been thwarted in the Transvaal Supreme Court, writes DON ROBERTSON.

Glass SA, a member of PGH, had asked the court to sanction the registration of 592 shares in Glastam, the holding company of car windscreens distributor, Glasfit. Glass SA acquired the shares from a private company, Ackerman and Zylstra (Pty), previously Alpha Glass.

The 592 shares represent about 7% of Glastam's share capital. Until three years ago, when Glastam established a manufacturing plant in Boksburg, the Plate Glass group was the country's only manufacturer of windscreens.

Glastam shareholders were subject to an agreement with the Industrial Development Corporation not to dispose of any shares without its consent.

Alpha Glass had originally advised Glastam shareholders of its intention to sell shares for R146 million to Glass SA. Their notification to Glastam was not replied to and Alpha Glass was sold to Glass SA for R25 million. Alpha Glass shareholders, Hennie Ackerman and Willie Zylstra, then informed the IDC that they intended to sell the shares to PGH.

The Competition Board is investigating the PG Group's acquisitions. A final report is expected in weeks.
Lifting of levy cheered

BY THABO LEHISHLO

The scrapping of anti-dumping duties on flat glass imported from China and Hong Kong has been cheered by the industry.

Up to 78c per square metre will still be levied on imports of 3 mm glass from Thailand and Singapore, however.

Duties of up to 26 percent were slapped on shipments from the Far East in February after allegations of dumping made by South Africa's only manufacturer of flat glass - PFG Building Glass.

The move was strongly opposed by Triangle Glass and other independent distributors who said it effectively eliminated trade for importers in the R1 billion-a-year industry.

Although the tariffs fell away provisionally in June, the industry continued to await a final decision.

The delay caused anger in the industry, leading to accusations that the Government was dragging its feet on the matter.

Triangle managing director Cyril Gebhardt said yesterday he was happy the tariff had been scrapped.

But he pointed out that local distributors had had to pay 26 percent provisional tax on imports for three months while the board considered the matter.

"The situation, however, is still unhealthy, with a single manufacturer monopolising the glass market, contrary to efforts now being made by Gatt to have restrictive trade protection eliminated."
PG invests in Z$200m fibreboard factory

MUTARE — PG Industries yesterday announced the construction of a major Z$200m fibreboard factory in Mutare. The project, to be known as Zimboard III, would specialise in the manufacture of fibreboard, a new product widely used in manufacturing furniture and doors.

PG's Mike Jennings said this constituted the single largest investment by the company in Zimbabwe. (193)

He said although there was one such factory in SA, the Mutare factory, expected to be completed by November next year, would be technologically advanced and would have a larger output than SA's.

Construction of the factory was expected to be completed by November next year.

Plans to construct the factory had been in place since 1987 when the project had been estimated to cost Z$38m.

"This project will create employment for not less than 120 people and will also indirectly create more jobs for the forestry and transport industries," Jennings said.

He said 80% of production would be for export and 20% for local use — Sapa.
Dismal forecast for cement industry – PPC

By MAGGIE ROWLEY
Deputy Business Editor

THE demand for cement has been running at a 13-year low for more than 12 months with little improvement in demand forecast before the April elections, says John Gomersall, MD of Pretoria Portland Cement.

Cement demand at 7.7 million tons was no better than volumes in the industry in 1980 with per capita consumption having fallen from 300 kg in 1974 to 192 kg in 1982.

Gomersall said in an interview that PPC was currently running at 56% capacity and was well able to cope with any increase in demand.

Last year the cement division accounted for 61% of turnover and 63% of operating profit of the group.

This year price increases had been kept below inflation, rising by 6% in January and a further 3.4% in July to give a total increase of 9.4% this year, which at time of implementation was well below inflation.

He said the cement cartel had agreed that from January 1, the average national price of cement would increase from 4.6% and had pledged that the regular July increase would not exceed 3% resulting in the national average cement price rising by about 7.7% next year.

Gomersall said while little improvement was seen in the short-term the high road scenario for the cement industry from 1995 was an annual growth of 8%.

Demand for cement was directly linked to Gross Domestic Fixed Investment and as such was expected to increase as the economy improved and a new Government of National Unity initiated a thrust towards reconstruction.

In his annual review released this week, Gomersall said a future government was likely to focus on house building in order to address the housing backlog. Further spending on education, health and tourism infrastructures would further increase demand for cement during the next decade.

The World Bank norm was that GDFI should comprise 25% to 30% of GNP. In South Africa it was currently around 16% and building and construction had fallen about 50% in real terms since 1980.

Calling for a national house building programme to make inroads into the immense backlog, he said house construction was labour intensive, generates jobs both directly and indirectly and had a substantial multiplier effect.

Most other building materials industries had under-used capacity, he said.

In addition, spending on housing would place no pressure on the current account of the balance of payments.

"This together with increased housing construction to address the enormous backlog, should bring a significant increase in cement demand after a 13 year period of no real growth," he said.

Defending the cartel system operating in the cement industry, he argued this resulted in distinct benefits to the consumer.
Good housekeeping pays

Activities: Produces cement, lime and related products
Control: Barlows 59.6%
Chairmen: W A M Clewlow, MD J E Gomersall
Capital structure: 40,8m ords Market capitalisation R2 203m
Share market: Price 5 400c; Yield 4.0% on dividend; 5.6% on earnings; p/e ratio 18.0;
cover, 1.4 12-month high 5 400c; low 3 650c 12-month low.
Trading volume last quarter, 584 591 shares

Year to Sept 30 '90 '91 '92 '93
ST debt (Rm) 2.5 1.7 13.4
LT debt (Rm) 30.0 36.0 30.0 66.5
Debt equity ratio (0.02) 0.04 (0.03) (0.13)
Shareholders' interest 0.89 0.92 0.60 0.60
Return on cap (%) 19.9 20.7 20.1 19.0
Turnover (Rm) 740 819 890 880
Pre-int profit (Rm) 178.8 186.1 197.7 208.9
Pre-int margin (%) 23.3 22.6 22.6 22.5
Earnings (c) 266 285 265 300
Dividends (c) 150 172 195 215
Tangible NAV (c) 1 321 1 435 1 450 1 622

Annual reports such as that from PPC offer a refreshing break from the more common corporate horror stories about the recession. The message here is simple: times may be tough, but if the business is correctly managed, acceptable results can be produced.

The key to success here seems to be meticulous attention to detail, encompassing every facet of the company. It is illuminating to take a look at some of the less obvious highlights of the past financial year and the effects these had on earnings.

A good starting point is the value added statement which reveals that, presumably through cost-cutting and improved efficiencies, costs of materials and services were reduced by 2% or R7.7m. This accounted for more than half of the 1993 improvement in operating profit (before interest and investment income), which rose from R184.5m to R198.9m.

The importance of these cost reductions becomes apparent only if one considers the effects if they had risen in line with the 9% gain in turnover — which would also have been acceptable relative to inflation. The cost of raw materials and services, instead of declining R7.7m, would then have risen by about R40m and operating profit would have dropped 18% instead of improving by 8%.

An example of how PPC is managed is provided by its net working capital require-
CERAMIC INDUSTRIES

Change of pattern

Activities: Makes ceramic tiles and sanitaryware
Control: Ravazzotti family trust
Chairman: G Ravazzotti
Capital structure: 18m ords Market capitalisation: R41,4m
Share market: Price 230c Yields 3,6% on dividend, 17,8% on earnings, p/e ratio, 5,6, cover, 4,9 12-month high, 240c, low, 190c Trading volume last quarter, 67 000 shares

A year-on-year comparison of Ceramic Industries' results is impossible in 1993 the business, capital structure and shareholders of Ceramic Industries changed entirely, current figures cover 17 months

Nonetheless, certain numbers are informative. Taking into account cash (R1,5m) and short-term investments (R22m), the balance sheet is ungeared. The income statement for the period to July 31 shows EPS of 59,1c - 40%, or 23,9c, being achieved in the last six months

Restructuring took place during the 1993 year. Tile maker Samcattles, one of the three divisions, introduced a new shift system, wall tile production increased 24%, though the workforce was cut 40%. Inefficient plant and machinery was also replaced. Financial manager Ian Juszkiewicz says the floor tile plant closed one of its three kilns, but production remained unchanged

Betix Sanitaryware kept its momentum throughout the year and it has attracted export orders. Split tile maker National Ceramic Industries (NCI) faced fierce competition from other flooring material manufacturers and had to continue with its cost reduction programme focusing on savings in raw materials

Juszkiewicz says he "definitely wants (group profit) to beat inflation" this year. Rationalisation will continue. However, he doesn't expect any major changes in workforce numbers

Listed at 400c in February 1992, the thinly traded counter fell below 200c in April this year before recovering to 240c in August. The 5,6 p/e is well below the building sector's 9,1 average.

Ceramic Industries lacks a sound track record. Analysis of the performance will only be possible when comparable figures are available. The Chinese are expected to become a force in the world tile market and will be price competitive. Ceramics will have to compete with leading international manufacturers.

Ken Robertson
MANUFACTURING - NON METALLIC MINERAL PRODUCTS - 1994
CEMENT INDUSTRY

The cracks are showing

The long-awaited recovery in the cement industry finally began late last year, fizzled in the second quarter of this year and probably won't get back on track until next year at the earliest.

"The industry will stay where it is until the civil engineering and building industries pick up," says Vincent Bray, executive director of the SA Cement Producers' Association. This, of course, depends on the country's politics getting sorted out and the economy recovering.

After sales turned slightly upward in December, this year started well, with sales up in each of the first three months over the same months last year. In the first quarter sales totalled 1,78 Mt, up 7,4% on last year's first quarter, but the recovery started to crack in April. Sales have been down in each of the last four months, compared with last year. For the year to July sales totalled 4,2 Mt, down 2,4% on the first seven months of 1991.

"It would help if low-cost housing would get off the ground but most contractors and informal builders have moved out of, or have stopped working in, the townships," Bray says.

On the plus side, the Lesotho Highlands Water Project will be demanding greater quantities of cement — the main ingredient in concrete — as the work increases. Bray scotches two contradictory beliefs about the project that only imported cement will be used, and that it will save the local cement industry. Only SA cement will be used, but the project will absorb less than 1% of available capacity.

Nevertheless, the scheme is the biggest civil engineering project under way and is expected to use 650 000 t of cement and fly ash over the next four years. This is a big enough demand for the industry to have commissioned recently a R9m bulk-handling facility at Ficksburg, in the Free State, to serve Phase 1A of the project.

"But the rest of the news from the SA Federation of Civil Engineering Contractors is doom and gloom," Bray says.

Federation economist Henk Langenhoven says "There is no doubt that we're still declining. Contractors expect a 2,5%-3,5% fall this year and expect growth only in 1993. They are so lean now, however, that they will be able to hang on to workers until their fortunes do pick up. The industry employed 94 000 in the third quarter of 1989 (the last quarter before the recession began) and has only 59 000 now. The biggest lay-off was in the third quarter of last year when the labour force declined by 11%. Thus slowed to 3% in the fourth quarter and 1% in each of the first two quarters of this year."

He attributes the slowdown in lay-offs to a short-lived upturn in business. "We actually had a good second half of 1991 in terms of tenders invited and contracts awarded, but both of these were down in the first half of this year. The industry lost all its gains in the first quarter of this year. We anticipated that the second half of this year would be down, which is what is happening. Because of inflation, we expect this year's turnover to equal last year's."

The cement industry also cannot expect much help from the building industry. Building Industry Federation of SA executive director Ian Robinson says his industry uses about 5,5 Mt of cement a year "but usage has dropped by 10% since 1989 and employment by 17%." The only good news is that Langenhoven and some others at the civil engineering federation "believe we're witnessing a bottoming out of the recession."
Corobrik is grabbing markets

Business Staff

WALLS built of Corobrik products could soon be springing up across Africa, the Middle East and Asia

The first major international breakthrough came this year with a six-month contract to supply clay bricks in the M290 format — at a rate equaling 1.7 million imperial bricks a month — to Singapore’s Housing and Development Board.

Corobrik has just won an eight-month extension to this contract which will keep bricks flowing to the Far East until at least July 1993.

Mr Graham Bounds, Corobrik’s newly appointed exports director, said the contracts were won against tough competition from several other international manufacturers.

“We were well matched on price and quality but had the upper hand with the flexibility to meet strict contract requirements of specified size and high-volume delivery service.”

With the local building industry at a low ebb, they were keen to develop export markets.

The company is now looking closely at the Middle East and Africa to take up current surplus capacity.

During past economic downturns the only course has been to mothball certain plants. Now with the combination of an export-boosting exchange rate and South Africa’s return to favour Corobrik have some exciting new alternatives.
Glass SA to lay off 400
as restructuring starts

ABOUT 400 Glass SA employees would be laid off as operations were restructured to improve the group’s price competitiveness, CE Rod Fehsen said yesterday.
The restructuring followed the acquisition by Plate Glass and Shatterprufe Industries (PGSI) of a controlling interest in the R800m a year Glass SA after the withdrawal of Pilkington pic from SA in March.

Fehsen said the domestic glass industry was becoming increasingly competitive, particularly after the lowering of tariff barriers for cheap foreign glass had put pressure on domestic prices.
The new structure would strengthen focus on specific markets, increase efficiencies and improve export competitiveness, he said.

Four new divisions would be established - PG Building Glass, PG Glass, Automotive Safety Glass and PG Autoglass. They were formed by regrouping business units previously operating within the PG or Pilkington structures.

Restructuring included the consolidation of all building glass and processing operations on a single site in Springs and remodelling of the distribution division into specialist business units.

The building glass distribution division, PG Glass, planned to close unprofitable branches, open additional bulk distribution centres and rationalise management overheads, he said.
BLUE Circle has reported a 28.5% decline in profits on a marginally lower turnover of R376m for the half year to end-June.

Deputy MD Angus Morrison said the results reflected the recessionary conditions in the building and construction industry.

Volumes had declined in the group’s materials division and, to a lesser extent, in the cement division.

The company, a subsidiary of Murray & Roberts (M & R), saw its turnover slip to R376m from R382m.

A squeeze on margins resulted in a 27% drop in operating profits to R40m (R54.7m).

Finance charges soared to R17.7m from R0.7m — because of higher capital expenditure and seasonally higher working capital requirements, Morrison said.

The tax rate fell to 22% from 28%.

For shareholders who chose to participate in the group’s capitalisation issue (44.4 shares for every 100 held) — after M & R bought former UK parent Blue Circle Industries’ 42% holding earlier this year — earnings per share declined by 16% to 115.8c.

A dividend of 27.5c (55c) a share was declared.

For shareholders who elected to receive capitalisation shares, this was the equivalent of 39.7c a share.

The company said shareholders who had received capitalisation shares should compare earnings and dividends a share on the increased number of shares which they were now holding.

Those who received a special dividend of R11 a share in cash had diluted their shareholding, but would have benefited from investing the dividend in addition to the normal dividend payment of 27.5c.
MidWits earnings rise by 16%

JONWATERS

Rand Coal, Lavino, Lucas Block Minerals and Princena Copper Mines Preference dividends for the year amounted to R6,95m (R7,23m)

When the interim results were announced earlier this year, the board expected earnings similar to last year. The board warned earnings were subject to uncertainties such as world metal markets, interest rates and De Beers' Venetia diamond mine development.

MidWits has a 65,6% stake in Saturn Mining, Prospecting and Development, which is entitled to 12,5% of Venetia's profits until the mine's full capital cost has been recovered. After this, Saturn will be entitled to 50% of the profits.

World stone industry weathers fitful year

MATTHEW CURTIN

Demand in the Far East was particularly strong. Consumption in Japan and Taiwan was high enough to absorb local supplies, with India and China able to meet demand elsewhere in southeast Asia. Latin America was increasingly well-placed to serve North American markets when they picked up.

The report said the impact of economic slow-down in 1991 on the use of granite and marble was offset, to a higher degree than other competitive materials, by a number of factors, most importantly their adaptability to a range of uses: structural works, the funeral trade and urban landscaping.

Substitute

It said architects and builders continued to prefer stone over other materials – granite is particularly long-wearing and resistant to city pollution. And construction projects already under way before the start of the year continued to use stone until completion.

However, substitute materials, especially ceramics which could be made to look like stone products and were far cheaper, gained in popularity.

Most shares in SA granite companies are hovering new lows on the JSE.

Market leader Kelgran, the operating company of holding company Keeley, has shed 20c or 14% in the past month, closing at 125c yesterday. Martin Corporation closed unchanged at its low of 23c yesterday, with Kudu 20c off its low at 46c. Minaco Granite closed unchanged at 40c.

Gold loan rates cut 0,5%
Construction slowdown impacts on Blue Circle

Severely depressed activity in the building and construction industry has led to a 23.5 percent decline in Blue Circle’s earnings to R27.8 million for the six months ended June.

Turnover at R376 million was R6 million down from the corresponding period in the previous year.

High capital expenditure and the seasonally higher working capital required during the first half of the year resulted in substantially higher financing charges of R7.6 million compared with R4.2 million previously.

This was however partially offset by a lower tax rate due to allowances on capital.

Tax paid amounted to R7.2 million compared with the previous amount of R15.3 million.

A dividend of 27.5 cents a share has been declared out of earnings of R2.3 cents a share. — Sapa

London offers four bursaries for blacks

The City of London is to offer four bursaries to black employees of South African financial institutions, the Lord Mayor of London Sir Brian Jenkins said in Johannesburg yesterday.

Sir Brian said the bursaries would enable the four candidates to study further in financial and legal services at the London Polytechnic summer school.

Recognition

He said the bursaries were in recognition of the long-standing business connections between his city and South Africa and to mark the first visit to the country by a Lord Mayor of London since the Second World War.

Expanding on his purpose in visiting South Africa, Sir Brian said it was to sustain and support London’s role in a business centre.

Transactions

London was the world’s financial capital, outpacing both New York and Tokyo in terms of international business transactions, he said.

He pointed out that about twenty percent of the world’s banks and insurance companies had their headquarters in the British capital city.

Sapa.
Companies

Mercury 28/8/92

Caught out

Though Gypsum Industries' new R70m Brakpan factory will prove an astute investment when building activity picks up, the group, along with many others, has been caught out by the length of the recession.

The plant came on stream last year, in line with Gypsum's plan to bring on the operation shortly before the expected upturn. Though the expansion programme reduced 1992 EPS, the investment means Gypsum is now the country's largest producer, according to MD Grant Snowden, placing the group, which makes ceilings and walls typically used in commercial buildings and housing, in a good position when demand improves.

Though gearing jumped to 52% at the 1991 year-end (1990 12%) because of the Brakpan project, 1992's cash flow meant this dropped back to 37% at year-end.

The current oversupply of office space probably limits near-term growth in this area, but Gypsum will benefit directly through State spending on schools, affordable housing (where ceilings are included) and health centres.

The group is controlled by BPB Industries Plc, Europe's leading gypsum group. Chairman Derek Fairbain says effects of 1992's low activity levels were worsened by increased competition from substitute materials. Fibre cement is one such material.

Regrettably, management has decided not to disclose turnover as from the 1992 year Snowden believes the damage done by disclosing turnover is probably greater than the benefits gained by shareholders through providing the information.

Continued...

Gypsum's Snowden now the lowest cost producer

As the commercial market is likely to decline further and the housing and export markets show only mild growth in the coming year, Fairbain says no upturn in profitability is expected, while "maintaining existing profit levels will be a major achievement." Gypsum's p/e of 5.5 is probably fair in the circumstances.
Granite producer shows soft side

By Stephen Cranston

Kelgran chairman Fred Keeley attributes the granite producer's 42 percent decline in earnings per share to a reduction in large building contracts in North America, parts of Europe and the Far East.

Mr Keeley says the strong competition among granite manufacturers for less available work has reduced profit margins.

Kelgran's operating margin fell from 25.5 percent in the year to February 1991 to 10.9 percent last year.

The return on equity dived from 61.4 percent to 24.4 percent.

Granite shares have fallen sharply in recent weeks. Since June 1, Kelgran has fallen from 240c to 145c, Marlin from 40c to 25c and Kudu from 68c to 60c.

Mr Keeley says that over the past year granite production was maintained at levels above demand.

This had increased stockholding by 58 percent, which would enable the company to supply granite at competitive prices.

Mr Keeley says that the company is expanding its search for new materials in response to industry requirements and he expects a breakthrough in the present financial year.

Kelgran is concluding an agreement with Rand Mines to acquire granite rights over more than 600 farms.

The rights will provide additional long-term reserves and create the potential for quarrying many new materials.
MANUFACTURING — NON METALLIC MINERAL PRODUCTS

1994
**Companies**

Marlin remains SA’s main producer of high-quality Belfast Black granite, but that market was affected by cheaper substitutes from Zimbabwe. Gain will not disclose production figures, but output of Belfast Black must be down substantially on the 1 500 m³ a month Marlin was producing when demand was strong. He denies that the market for Belfast Black is weak, saying Marlin is producing more than half the total output from SA.

Gain also says there are signs that trading conditions are firming and expects improved demand for exports. Locally, subsidiary Marble Pentelic is reported to be receiving a high level of orders.

But amid talk of seeking an international buyer and holding a rights issue to further reduce debt (neither of which are confirmed), Marlin seems to be pinning its hopes on establishing a new quarry in the US with a joint venture partner.

The new quarry, to produce Camelina White and Pink granite for export from the US, is in North Carolina. Negotiations are apparently at an advanced stage to sell half the project to an “overseas group” for cash.

Marlin also has other interests in the US, mainly in Atlanta, Georgia, and presumably elsewhere in the world. It does not provide details of these other investments outside SA, but does consolidate them, unseen, in results. The only financial information on foreign subsidiaries is that they have a net asset value of about R22.2m (1992 R36m) and their contribution to non-distributable profit improved from R9.6m to R11.3m.

Gain expects a return to profitability this year, particularly in the second half, due to increased demand, mainly from overseas.

The US joint venture, he says, will be an additional boost.

These developments are enough to arouse the interest of a speculative investor, but against this is a share price which is not supported by the state of Marlin’s balance sheet and the lack of information on prospects. Until debt is firmly under control and there is a return to profits, there seems little incentive to invest.

**Marlin**

Still heavily borrowed

In April, shares of granite producer Marlin staged a strong recovery, hitting a high of 90c before easing to current levels. The re-rating was remarkable considering that the share was trading at only 5c a year ago.

The run reflects Marlin starting to turn its losses, though it remains debt-burdened and possibly in need of recapitalisation. There has also been a recovery in granite markets.

The problem is trying to gauge if the price recovery has run its course. Prospects are vague — gleaned information from the 1993 annual report is like trying to get blood out of a stone of the Belfast Black this group specialises in.

Marlin’s loss of R4.6m, or 18c a share, is markedly better than the 1992 result, when Marlin appeared to be in serious difficulty.

But the central problem remains high debt. Marlin has taken some strong measures to cut debt, including selling its 50% interest in Barracuda Granite Tile. Chairman Peter Gain does not disclose the sale price, but says future results and cash flow will improve as a result of the disposal.

Marlin Corp

<table>
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<th>Year to December</th>
<th>90</th>
<th>91</th>
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<td>(10)</td>
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<td>Dividends (c)</td>
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<td>Tangible NAV (c)</td>
<td>213</td>
<td>234</td>
<td>191</td>
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*18 months to December 31, 1992*

He adds that borrowings have been reduced by R13m. That helped nearly halve interest payments to R6.6m, but the accumulated loss of R27m is eroding shareholders’ funds and total assets. Net borrowings still stand at nearly R48m, some 60% of equity.

A clear indication that debt is still dangerously high comes from the auditors, who qualified the annual report for the second year running, saying Marlin’s ability to re-
Rubbish keeps wolf from door

By GARY COLLINS

IN THE poverty-stricken Cape Flats townships, earning enough money to keep body and soul together is a day-to-day struggle.

A group of township residents have managed to eke out a living salvaging builders' rubble and scrap from a Philippi dump site.

The men and women work side by side seven days a week, sifting through rubble to find unbroken bricks which they clean and sell to builders for a pitance.

In a good week they can earn up to R250. However, the 14-hour days and backbreaking toil are no guarantee they will earn anything, as more people are forced to the fringes of township life in the struggle to survive.

One of them, Nonamahlali Soyikana, said: “The trucks do not come on Sundays but I still dig for bricks in case there are some I missed in the week.”

“Times are hard but I must dig for bricks so my family can eat,” says Nonamahlali Soyikana, who is a member of the group. She just about manages to feed herself and seven children. But they are often at the mercy of unscrupulous merchants.

Andrew April, 60, from Manenberg, whose last job was as a truck driver, said: “We try to charge 20 cents a brick but if the ‘skelm’ merchants don’t want to pay us we must take what they offer.”
Italtile pushes its earnings up 20%

CERAMIC tiles and sanitaryware retailer Italtile raised attributable earnings 20% to R7,3m on a pro forma basis for the year to June as it bedded down its recent restructuring.

This translated into earnings of 40,1c (33,3c) a share and directors declared a final dividend of 5c, bringing the total dividend to 8c (6c).

Turnover grew 10% to R60,4m, and the retailer's operating profit was 47% higher at R10m [218 344] [193]

Pre-tax profit increased to R9,2m from R7m, but a significantly higher tax charge of R2m (R1m) saw post-tax profit rise 21% to R7,3m.

Interest-bearing debt was slashed to R5,2m from R23,2m, largely as a result of Italtile's move into the cash sale business. CEO John Couzis said cash sales rose 38%.
**GYSUM INDUSTRIES**

**Positive strategies**

- **Manufacturing** building products for the construction industry, which is only now emerging from the doldrums, should be a depressed business, producing poor or static results. This has not been the case for Gypsum.

- Last year, the gypsum and plasterboard maker put in its best performance since listing more than 40 years ago, operating margins widened from 12% to 18.1% and gearing was eliminated. (Notably, these increases were not off a low base.)

- Management is planning significant capital expenditure (R31m) from existing funds.

---

**Activities:** Mining and selling of gypsum and manufacture of fibreboard and composites for domestic and commercial ceilings and walls.

**Control:** BPB Industries Plc 50% (UK)

**Chairman:** P. L. Heming; MD: S. G. Snowden

**Capital structure:** R250m on the market capitalisation R250m

**Share market:** Price 2.500c, Yields 3.5% on dividend, 11.4% on earnings, P/E ratio, 0.7; cover, 3.3. 12-month high 2.500c, low, 0.50c. Trading volume last quarter, 32,000 shares.

**Year to March 31:**

<table>
<thead>
<tr>
<th>Year</th>
<th>91</th>
<th>92</th>
<th>93</th>
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<tr>
<td>ST debt (Rm)</td>
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<td>4.5</td>
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<td>Return on cap (%)</td>
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<td>13.6</td>
<td>14.0</td>
<td>23.3</td>
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<tr>
<td>Turnover (Rm)</td>
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<td>n/a</td>
<td>189</td>
<td>218</td>
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<td>Pre-int profit (Rm)</td>
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<td>Pre-int margin (%)</td>
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<td>Earnings (c)</td>
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<tr>
<td>Dividends (c)</td>
<td>60</td>
<td>45</td>
<td>60</td>
<td>67</td>
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</table>

- 9 months to March 31 1993. 12 months to June 30 1994.

The year-end March balance sheet showed net cash of R20m and, accordingly, interest income received accelerated from R53.00 to R2.4m. With a lower effective tax rate, 40% against 1993's 48% — this translated into a more than doubling of EPS to 285c, off only 9% rise in sales.

This result was partly because of strategies, including converting long-term debt to short-term to force early repayment. The cost base has been driven down — mainly through technological development.

... plus those expected to be generated this year — R10m since year-end. Debt should be unaffected. The aim is to become partners in the construction of new homes, schools and clinics.

Snowden says many in the market see the RDP as a means to a quick profit, whereas "our position is one of helping to create sustainable long-term demand for new ceilings and walls through increased skills training in the building industry."

However, the commercial market is likely to remain low and the profits of Donn Products Division, which has a range of ceilings, walls, access floors and shopfronts, will be under pressure. "It will be very difficult to maintain profits at 1994 levels," adds Snowden, "particularly in view of the disruption resulting from the additional public holidays in April and May. But providing fixed investment maintains its positive run, the outlook is good."

Shareholders will have to console themselves with the rising share price. From only R8.50 in November, it has soared to R25. On a p/e of 8.7, it is not overvalued. Further upward movement is likely.
Bid to corner African market

Business Editor

ACOUSTICAL Fibreglass Insulation (AFI) — believed to be the only fibreglass manufacturer in Africa — is in the process of setting up a network of agents in East Africa.

Marketing director Mike Myers, who recently conducted a series of seminars in Kenya, says he is confident that SA can capture the entire fibreglass market in Africa from European and Far Eastern manufacturers.

Myers said the majority of East African manufacturers, who use fibreglass to make household products such as sanitaryware as well as the bodywork of motor vehicles, still use only hand-lay-up manufacturing methods.

Following the AFI seminars some of the largest Kenyan manufacturers have visited SA to find out more about the savings in money and materials made possible by modern technology.

Myers said AFI had a significant advantage over overseas competitors “because we are a lot closer to sub-Saharan Africa than the other producers. As a result we are well placed to guarantee faster deliveries and close enough to deliver active technological support.”

When the East African network has been established AFI will undertake similar marketing campaigns in Central and West Africa. It also has plans to market insulation materials for heavy industry throughout Africa.

It currently provides these materials to companies such as Sasol, Genref, Caltex and Eskom.
Prospects improving

Despite healthy increases in sales (24.7% compound), for the past four years, Sondor has posted no real earnings growth. No clear explanation for this disappointing performance is provided in the annual report.

In 1987, when Sondor was listed on the JSE, it was heavily invested in film schemes to avoid income tax. By the time the Commissioner for Inland Revenue closed the loophole, the scheme had delivered ostensible tax savings of R7.8m, all of which was claimed back. After much lobbying, the Commissioner offered Sondor a compromise settlement, and it stumped up R4.5m in May last year. The payment was stated in Sondor's accounts as an extraordinary item. It therefore did not influence attributable earnings, but it reduced NAV by 19%.

Though the economy affected Sondor's performance, the figures suggest that man-

agement has let profitability deteriorate. The margin suggests that overheads have risen unacceptably. In terms of working capital management, an anticipated improvement in the economy appears to have been more evident to Sondor than to most.

This would explain the 46% jump in stock at year-end (financed mostly by creditors). But newly appointed CE Barry Tulney says the purchase of the loss-making Fyne Tapes three years ago was a major reason for static profits. It is being turned around, he says, but it's taking time.

Tulney says this and other problems are being addressed. Further innovation is to be introduced, he says, and adds that the company is having a good year. Turnover in July and August was considerably higher than a year ago.

From a low of 40c in July 1993, the share price climbed to 150c in June before falling back. Sondor is controlled 53% by its directors, and Anglo American, through subsidiary Zimco, owns 38%. That leaves only 9% held by the public, the stock seldom trades. But Sondor operates in secondary industry and supplies important specialised materials to the motor and other industries that have been hurt hard by recession. In a better economy it is capable of producing quality earnings.

The share offers value because of improving prospects, new management could improve efficiencies. For small investors not worried about liquidity the share could be a buy.

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*Sondor Industries*
Still tilted upwards

Activities: Packaging (glass, paper, plastic and glass tableware) and rubber products (automotive tyres and industrial rubber products)

Control: AVI (90.2%)

Chairman: C S Menell, MD PJ Neethling

Capital structure: 64,4m ord Market capitalisation R3.35bn

Share market: Price 520c Yields 1.4% on dividend, 4.9% on earnings, p/e ratio, 20.2, cover, 3.5 12-month high, 5.700c, low, 3.450c Trading volume last quarter, 66.9 million shares

Year to June '91 '92 '93 '94
ST debt (Rm) 22.9 28.7 43.9 107.4
LT debt (Rm) 131.4 51.4 108.3 168.4
Debt equity ratio 0.51 (0.22) (0.08) 0.34
Shareholder’s interest 4.0 0.65 0.51 0.46
Leasing and leasing cover 10.3 621.9 333.3 10.1
Return on cap (%) 31.4 21.2 22.4 20.9
Return on cap (%) 2.772 2.098 2.106 2.445
Pre-tax profit (Rm) 319.4 293.9 280.6 326.5
Pre-tax profit margin (%) 16.4 13.0 13.0 11.7
Earnings (c) 65 62 70 14
Dividends (c) 493 546 524 536

Consol is one of a select group of companies able to have kept up earnings growth throughout the recession. Chairman Clive Menell and MD PJ Neethling believe the trend will continue. But for this to happen, especially in the short term, there may have to be greater reliance on acceptable trading in recent years and an accompanying abatement of labour unrest.

Factors contributing to Consol’s 1994 results were covered at the prehlim (Fox September 9). Looking at the broader picture, though, the extent to which earnings over the past few years have benefited from lower tax must be recognised. Although the effective tax rate has declined ten percentage points from 46% to 36% Without this, 1994 EPS would have been 215c instead of the 257c achieved. The net growth over three years would have been 21c (11%) from 1991’s 194c instead of 63c (32%) Tax alone has accounted for two-thirds of the growth for the period.

Clearly, it would be unwise to count on lower tax as a source of future earnings growth. Fortunately, however, a number of factors should enable Consol to maintain its upward trend, given a reasonably stable trading background. These, in no particular order, include

The R205m acquisition of Interpak may have been strategically important but was also costly in terms of earnings in 1994. At the time of the deal, it was envisaged (based on historical results) that Interpak would dilute EPS by 2.6%. Menell notes the outcome was in line with expectations with Interpak contributing for a full year for the first time, though, and with rationalisation benefits, this problem should be reversed from the current year.

Like most other companies, Consol has been involved in various rationalisation programmes designed to reduce overheads and improve profits. In the 1994 financial year, however, fundamental changes occurred in the loss-making rigid plastics sector of the packaging division where, midway through the year, an asset swap was arranged with Nampak in exchange for that group’s blown plastic container division. This led to other changes in Consol’s factory and warehouse. The combined effect is expected to restore the operations to profitability. Last year’s loss was large, without this, group EPS could have risen 15%-20% So an improvement here could significantly affect overall group results.

Possibly resulting from the Interpak acquisition and the changes to the rigid packaging division, working capital control suffered a setback last year, with the ratio of working capital to turnover bulging to 20% from the 17%-17.5% of the previous two years. Though the figures are distorted by acquisitions, the resultant additional funding requirement was probably between R600m-R700m, accounting for 20%-25% of the R265m movement from a net cash position of R48.9m in 1993 to 1994’s net borrowings of R220m. If this can be reversed, the release of cash tied up in working capital would help finance the heavy capex programme (R215m to be spent this year against R165m in 1994), limiting further increase in debt to fund the programme.

The share price has had a good run over the past year but has been under pressure recently, probably reflecting fears of the effect of the motor industry strike on original equipment sales. If so, the reaction has been extreme as sales are more likely to have been delayed than lost and could well be made up in the months ahead. But it does underline an important point...
ongoing violence and severe competition. They say further steps are being taken to streamline operations, and believe the group is well placed to benefit from any improvements in the economy. Emphasis is being placed on improved margins, reduced expenditure and "overall consolidation of activities." Chairman Sam Abelen hopes these steps will "improve profitability"—which sounds slightly less optimistic than the view expressed in the preliminary report, that management looks forward to a "successful turnaround" this year.

The company was listed in 1987 and earnings peaked as far back as 1989. The steady downward profit trend of recent years was briefly checked only by an abnormally low tax charge in 1993. Liquidity has also deteriorated.

The one plus factor is a share price less than a third reported NAV. This cushion is presumably why the share price is virtually unchanged over the past year, despite the worse than expected results, but is unlikely to trigger any great investor interest until there is solid evidence of a revival in trading fortunes. It should be noted that shares seldom change hands, so even small orders might have a disproportionate effect on the price.
CERAMIC tile and sanitary ware manufacturers Ceramic Industries' strategy of reducing prices to boost market share paid off for the year to July, with attributable income rising a third to R10m.

Earnings a share rose to 55.7c from 41.7c and directors declared a final dividend of 6c, with the total dividend up 11c from 8c.

Turnover rose a fifth to R126m and continued attention to productivity and plant efficiency levels helped boost operating income 45% to R9.6m.

Interest received fell to R1.9m from R2.1m, but this was offset by a lower interest bill of R1.2m against R2.2m previously. This left pre-tax income almost 60% higher at R10.3m.

The group's tax charge stood at R261 000 due mainly to the 5% transition levy and the STC tax on dividends.

Executive chairman Gianni Ravazzotti said the group had started importing technology to enable it to become a global player in the future.

Ravazzotti said strong emphasis had been placed on human resource development with training at factory level.

The focus of the scheme, costing R4m, would be to increase production at three factories.

This included doubling the production capacity at the Bloemfontein factory, increasing the production output at the NCI factory and increasing production at the Sarnca factory by 100 000m² of floor and wall tiles a month.

Ravazzotti said trading conditions were expected to improve along with the economy. "With our streamlined production processes and flatter management structures, Ceramic Industries is well poised to take full advantage of the expected boom in the building industry."
COMPANIES

TEJ is firmly back in the black

CAPE TOWN — Knitwear company Towles, Edgar Jacobs (TEJ) has moved back into the black after a big increase in earnings to 48.5c a share in the year to June compared with a 37.5c loss the previous year.

Turnover was up only 8.3% to R95.5m, but operating profit increased to R2.54m from R83.6m in 1995. Taxed profit amounted to R1.37m compared with a R906,000 loss the previous year.

The debt/equity ratio improved to 0.691 over last year's 0.941 and cash flow went from a negative R2.18m at the end of the previous year to a positive R33.3m.

MD Tony Owen said on Friday the turnaround resulted from the filtering through of benefits of an export drive — started in 1992 — and efficiency and retrenchment programmes.

The export drive had enabled the company to maintain consistent production throughout the year, overcoming the traditional slumps in local markets because of seasonal factors.

Both the knitwear and weaving factories were fully booked for the next six months and, if current economic conditions continued, the company should meet the sales budgets set for the balance of the financial year to June 1995.

In the annual review, Owen said that with export markets firmly established and delivering material benefits in terms of linear levels of production and recovery of factory overheads, further productivity and efficiency improvements were expected.

But government's indecisiveness in planning a medium term export assistance strategy was making it risky to conclude prices for the second half of 1995.

EDWARD WEST
Foreign granite cutters to set up shop in SA

FOREIGN granite cutters are moving to set up shop in SA to be closer to the source of their raw materials.

Sources said Italian stone cutting company Henraux had bought private SA cutter Technostone, and Natural Stone Products had entered a joint venture with Japanese companies Mitsuishi and Matsushita, as well as German company Destag, to establish a new cutting centre in GaRankuwa.

Kudu Granite chairman Jonathan Houghton said the moves represented a general trend towards beneficiation at the source of the granite. He said this made economic sense as it saved on freight costs, which could comprise up to 60% of the cost of a block of granite.

He said labour and land were also cheaper in SA, which enticed the foreign companies to SA.

Houghton said this would mean increased sales for SA granite producers as the new factories would source their material from local producers.

Sources said the interest shown by foreign companies in SA was a positive move, as it added value to SA products before they were exported.

Henraux, which produces 100 000m² of polished granite a month worldwide, would quadruple the size of Technostone’s current factory, one source said. At its peak it would be producing 5 000m² to 6 000m² of Rustenburg material a month.

He said Henraux had a number of quarries in Zimbabwe and knew the southern African region well.

The new plant in GaRankuwa – which cost R13m – would be capable of producing 10 000m² a month, and the plant would be solely dedicated to the export market.

Both plants would cut and polish Rustenburg material, which the sources said was currently popular overseas.

Northern Transvaal economic, commerce and industry minister Thaba Mafumadi said earlier this week that foreign companies would begin pouring millions of rands into the region’s mines to create thousands of jobs by next January.

This follows talks between the province and Italian and Japanese companies on processing raw material from existing mines.

The provincial government owned a chrome mine in Sekhukhuneland. Other mines in the area (granite and platinum) belonged to JCI and Gencor. Ministry spokesman Ali Masemola said the Japanese had shown interest in chrome mining and in setting up a smelting industry.
Weak management control takes Cullinan to R21m loss

INEFFECTIVE management control coupled with external factors has pushed Cullinan Holdings deeper into the red, with the company reporting a R21.2m loss (R18.0m) for the year to June.

The industrial ceramics and electrical-powered products group saw turnover slip to R486m (R430m) as Escom's electrification programme stalled before the election and plant breakdowns at Iscor resulted in considerably lower refractory sales.

Operating income slumped to a loss of R3.5m (R11.3m) while after tax losses came in at R17m (R1.3m loss). Earnings a share plunged to a loss of 1.3c from a profit of 1.3c last year. The dividend was again passed.

Net borrowings increased to R101.6m (R67.1m) while ordinary shareholders funds declined to R83.9m (R118.1m) as a result of a change in tax policy.

The group made a loss of R10.6m on discontinued operations while the sale of investment properties and the write-down of a R3.8m on share purchases added R2.5m to extraordinary losses.

MICK COLLINS

Gearing shot to 102.6% from 59% while net asset value dropped to 971c from 113c. Chairman Alan Clark said the board had decided on an immediate independent critical review of senior management. Where weaknesses had become apparent, controls would be reinforced.

A strategic downsizing exercise aimed at a major reduction of borrowings and costs was also being carried out.

Clark said the downsizing would involve the sale of certain of the group's existing divisions. Negotiations had already started but details could not be divulged.

On the outlook for the group he said the divisions which would remain comprised effective stand-alone businesses with considerable recovery growth potential.

The results for the year would be clouded by the downsizing programme and the positive effect of the restructuring, together with an expected recovery in the trading environment, would only flow in the second half of the year.
resulted in a 40% jump in operating profit. Chairman Gianni Ravazzotti believes the introduction of profit incentive accessible to all employees helped. Also, borrowings fell R18m, funded by a maturing portion of short-term investments and cash. Interest paid fell from R5m to less than R2m.

Negotiations to form a partnership with a European-based company are complete. Thus, says Ravazzotti, will assist in continuing to source competitive imported material and, with an expanding economy, will ensure EPS growth.

Little more than a year ago the share price stood at a 46% discount to NAV — but no longer. Given the sound financial statements, the 7.5% p/e against the stores sector average of 27.2, suggests the share is still cheap.

In February, Italtile's listing was transferred from the building and construction sector to stores. The share immediately rocketed out of the doldrums, gaining 110c to 300c during the next four months.

Two factors lay behind this resurgent.

First, the building industry — Italtile's chief market — is no longer perceived as deeply depressed. Though markets remain sluggish and competitive, increased renovation work and DIY have replaced contracts lost during the late Eighties and early Nineties, when fewer new buildings were going up.

Second, benefits of refocusing Italtile into a retailer are evident in the 1994 results. (In August 1991, it sold all its manufacturing operations to Ceramic Industries for R44m in shares and now sells through a chain of Italtile centres, CTM outlets and franchise operations.)

Turnover rose almost 10%. The shift in sales mix to a predominantly cash business, improved margins and the reduction in overheads brought about by the reformatio
Keeley reaps benefits as upturn boosts granite

MICHAEI URGUHART

SA's largest granite producer, Keeley Granite — which was taken over by Gencon in March— lifted attributable income 30.5% to R8.3m for the six months to August compared with the same period last year as higher production and a reduction in stocks boosted the bottom line.

The results were achieved on a 21% higher turnover of R130.8m as conditions in the granite market improved with the world's economic recovery.

An interim scrip dividend of 6.5c was declared, 30% up on the same period last year. A scrip dividend was used to enable Keeley to build up cash to develop local beneficiation. Chairman Fred Roux said Keeley was looking at a joint venture with a European beneficicato to develop a slab factory in SA.

He said local beneficiation of SA granite products would give Keeley a 15% cost advantage over overseas beneficiation of the same products, because Keeley would not have to pay for the transport of waste. Interest was higher at R2.3m (R1.8m).

But the tax bill remained low because of losses incurred on the acquisition of the Barracuda tile factory.

Substantial development costs had been incurred at certain quarries to increase production in line with increased demand. Roux said these development costs had been written off as quarry expenditure. He said a new quarry would come on stream by early next year. The company would also be acquiring the granite rights on nearly 200 properties from Randgold for not more than 3-milion shares, and progress was being made in South America on establishing a joint venture quarrying operation there.
No immediate benefits for Gefco

Asbestos producer Griqualand Exploration and Finance (Gefco) and sister company Masahi were unlikely to benefit from the economic upturn until late next year, Gefco chairman Pat Hart said yesterday.

Hart said asbestos was used mainly in the construction industry, which logged the economic cycle by a year. As the economy was in the early stages of an upturn, the market would probably start picking up only towards the end of next year.

Gefco has three mines, but only one near Kuruman in the northwest Cape is currently operating Masahi, in which Gefco owns a 32% stake, operates a chromite mine in

KaNgwane.

Hart said Gefco was still running its stocks down, and operating its mine at the minimum economic level. The poor state of the construction industry meant there was an oversupply on world markets.

He said the main competitor, Canada, had "zero inflation", which meant it was difficult for Gefco to compete with SA's high inflation rate.

Previously Gefco had been compensated by the weakening exchange rate, he said, but the rand had been static recently.
COMPANIES

Activities: Makes ceramic sanitaryware and floor and wall tiles

Control: Directors 81.8%

Executive Chairman: G Ravazzotti

Capital structure: 18m onds Market capitalisation R74m

Share market: Price 410c Yields 2.7% on dividend, 15.6% on earnings, p/e ratio, 7.4, cover, 5.1 12-month high, 500c, low, 295c Trading volume last quarter, 63,000 shares

Year to July 31

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<td>Pre-tax profit (Rm)</td>
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<td>Tangible NAV (c)</td>
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* 17-month trading period  † Annualised

increased through price cuts

Ravazzotti says “With fierce local and international competition, it was important to marry new thinking with established concepts.” Aside from price cuts, these include the idea that factories must produce a wider range of products and be run by a multi-skilled labour force. Management structures in all manufacturing divisions were reduced to two levels.

In their individual ways, the three divisions - National Ceramic Industries (NCI), Samca Tiles and Betta Sanitaryware - contributed to the results. For example, the Samca tiles plant gained from a switch to a new technology, spray-dried body-mix. Thus, with a new 24-hour, seven-day week shift system, enabled higher output. Production at Betta Sanitaryware was under pressure to meet higher demand that resulted from improved quality and lower prices, a full order book was maintained through the year.

Last year, Ceramic Industries invested R20m in fixed assets to maintain and expand operations. This expenditure could be repeated this year, as it is determined

Floor tile output by 30%

Betta Sanitaryware will continue its expansion, including installation of a new kiln. This is expected to be completed by June, production will double in financial 1996

These projects will be funded internally. The R18m cash generated in the 17-months to end-July 1993 was transformed into a R877 000 shortfall 12 months later. At this rate, asset management will have to be tightened if the balance sheet is to remain uncared. Despite the shares' rapid rise earlier this year, it is only 10c above the listing price of R4 when it split from Itaiite in February 1992. Profits could be closely linked to higher building activity. The share is worth watching.

CERAMIC INDUSTRIES

Expanding output

Attention to business basics, improved technology and increased production contributed to a 21% increase in turnover and a 43% rise in operating income in financial 1994 - and lifted the sharp from 225c to 410c in a few months (193)

Chairman Gianni Ravazzotti emphasises these results were achieved despite difficult trading conditions. Setbacks, he says, included the Sebo stayaway at the Samca tile factories (Baleleng, Bophuthatswana) in February and numerous public holidays around the elections. Market share was

FINANCIAL MAIL • NOVEMBER • 18 • 1994 • 115

116 • FINANCIAL MAIL • NOVEMBER • 18 • 1994
From MICK COLLINS

JOHANNESBURG — The scars left on the motor industry from the recent five-week strike will be made visible today when the figures for September's car sales are released.

The figures, from the National Association of Automobile Manufacturers of SA, are likely to show a sharp fall in sales of cars and light commercial vehicles.

Sources said yesterday new car sales for the month had plummeted 40% to 11,000 units compared with the corresponding month last year.

The light commercial vehicle sector is expected to follow a similar pattern with figures expected to come in 30% down at 8,000 units. Sales of heavy trucks will be unaffected by the strike, the sources say.

Meanwhile, several motor manufacturers yesterday announced plans to make up production lost during the 26-day strike.

Volkswagen SA (VWSA) and Delta said catch-up plans involved recruiting additional staff, while Nissan said no extra staff had been hired but 8,000 more units would be produced before the year end.

Nissan marketing director John Jessup said the company had successfully negotiated an agreement with the unions to work overtime for the balance of the year. The move would increase daily output to 383 units a day from the usual 310 units.

"Prior to the strike Nissan was manufacturing at full capacity and the company had already announced a capital expenditure programme of over R100m to increase capacity from 30,000 units a year to 78,000 units by the end of 1995," he said.

Delta spokesman Ed Ermert said the catch-up programme was proceeding so well that the company had decided to discontinue its six-hour Saturday shift, which it had implemented immediately after the strike ended.

But the company would continue its two hours a day overtime plan to reduce the 45,000 unit backlog. An additional 400 workers would start working a second shift this month.

VWSA said 5,000 vehicles had been built since its Uitenhage plant reopened on September 12 and 262 temporary operators had been employed. A daily production target of 360 vehicles had been set after the strike, which was a 20% increase on the daily average number of cars produced during the first six months.

Technical director Hans-Jurgen Wiegand said VWSA aimed to raise production to 350 vehicles a day by the month's end.
Strike hammers car sales

CHARLOTTE MATHEWS

THE brunt of the 27-day motor strike was borne by the new car and light commercial vehicle sectors, according to September vehicle sales figures released yesterday by the National Association of Automobile Manufacturers of SA (NAAMSA).

New car sales fell by 36 percent to 11 423 units in September compared with September 1993 and by 32 percent against August 1994. Total new car sales between January and September were 133 686 units, 5 percent down on the same period in 1993.

Light commercial sales in September were 26 percent lower than in September 1993 at 6 298 units and 22.7 percent below the August sales figure.

NAAMSA said the strong demand for new vehicles continued, but the strike had prevented an expected increase in sales.
Strike dashes motor industry’s sales hopes

THE strike which crippled the motor industry for five weeks had dashed hopes of achieving 600,000 new unit sales this year, the National Association of Automobile Manufacturers of SA (Naamsa) said at the weekend.

Naamsa said the strike had cut new car sales for September to 11,423 units — the lowest level since 1971, and down 33.7% on the same month last year.

Though all major car plants had increased output to make up for strike-related production losses, forecasts of record sales this year were now unattainable.

“New-car and light commercial vehicle annual sales will at best only marginally exceed 199 levels,” Naamsa said.

Industry sources said the latest Naamsa figures reflected a reasonable recovery from the industry’s near-zero stock base, and cast doubt on the industry’s claim that it had lost 600 units during the strike.

Naamsa said the negative effect of the strike, which ended in early September, saw new car and new light commercial vehicles bearing the major brunt.

The strike meant that only new commercial vehicle sales, which had three-quarters of 1994’s sales already accounted for, could show an improvement on the nine-month sales figure of 1993.

Low-volume medium and heavy commercial truck figures sales were mixed in September, Naamsa said, with medium commercial vehicles sales down 20% and heavy truck sales up 36.2% over the year.

The recent recovery in fixed investment spending in SA had boosted truck sales, with the investment-led upswing likely to get further support from the reconstruction and development programme.

Nissan marketing director John Jessup said the industry suffered severe stock shortages at its dealerships, despite most manufacturers continuing with production early in September.

“Although we were back to full production very quickly after the strike, it will take several months before orders can be met and a normal dealer stock position re-established,” he said.

He said Nissan had initiated a programme to catch up lost production.

While the demand for Nissan vehicles and an already tight stock position had seen Nissan’s sales more adversely affected by the strike than other motor manufacturers in August, the company’s passenger vehicle market share rose to 16.5% last month from 11% in August.
In the past, Land Rover vehicles have been assembled locally in limited quantities by AAD at its Western Cape plant. However, the Rosslyn investment signals Land Rover's determination to increase market penetration in southern Africa. Import duties and other factors have conspired in the past to price Land Rover products beyond the range of many would-be customers. However, greater localisation, and the prospect of declining import duties, will make them more competitive. Other local manufacturers concede that could mean bad news for their own top-of-the-range products.

Not that bad news is anything new. As latest figures reveal, the effects of the five-week motor assembly strike have hit hard. September sales hit their lowest monthly level for years.

Despite a rapid return to full production, and attempts to catch up with demand, Nissan marketing director John Jessup warns that it will take several months before back orders can be met and a normal dealer stock position re-established.

### September vehicle sales

<table>
<thead>
<tr>
<th>Cars</th>
<th>Total</th>
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<tr>
<td>Corolla/Conquest 1 622, Cressida 765, other 18</td>
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<tr>
<td>Sentra 1 155, Maxima 67, 200SX/300ZX 7, Flat Uno 852</td>
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<td>Calhoun 937, Golf Jetta</td>
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<td>Mazda 138, Miata 43, Ford Festiva 1,000 49, Audi 83,</td>
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<td>Laser Meteor 523 659, 280SL 796, other 43</td>
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<td>Honda Ballade 178, M-Benz 208, E-Class 86, S-Class 11, other 17</td>
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<td>Astra/Kadett 1 166, Monza Kadett 38, Rekord 22, Calibra 2</td>
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<td>3-Series 507, 5-Series 132, 7-Series 20</td>
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</table>

### Motor industry

#### Rover's new landing

**Local assembled and importers of luxury four-wheel-drive vehicles will be watching, with some trepidation, the plans to build Land-Rover products locally.**

On a flying visit to SA this week, the MD of Rover International, John Russell, confirmed that the group is to spend R60m on a production facility at Rosslyn, outside Pretoria. The first Defender and Discovery Land Rovers should be ready soon after production starts on December 1992.

The plant will belong to Land Rover SA, a wholly owned subsidiary of the UK-based Rover Group. Though German car-maker BMW bought control of Rover this year, plans are for Land Rover SA to operate independently of BMW SA — which also builds its vehicles at Rosslyn.

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FINANCIAL MAIL • OCTOBER • 14 • 1994 • 80
R600m plant boost for PGSI subsidiary

From BEATRIX PAYNE

JOHANNESBURG — Plate Glass and Shatterprufe (PGSI) subsidiary PG Bison planned to invest more than R600m in increasing plant capacity to take advantage of an expected surge in furniture demand, the group said at the weekend.

Group CE Ronnie Lubner said there had been strong demand for furniture after the election as consumer confidence rose. The subsidiary made board and laminates for the domestic and office furniture market and the building industry.

Consumer demand was expected to continue rising over the next few years as more houses were built.

Initially Bison would spend R120m to increase capacity at its particle board plants at Maritzburg, Stellenbosch, Pretoria, and Boeksvogt. Feasibility studies were being carried out on possible further capital expenditure of R500m in additional particle board plants.

Accelerated demand in the furniture industry saw the board manufacturer post record earnings in the second quarter of the six months to September after having "made a slow start" to the financial year, he said.

Parent company PGSI — 67% held by SA Breweries — reported a 20% rise in fully diluted earnings to R88c a share for the six months to September as investments in offshore arm Belron continued to pay off. But trading had been affected by a halt in sales to original equipment manufacturers during the motor industry strike.

Turnover rose 17% to R1.8bn but operating profit increased only 8% to R185.5m as Glass SA incurred costs by switching to manufacture for the export market during the motor industry strike.

Financing costs fell to R10.7m from R14.9m during the corresponding period and pre-tax income rose 11% to R175m. The tax bill rose to R60.2m (R58.4m) which left net income 10% higher at R114.9m.

Associates

Shares from associated companies rose to R93.9m (R34m). After a R147m (R106m) payout to outside shareholders and R18.6m (R18.8m) paid in preference shares, attributable income rose 25% to R91.5m.

An interim dividend of 13c was declared which represented 45% of fully diluted earnings at 286c a share. Shareholders could elect to receive new fully paid ordinary shares in lieu of the dividend.

Gearing fell to 34% from 61% during the corresponding period. Borrowings had increased over the period, however, to R265.1m from R218.5m at the year-end on the back of seasonal working capital needs.

The group's international arm Belron continued to flourish in Europe with results boosted by an excellent performance from chains in the Benelux countries, Australia and the US. France had performed ahead of budget but Germany was still making a loss.

He said the division was likely to be profitable next year. It was still in a developmental phase, and there were enormous costs involved but once it reached a critical mass with the necessary infrastructure in place it would post profits.

The group's Zimbabwe-based Central Africa operation had performed well and a $133m rights issue was under way to acquire Pilkington Brothers. A satisfactory increase in Belron's contributions was expected and PG Bison and Central Africa would continue to post good results.

But Glass SA was unlikely to recoup losses incurred through the motor industry strike. Lubner could not detail the extent of the losses but said they were minimal in overall group terms.

He said group results for the year would "reflect some improvement" over the interim stage and earnings were likely to increase more than 20%.
Plate Glass chief takes bullish view

BY CHARLOTTE MATHEWS

Trading conditions in the local market, if September and October are any indication, are looking very good, says Plate Glass & Shatterprufe Industries (PGSI) chairman Ronne Lubner.

Although the furniture industry had already seen signs of recovery, neither it nor the glass businesses had yet experienced the benefits of increased housing spending under the NDP, he said yesterday.

In the six months to September, PGSI lifted attributable profits by 25 percent to R91,6 million on a 17 percent rise in turnover to R1,9 billion.

A reduction in finance costs, lower tax rate and higher contribution from associates helped to swell the bottom line.

Earnings were 370c (297c) a share and 288c (241c), assuming full conversion of the preference shares Capitalisation shares, or an interim cash dividend 53 percent better at 190c, are being offered to shareholders.

Glass South Africa experienced some difficulties because of the motor industry strike and is not expected to recover these costs.

However, PG Bison, after a slow start to the year, accelerated activity, while the overseas arm, Belron International, continued to flourish.

As a precursor to spending on expansion, PG Bison had allocated R120 million to upgrade capacity, Lubner said.
PG Bison posts record earnings

BEATRIX PAYNE

PLATE Glass and Shutterprufe (PGS) subsidiary PG Bison planned to invest more than R400m in increasing plant capacity to take advantage of an expected surge in furniture demand, the group said at the weekend.

Group CE Ronne Labner said there had been strong demand for furniture after the election as consumer confidence rose. The subsidiary made board and laminates for the domestic and office furniture market and the building industry.

Consumer demand was expected to continue rising over the next few years as more houses were built.

Initially Bison would spend R120m to increase capacity at its particle board plants at Maritzburg, Stellenbosch, Piet Retief and Boksburg. Feasibility studies were being carried out on possible further capital expenditure of R500m in additional particle board plants.

Accelerated demand in the furniture industry saw the board manufacturer post record earnings in the second quarter of the six months to September after having "made a slow start" to the financial year.

Parent company PGS — 67% held by SA Breweries — reported a 20% rise in fully diluted earnings to 28c a share for the six months to September as investments in offshore arm Belron continued to pay off. But trading had been affected by a halt in sales to original equipment manufacturers during the motor industry strike.

Turnover rose 17% to R1.2bn but operating profit increased only 8% to R185,5m as

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PG Bison

Glass SA incurred costs by switching to manufacture for the export market during the motor industry strike.

Financing costs fell to R10,7m from R14,5m during the corresponding period and pre-tax income rose 11% to R175m.

The tax bill rose to R60,2m (R68,4m) which left net income 16% higher at R114,9m.

Shares from associated companies rose to R5,8m (R3,4m) after a R1,4m (R1,8m) payout to outside shareholders and R18,6m paid in preference shares.

Attributable income rose 25% to R81,5m.

An interim dividend of 18c was declared, which represented 45% of fully diluted earnings at 28c a share. Shareholders could elect to receive new fully paid ordinary shares in lieu of the dividend.

Gearing fell to 34% from 61% during the corresponding period. Borrowings had increased over the period, however, to R239,1m from R218,2m at the year-end on the back of seasonal working capital needs.

The group's international arm Belron continued to flourish in Europe with results boosted by an "excellent performance" from chains in the Benelux countries, Austria and the US. France had performed ahead of budget but Germany was still making a loss.

He said the division was likely to be profitable next year. It was still in a developmental phase and there were enormous costs involved but once it reached a "critical mass" with the necessary infrastructure in place it would post profits.

The group's Zimbabwe-based Central Africa operation had performed well and a $133m rights issue was under way to acquire Pilkington Brothers. A satisfactory increase in Belron's contributions was expected and PG Bison and Central Africa would continue to post good results.

But Glass SA was unlikely to recoup the losses incurred through the motor industry strike. Labner could not detail the extent of the losses but said they were minimal in overall group terms.

He said group results for the year would "reflect some improvement" over the interim stage and earnings were likely to increase more than 20%.
Cracking good results from Shatterprufe

THE strong recovery in earnings in the 1993/4 financial year continued for Plate Glass & Shatterprufe Industry (PGSI) in the six months to end-September.

Attributable income rose by 25% to R91½-million compared with R73½-million in the interim period last year.

Shareholders were well rewarded with a 53% rise in the interim dividend to 15c, in line with a new dividend policy of paying out 45% of earnings. New shares will be offered in lieu of dividends.

The results were strong all-round. Sales were up 17% to R1,86-billion, operating profits rose 8% to R186-million and financing costs fell 39% to R10,7-million.

Ronnie Lubner, PGSI's chairman, says most of the subsidiaries reported good results, notably Belron, its international operating arm, which trades in

By SVEN LUNSCHEN

Europe, Australia and the US

Belron now accounts for over half of total sales, adding a strong rand hedge element to PGSI's share in the halfway mark are 15% ahead of an ambitious budget.

The group's central African operation performed strongly and would be further buoyed by the recent 250-million acquisition of Pilkington Glass Zimbabwe, he adds. A 231½-million rights offer for PGZ was currently being finalised.

With part of its board manufacturer PG Bison performing at record levels, the only blotch on the profit board is Glass SA.

Mr Lubner says the group was hard hit by the six-week motor industry strike which halted deliveries. Some of the production had been diverted to the export market and would eventually be re-couped locally. However, Mr Lubner says he doubts whether Glass SA will get back on budget for the full year.

Nevertheless, he expects that earnings for 1994/5 could show an increase of over 20% on 1993/4's R189-million.
Laying Foundation for Future
**Companies**

**RICHEMONT**

**Needs a long-term view**

- **Activities:** Tobacco, luxury goods, electronic media and direct retailing
- **Control:** Rupert and Hartzog families
- **Chairman:** N Senn, MD J Rupert
- **Capital structures:** 5.2m “A” bearer shares and 5.2m “B” registered shares Market capitalisation R20.3bn

**Share market:** Price R39 Yield 0.9% on dividend, 4.6% on earnings, p/e ratio, 21.8, cover, 3.3 12-month high, R46.50, low, R30. Trading volume last quarter, 18m shares

<table>
<thead>
<tr>
<th>Year to March</th>
<th>91</th>
<th>92</th>
<th>93</th>
<th>94</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST debt (Rm)</td>
<td>297</td>
<td>468</td>
<td>523</td>
<td>591</td>
</tr>
<tr>
<td>LT debt (Rm)</td>
<td>763</td>
<td>803</td>
<td>928</td>
<td>1106</td>
</tr>
<tr>
<td>Revenue (Rm)</td>
<td>2 988</td>
<td>3 108</td>
<td>3 440</td>
<td>3 665</td>
</tr>
<tr>
<td>Pretax profit (Rm)</td>
<td>556</td>
<td>584</td>
<td>652</td>
<td>1176</td>
</tr>
<tr>
<td>Earnings (Rm)</td>
<td>308.7</td>
<td>344.9</td>
<td>356.9</td>
<td>620.03</td>
</tr>
<tr>
<td>Dividends (Rm)</td>
<td>50.63</td>
<td>56.69</td>
<td>15.89</td>
<td>16.15</td>
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</tbody>
</table>

| Includes restructuring and rationalisation costs |
| Restated to show 10-for-1 sub-division of units |

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

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

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

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

In financial 1994, Richemont’s share of FilmNet’s losses grew from R7.3m to R25.7m. Investments in associates increased by nearly R16m to R30.7m, once again largely to develop FilmNet.

Coupled to this is Richemont’s recent acquisition of 25% of Italian pay television operation Telepui for 180m, which seems a rather hefty price for a business running at a loss.

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

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

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

To some extent exchange rate movements flattened profits from Rothmans — though 3% growth in turnover, to 22.49bn, against a worldwide decline of 8% in volumes, is not a bad performance.

It also came with a lot of pain.

Richeonment’s Rupert

Richeomnt paying £36.7m at the attributable level for its share of Rothmans rationalisation costs. With £50.4m paid for the restructuring of the group, the result were severely affected. Restated figures, excluding the costs, show earnings per unit down nearly 3%.

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

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

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

Vendôme benefited greatly from exchange rates, its 5.4% increase in turnover and 8.2% rise in operating profit translating to 14.5% (£1.18bn) and 17.5% (£1.94bn) respectively when converted from the Swiss franc to sterling.

Richemont appears to have positioned itself as well as possible for changing market conditions. Luxury goods will benefit when world economies recover. Prospects for tobacco are less clear — new markets offer growth, but there will be strong competition and negative perceptions.

And it will take some time before the value, or otherwise, of media investments become clear.

That makes the share more even of a long-term investment, and one that faces more risk than in the past. With the anticipated demise of the financial rand...
Taking some shine off the counter, investors will need faith in Richemont's management and the strength of the group's brands.

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

Shawn Harris
Market has turned

Activities: Quarrying, beneficiation and exporting granites
Control: Gencor 56%
Chairman: F J P Roux, MD, H J Lass
Capital structure: 170.2m ords Market capitalisation R316m

Share market: Price 450c Yields 3.3% on dividend, 4.9% on earnings, p/e ratio, 20.7, cover, 1.4 12-month high, 455c, low, 120c Trading volume last quarter, 1.3m shares

Year to Feb 28 '91 '92 '93 '94
ST debt (Rm) 29.4 59.7 56.8 54.2
LT debt (Rm) 5.8 4.9 2.9 2.5
Debt/equity ratio 0.43 0.81 0.73 0.64
Turnover (Rm) 250,1 191.4 185.7 250.2
Operating profit (Rm) 47.1 16.9 9.8 16.6
Pre-tax margin (%) 22.7 7.7 3.9 6.4
Earnings (c) 58.5 56.2 8.6 21.7
Dividends (c) 8.18 5.0 9.0
* Includes 40.16c special dividend relating to listing on JSE ** Subject to change on September 6 following decision of Keeley Group Holdings. Gencor's issued capital will increase to 106.3m shares

A year is clearly a long time in granite
Much has changed since the Keeley group, SA's leading granite producer, last reported Pyramid Keeley Group Holdings is being wound down, its equity in operator Kelgran distributed to shareholders, and delisted.
More important, founder Fred Keeley has resigned, new controlling shareholder Gencor is in the saddle

Significantly, the world market for granite, long in the doldrums, has turned. After three years of decline, SA's production bottomed halfway through 1993 Stockbroker Rice Runald Turner commodities analyst Philip Murphy says if local granite producers maintain current production rates, they could turn out as much as 747 000m in 1994 — 40% better than 1993's output. Not that Kelgran is waiting for next year EPS for financial 1994 of 21.7c (1993 8.6c) puts it back on the fast performance track (which it fell off in 1993 when operating margin declined by 60%) It was able to resume dividend payments — 15c this year compared with 1993's dismal zero

If there is anything to worry about in the annual statement, it is the extent of borrowings. These now stand at 64% of shareholders' equity — 74% last year and 81% in 1992

I suppose one should be grateful for the

FINANCIAL MAIL • AUGUST • '94 • '84 • '01

COMPAIES

small mercy that borrowings as measured by fixed capital are falling. Apparently this is not so elsewhere in the industry. Murphy says the high debt is an issue facing these companies. Nevertheless, I am surprised that a mining house such as Gencor appears willing to allow the group to trade its way out of the difficulties of the past four years. Indeed, I wonder whether it has ever, on balance, been adequately financed. The point about mining is that its high-risk profile has always demanded low dependence on loans. Thus is why the small independents have always struggled compared with the better funded majors.

Meanwhile, and in keeping with its unbundling tradition, Gencor has put Keeley Holdings to sleep. The exchange is to be managed based on one Kelgran share plus 5c for every holdings share. Holdings will be delisted on September 2.

When I last wrote about the group — on June 3 — I said granite stocks were the latest investment flavour but that the huge price rise in Kelgran didn't leave much equity for new investors. Well, I was right — and wrong. All the evidence suggests that SA granite, well established and highly regarded, will regain its position as the third most important exporter this year, after China and India. An examination of Kelgran's position suggests it will increase turnover to around R300m this year (1994 R250m). As sales increase, so unit costs benefit and the gearing at the level of operating profit is considerable. In the absence of tax, apart from the transitional levy, this suggests EPS could increase by as much as 50% to about 33c (on the present issued share capital, the dilution from the absorption of Holdings means the EPS will hold at about 22c)

Based on that, the forward p/e is a comparatively modest 13.6 (it is now 21). This implies continued value up to about 500c.

David Gleason
### Fibreglass taking place of traditional materials

#### 1994 World Growth in Glass Reinforced Composites

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth (by market size)</th>
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<tbody>
<tr>
<td>Western Europe</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td></td>
</tr>
<tr>
<td>Eastern Europe</td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>6.2%</td>
</tr>
<tr>
<td>Asia (excluding Japan)</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
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<td>Latin America</td>
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Source: Owens-Corning

The fibreglass industry will benefit greatly from increased spending on housing and infrastructure when the Government’s Reconstruction and Development programme gains momentum.

In anticipation of this growth in demand Aculstical Fibreglass Insulation (AFI), the country’s only fibreglass manufacturer, is extending its production capacity.

AFI marketing manager Willie Weber said fibreglass was replacing traditional materials in the provision of infrastructure throughout the world. After the manufacture of the first fibreglass pipes for water and sewerage reticulation a little over two years ago, the industry had become one of the largest consumers of fibreglass in the country.

Fibreglass is already used for most baths and washbasins installed in South Africa and the products are exported worldwide. Spoornek is increasingly using fibreglass reinforced power pylons in successful tests at the coast where nylon corrosion is a major problem.
Demand delays brick deliveries

isolated incidents of brick shortages are being reported by contractors as brick manufacturers gear up their production capacity to meet an anticipated surge in demand. 

Clay Brick Association (CBA) executive director Nic Louw said yesterday that there had been increased demand for a range of brick products over the past few months, which had caused delays in certain areas.

However, he said there was no shortage of bricks. "Certain manufacturers are having difficulties in delivering the product and this is causing the delays."

"Manufacturers are already beginning to increase their capacity and many organisations are boosting their stocks in order to cope with the higher demand expected when the housing programme gets off the ground," Louw said.

A recent National Housing Forum report found that the industry had shrank significantly over the past few recessionary years, with more than 30 plants closing down. The number of manufacturers had fallen from 405 in 1980 to 195.

"There is likely to be a supply shortage in the medium term unless the industry recommences its mothballed production units," said the report.

Brick manufacturers would have to almost double their output to meet the estimated demand of 4 billion bricks needed to build 300,000 low-cost homes a year, the report said. CBA figures showed they were currently producing about 2.4 billion bricks a year.

Most major manufacturers confirmed they were boosting their stock levels. Corobrik Transvaal MD Peter du Tretou said the company had about 10 million bricks stockpiled in the Transvaal and Free State alone.

"Bricks out of the door are marginally higher, but we have not yet seen a major surge in demand," he said.

Building Industries Federation of SA executive director Ian Robinson said it was worrying that reports of shortages and delays were appearing before the housing plan had got off the ground.

He said the federation had appealed to the CBA for clarity on the situation, and assurances that the industry would be able to meet the expected increase in demand.
FORMER Interboard chairman Ed Dutton alleged in the Hand Supreme Court yesterday that confidential documents given to the company's bankers during 1988 ended up in the possession of competitor P G Glass.

Testifying in his own defence, Dutton said when it became apparent that information about his company was being leaked he had begun numbering his signature on documents.

He said he had been informed that documents bearing numbers submitted to First National Bank (FNB) head office were in the possession of P G Glass.

Dutton told the court he would be calling his informant as a witness.

The businessman has pleaded not guilty to 14 counts of forex and rand fraud involving at least R17.9m.

It is alleged that Dutton, using forged invoices and contracts, unlawfully obtained foreign currency on the pretext that the funds were needed to pay for a plant and machinery bought overseas.

The State alleges the bulk of the plant was never purchased and that the value of equipment imported was grossly inflated.

Dutton is also alleged to have controlled two offshore companies which purportedly supplied the plant and machinery, and the Mary Gibbs Trust, the ultimate holding company for the Dutch and SA registered Interboard companies.

Dutton has denied all the allegations against him.

He has been in the witness box since the trial, which has run for more than two years, resumed earlier this month.

Initially represented by senior counsel, Dutton has conducted his own defence for more than a year, after having informed the court that he had run out of money to pay his legal representatives.

He made his allegations against FNB yesterday while dealing with previous testimony by a senior FNB executive, Neil Garden.

Garden told the court he had investigated the identity of Interboard's overseas controlling shareholders after the SA company had approached the bank for R3m to acquire a new plant in George.

He testified that during his investigation he had come across an $2m contract signed by Dutton on behalf of the seller, Partic, for the sale of a plant to Interboard.
Johnson Tiles launches R10m project

JOHNSON Tiles SA said yesterday it had initiated a R10m capital investment programme at its Odantsfontein factory. The company has imported a manufacturing, decorating and firing plant which will increase the annual production capacity of ceramic tiles by a further 650,000m². The equipment will be on line by August and its capacity will be split evenly between the company's floor and wall tile production sections.

The SA ceramic tile market is worth an estimated R500m at the retail level and this accounts for sales of 5-million square metres of wall tiles and 5-million square metres of glazed floor tiles. — Sapa
Italtile’s earnings soar

CERAMIC tiles and sanitaryware retailer Italtile increased attributable earnings by 21% to R3.3m (R2.7m) for the six months to December, as a result of successful rationalisation and improved customer service.

CE John Couzis pointed out that this improved performance was also brought on by the “refocus” of the group’s core activity — retailing.

He said that management had as well, concentrated on stock holdings and supplying the customer with a high quality product at competitive prices.

“Another shift has been in the sales mix to a predominantly cash basis — a healthy sign for the business,”

The group has benefited from its investment in technology and so the reduction in other labour-related costs, he said.

According to Couzis, Italtile has shed R17.6m of debt during the current six months, with prospects for the next six months remaining “promising”, to leave the group ungeared.
Italtile reports rise in turnover

Robyn Chalmers

The resilient Italtile group reported an 18.2% rise in turnover to R$7.6m (R$5.3m) for the six months ended December 31, 1994.

CEO John Couzis said the improvement was brought about largely by refocusing the group's core business. This consisted of retailing through its national chain of Italtile centres, Ceramic Tile Market outlets and franchised operations.

"The shift to a predominantly cash business improved margins and the reduction in overheads resulted in a 40.1% rise in operating profit to R4.8m (R3.4m)," he said.

Pre-tax profit increased 15% to R4.2m (R3.7m), while after-tax profit rose 22% to R3.3m.
GRANITE producer Marlin Corporation has so far drawn a blank in its search for an international partner to buy a stake in the company.

Chairman Peter Gam said yesterday that talks with several unnamed parties were under way and that there was plenty of overseas interest. But it was proving tough to find an investor which would give Marlin an avenue into new markets.

Industry sources also suggest Marlin could face problems in persuading a prospective buyer to pay a premium to the company's low market value.

Gam said Marlin had turned itself around after failing market conditions led to a R16.4m attributable loss in the 18 months to December 1992.

The market is expecting Marlin to post a small loss for the 1993 financial year. But the company's reshaping and recovery in its markets was likely to push it back into the black this year, Gam said.

"We've contained our losses and turned ourselves around."

It emerged six months ago that Marlin was searching for an international partner as a main route to recovery, in place of asset sales. A key factor in the search for an international partner is the company's debt, which stands at R125m. This swamped operational gains in the six months to June, leaving attributable losses at 9.8c a share (3.7c loss).

Gam said the debt was mainly responsible for the company's sluggish JSE performance. The share closed yesterday down 1c at 16c — valuing the company at R7.48m — against a year high of 50c last February and a low of 8c in June. Rival producers Kudu and Kelgran are both trading at year highs, with Kudu's price of 120c double its level a year ago.

Gam said the company's beneficiation business, Marble Pentelic, had shown strong growth, and the contracting operation was also thriving. Marlin had landed a cladding contract worth R8m for the new Reserve Bank building in Johannesburg, and would undertake refurbishment work for the Bank in Cape Town.
Revamp boosts Ceramic Industries

CERAMIC tile and sanitaryware manufacturers Ceramic Industries benefited from restructuring and cost containment to post a 85% pro-rata rise in operating income to R5.1m (R3.3m) for the six months ended January.

The group underwent a major restructuring during the 1993 financial year, making comparisons with the previous interim period difficult. Its financial year end was changed from February to July with effect from July 1993.

On a pro-rata basis, turnover increased 6% to R33.5m (R35.8m) in the face of poor trading conditions and tough local and international competition.

Interest received rose to R1.4m (R1m) and interest paid increased marginally to R1.2m (R1.1m), leaving income before tax 64% higher at R5.3m (R3.2m).

The charge for taxation was reduced by tax losses brought forward from previous years, and led to attributable income of R6m. Earnings rose a third to 28.1c (20.8c) a share. An interim dividend of 5c (4c) a share was declared.

Ceramic was originally part of the manufacturing and retail operation Ialtile. The group split during 1992 and Ceramic acquired a listing on the industrial sector of the JSE.

Ceramic acquired Ialtile's manufacturing operations while disposing of a number of non-core businesses. These included the divisions involved in manufacturing and disposing of wooden doors, cupboards and kitchen units.

Ceramic executive chairman Gianni Ravazzotti said cost reductions and an improvement in productivity were the two key factors that contributed to the rise in operating income.

The group's goal was to become a player in the global market. To achieve this, it had imported the latest technology to expand capacity in plants.

"This technology transfer has not only improved our own standards, but those of the industry as a whole. In this way, we have been able to reduce costs and prices. a benefit we have passed on to the market," said Ravazzotti.
for African title

Ginger's Breton

Nigerian to fight

Shabadal

Another Brick

In the Wall to


city press, march 6, 1974
Can makers campaign to raise market share

MANUFACTURERS are promoting their claim to have brought down the cost of cans as part of a long-term plan to gain market share at the expense of glass non-returnable bottles.

Last week the manufacturers placed advertisements promoting cans. The ads were an industry effort by major players Bevcan and Crown Cork, held by Nampak and Holdam respectively.

According to the ads, the 340ml can was now the cheapest form of non-returnable packaging in the beer market. Not only were cans now the best value for money, but they remained the "lightest and the easiest to pack and chill".

Bevcan sales and marketing director John Moyes said cost savings in the manufacturing process were passed on to client SA Breweries, which was able to pass on the cost advantages to the consumer.

For the first time, cans were cheaper than dumpyes. There was a 60c-a-case price difference between 340ml cans and 340ml dumpyes.

"This is the first time that the can has enjoyed a price advantage over its biggest competitor, the dumpy, and Bevcan is committed to maintaining this advantage in a highly competitive market," Moyes said.

He added that the move had nothing to do with the entry into the local market of aluminium cans.

Dave Spindler, MD of major glass bottle producer Consol Glass, said on Friday that price differences had varied over the past few years, and that dumpyes had in fact been cheaper than cans in eight of the past 11 years.

The difference in price was now about 20c a case at wholesale level.

Spindler said the lower can price was achieved through currently low raw material costs, but input costs related to different production fluidated over time.

Cans were benefiting from an additional cost saving through technological improvements, he said.

Consol Glass had also made significant investments in technological advancements which would also lead to cost advantages. The launch of the new upmarket dumpy had been a major advancement.

Moyes said Bevcan had spent about R280m in the past two years on new plants and on upgrading existing plants to ensure they remained at the forefront of cost-effective packaging.

The company's aim was to be the lowest-cost producer in southern Africa.

An industry spokesman said that nationally, 340ml cans had an 11% share of the beer market, while dumpyes had 5%. Apart from these, and the 440ml cans, which had a share of about 5%, returnable bottles dominated the beer-packaging market.
Sanlam defends Tyl brick imports

TOM HOOD

SANLAM has defended its decision to import thousands of bricks from the Transvaal for a R10 million office block at Tyger Park, Bellville.

Cape brick manufacturers claimed these would cost more than twice the price of local products which were not inferior. (Ref 18/3/94)

Sanlam Properties manager Fanie Lategan said today “For aesthetic reasons we require a certain colour face brick on the external facade of the building. The local brick manufacturers do not have this colour brick in the quality we require.”

“However, it only concerns a small portion of the external facade. The remaining bricks will be purchased in the Western Cape.”

“Most developments use cement bricks lately. Using clay bricks in our development is an advantage to the clay brick manufacturer.”

Western Cape Clay Brick Association chairman Charles Pritchard said the 200,000 imported bricks were enough for about 30 houses.

“It is disheartening to see a major Cape development being constructed with Transvaal bricks. There is no question of inferior bricks being produced in the Cape.”

“Our range among the many producers here is equal to anything produced in the country.”

Mr Pritchard said local brickmakers had been asked to submit samples and could supply the same quality at R650 a 1,000 delivered against the R1,400 a 1,000 for Transvaal bricks.

If it became common practice to overlook local industry, the Western Cape’s already embattled labour market would be further eroded.

The new block, the second to be built at Tyger Valley, will have 3,500 m² of office space.

Sanlam Properties regional manager Kokkie Raaijmaakers sees no problems with letting the office building when it becomes available in September.

The building contract has been awarded to Murray & Roberts.
'Brick output will have to double'

BRICK manufacturers will have to double their current production output to meet the estimated demand of 4 billion bricks required to build 300 000 low cost houses a year.

Clay Brick Association executive director Nic Louw said SA’s 106 brick manufacturers produced about 2.4 billion bricks a year. On average, they were operating at between 60% and 70% of their capacity.

"In the short term, brick producers will cope with the increased demand as a result of housing initiatives, but they will be sorely stretched in the medium to long term."

"New housing developments will require infrastructural support such as schools, community halls and clinics. Producers will be hard pressed to supply the additional bricks once these support structures start coming on stream," he said.

The industry’s estimated 400-million stockpile of bricks would diminish rapidly as demand increased.

The brick industry had been hard hit by the lengthy recession in the building and construction market. Industry statistics showed that since 1988, consumption had fallen 56%, the brick mountain had more than doubled and the number of manufacturers had decreased from 400 in 1990 to about 106.

Clay Brick Association president Mike Wilkins said one of the biggest challenges facing the industry in the short term was the provision of adequate skilled labour.

"One of the prime tasks this year will be for the association to take the lead in exploring ideas for fast track training facilities to raise the number of skilled bricklayers," he said.

Preliminary research by the Building Industries Federation of SA (Bifsia) showed that an additional 12 000 bricklayers would be required to meet demand.

Bifsia executive director Ian Robinson has said the organisation would have to increase its annual spending on training from about R20m to between R250m and R300m. In addition, alternative training methods, such as on-site instruction, would have to be developed.

Portland Cement Institute's urban and rural development programme co-ordinator Wynand Louw said the production of bricks and blocks by communities could play a significant role in providing the billions of bricks required to alleviate the housing shortage.

He warned that while labour-based manufacturing and self-help housing schemes were vitally important, the technical quality of manufactured products could not be compromised.
Wholesalers accused of fixing glass prices

A ROW has flared up in the glass business, with retailers accusing wholesalers of fixing prices. Retailers have had to absorb price increases of up to 30% recently.

Glass prices to wholesalers increased last month by 9%. Wholesalers raised their prices to retailers by as much as 30%.

One retailer says: "They start at different prices, then bring in discounts to get to the same price for all of them. If a rep negotiated another 10% for a customer, he would lose his job."

Figures given to Business Times show wholesalers Float Breyer, Africa Glass, Johannesburg Glass and Triangle Glass, all sell 3mm glass at R16.24m².

Each company uses a different discount to arrive at the R16.24, it is claimed.

But PG Glass managing director Antony Tooley denies allegations of high price increases and monopolistic practices.

He says "The recent increases may appear to be high on the surface, but when viewed over a five-year period, the increase is below the level of inflation for the period."

Mr Tooley says of the price-fixing allegations: "PG Glass leads the pricing of glass in the market and competitors tend to follow. If they all want to sell at the same prices as us, there is nothing we can do."

"We always try to keep the floor-price of glass at world levels. But if people wish to, they would be able to import containers of glass. We have to be competitive as South Africa becomes a global player."

A spokesman for the Competition Board says a draft report has been completed on the glass industry covering the alleged monopoly, restrictive practices and acquisitions.

By JEREMY WOODS
Corobrick workers strike

DURBAN. — Hundreds of Corobrick workers in Natal have embarked on a work stoppage to back their demand for salary increases.
THE 11-member Western Cape cabinet will hold its first meeting on Friday, Prime Minis-
ter Mr Hernus Kriel said at the weekend.

Speaking during the historic first meeting of the Cape Parliament since June 22, 1910, Mr Kriel told the 42 Members of Provincial Legislature: "We are writing new words on a new page of a new era."

The first meeting of the cabinet will concentrate on refining portfolios and the division of power between central and provincial government.

The MPLs will gather for their first substantive session on May 27.

Saturday's meeting was largely ceremonial, with the swearing-in of new members and the election — unopposed — of Mr Kriel as premier, and Mr Willem Doman as Speaker.

Mr Arnold de Jager was elected Deputy Speaker after a surprise challenge from Mr Chris Nissen was defeated 35-17.

The Parliament decided to set up a multi-party committee under the chairmanship of the Speaker to decide on MPLs salaries and allowances.

The committee, which has to make its recommendations by May 30, will also be looking into finalising rules of procedure for Parliament.

An ANC amendment to the interim rules was accepted on Saturday in terms of which MPLs could express themselves "in the language of their choice" with all written documents being available in English, Afrikaans and Xhosa.

Mr Kriel told a press conference afterwards that he did not believe there was a great deal of difference between the National Party's plan for economic and social upliftment and the ANC's reconstruction and development programme.

One of the new government's priorities would be to attract investment that would create jobs and help to break "the circle of poverty" in the province.

The large discrepancy in spending on white and black education "cannot be tolerated much longer" and would have to be eradicated "as soon as possible within our financial means", Mr Kriel said.

The Western Cape Parliament has 23 NP members, 14 ANC, three Democratic Party, one Freedom Front and one African Christian Democratic Party.
Subsidiary helps double PGSi earnings

Belron delivers the goods

BY STEPHEN CRANSTON

Plate Glass and Shutterproof Industries (PGSi) has last received a meaningful contribution from its international interests held through Belron International.

Belron, which made a negative R5 million contribution last year, contributed R78 million in the year to March.

This was the main reason that PGSi’s attributable profit increased by 101 percent to R158.6 million. Fully diluted earnings per share were up 68 percent to 512.3c.

This is welcome news for PGSi’s parent company, SA Breweries, which desperately needs the extra profit to offset the expected losses from OK Bazaars.

PGSi chairman Ronnie Lubner says that Glass SA, the local manufacturing and distribution business, was unable to increase volumes or margins as it faced increased competition from imports and weak construction and motor industries.

But the local board and laminates business, PG Bison, had a major reorganisation, which led to a significant improvement in profit.

Zimbabwean associate PG industries, which was previously accounted on a cash-received basis, is now equity-accounted in view of the relaxation of exchange controls in Zimbabwe.

This was the major reason that equity-accounted earnings turned from a R1 million loss to a R8.4 million profit and that the value of investments in associated companies rose from R77.7 million to R150.7 million.

The highlight of the Belron results was the return to profitability of US subsidiary, Windsheilds America, and of Australian subsidiary O’Brien Glass.

Belron has substantial assessed losses in both these companies, which can now be used.

Belron’s French subsidiary was ahead of expectations, though not yet profitable. Though the German subsidiary was below expectations, it showed an improved trend.

Lubner says Autoglass continues to hold a small share of these markets, which are still dominated by car dealers.

The more mature Autoglass UK operation remained very profitable, and the Benelux operations made useful contributions.

Lubner says that PGSi is not in the fashion business. There are enormous opportunities from the demand for glass — and for board and laminates — in housing, which is a priority of the new government.

If demand increases according to expectations, PGSi will have to consider a second float glass plant to supplement its Springs plant. But in the meantime, PGSi would be happy to import excess requirements.

Since the removal of sanctions, Glass SA has been in a position to sell to its sister companies in Belron, but it does so on an arm’s length basis.

Its sales to Belron have increased, but in order to do so costs have been trimmed.

Lubner says that Glass SA prices are now lower than they were two years ago.

Cash flow from operations was up 105 percent to R283.1 million, which enabled gearing to fall from 62 to 27 percent.
PGSI turnaround shatters all records

PLATE Glass & Shatterprufe Industries (PGSI) broke its previous earnings records to report a 68% leap in fully diluted earnings to 512,3c (304,3c) a share in the year to March. The results followed a turnaround at offshore subsidiary Belron International. Belron, which serves the automotive replacement glass installation market through more than 650 outlets in 11 countries, turned from a R8m burden to contribute R78m — 38% of group earnings.

Chairman and CEO Ronnie Lubner said management's drive to improve market coverage and earlier than expected recoveries in the economies of some offshore markets "resulted in record profits".

In the second half, all of PGSI's operations surpassed expectations. PGSI, in the SA Breweries stable, increased its turnover for the full year 17% to R5,24bn (R2,77bn), while operating profit rose 33% to R358,8m from R270,1m previously.

Net financing costs were reduced to R28,5m from R32,6m. Strong cash flows of R293m from operating divisions helped reduce borrowings to R141m. Gearing was 27% (52%).

Taxed income was 71% up at R207,9m (R121,9m). Results from 45%-held PG Industries were helped by the lifting of the drought and a better business climate in Zimbabwe. PGSI's share of Zimbabwe's earnings have been reflected in full.

PGSI declared a final dividend of 145c, to bring the full year dividend up by 83% to 230c (150c).

Lubner said UK operations continued to benefit from the introduction of yearly windscreen testing, and Windshields America continued its positive swing.

European operations were generally ahead of budget, except for the Italian and German businesses. The Australian business returned to profitability.

Locally, Glass SA turned in a solid performance and PG Basin recorded a significant profit improvement.
Brick mould could help to ‘solve housing crisis’

CAPE TOWN — The owners of a pile of bricks lying amid rusted cars, pipes and motorbike frames on a plot outside Cape Town claim they could help to solve the housing crisis.

A-Block Marketing partners Alf Smith, a bricklayer and construction inspector for the past 22 years, and farmer Van Wyk van Niekerk demonstrated how an SABS tested building of regulation-sized bricks could be produced in less than three minutes, with only the barest rudiments of equipment. The secret of the operation is a uniquely designed mould of wood or steel into which concrete is stamped by hand.

Van Niekerk said the system enabled one person to build up to 125 bricks a day.

The bricks fit neatly into each other, with grooves into which a strong concrete mix is poured to seal the joints and make the wall water resistant.

He said it would take 2.5 billion bricks to build 1 million houses in five years. At 30c a brick, this could provide about R750m to people who would otherwise not have jobs. It is possible to make 62 bricks from one bag of cement.

The company wants to sell its mould to entrepreneurs and businessmen in housing development.

Van Niekerk had just returned from building a show house in the Zwelitsha township in Worcester. He built the house with the help of four unskilled people and said the showhouse received so much acclaim that he had to turn down several offers to start building companies.

The method has taken two years to develop and has already been used successfully to build a small number of structures, including houses.

Van Niekerk was reluctant to say exactly how much it would cost to build a house using the brick labour and profit could account for anything up to 50% of the selling price of a house, he said.
SA Brews cheers as Plate Glass stars

SOUTH African Breweries lifted turnover by 12% to R24,5-billion in the year to March 1994 when consumer spending showed real growth of barely 0,5%.

The beer, soft-drink, manufacturing and retail group’s trading profit rose 5% to R2,44-billion. Lower net financing costs and tax meant a 16% rise in taxed profit to R1,93-billion.

Plate Glass & Shatter-prufe Industries, the last group company to report results, provided the highlight. Its earnings a share increased by more than two-thirds to 51,23c. Key performer was Belron International, which contributed 30% of earnings (attributable profit was R159-million) (193).

Plate Glass shares have jumped R60 im the past month to R165. The price was below R43 a year ago.

After depreciation and amounts attributable to outside and preference shareholders, SA Brews added 14% in attributable earnings to R943-million, or 94c a share. The dividend was raised 18c to 155c, with a scrip alternative.

Domestic and international beer interests chipped in R79,-million — about 75% of the total.

Executive chairman Meyer Kahn says there is every reason to expect satisfactory real growth in earnings and dividends in the current year now the socio-political situation is more settled and capital inflow has renewed.

SA Brews share price has hit an all-time high of R103 after the results.

The low spot in the SA Breweries stable was OK Bazaars, which was delisted in January. It lost R74-million in the year to March, and reports speak of another R100-million in foreign-currency losses.
Argus forecasts 12% rise in earnings

ARGUS Newspapers, due to list on the JSE on June 13, has forecast 12% higher earnings of R563,6m and 12.5% higher turnover of R793m in the year to March 1995.

The company, whose listing follows the acquisition of Argus Holdings’ newspaper interests by Tony O'Callaghan's Independent Newspapers, will publish its pre-listing statement tomorrow. But directors said yesterday that unaudited pro forma turnover for the year to March was R706.7m, while earnings were R52m.

The adjusted pro forma earnings take into account discontinued operations such as the Sunday Star and the sale of the majority interest in the Sowetan, and include the effect of the acquisition of properties and of Times Media Limited's minority interest in various titles.

A pro forma earnings track record shows a 13.7% increase in financial 1994, a 20.2% rise in 1993 and a 79% rise in 1992.

Directors said dividends would be covered between three and four times

Based on 45.1 million shares in issue, earnings for the year to March were 64c a share, and would increase to 72c a share in financial 1995. NAV at end-March was 384c a share.

According to directors, Argus’s "unique position in the SA print market" would ensure it remained a focal player in the media market through ongoing innovation and development "despite an expected increase in the array of competitors in the radio and television fields".

Argus Holdings and JCI directors will retire from the Argus Newspapers board prior to the listing, and Independent Newspapers' MD Liam Healy will join the board.

In addition, the board will be extended "to represent the wider spread of the SA community". There will also be regional boards for the group's geographical interests in the Transvaal, Natal and the Cape, which will include non-executive directors representing the communities.

Healy will initially serve as chairman, but the intention is for him to be succeeded by a local non-executive chairman.

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Kelgran lifts earnings 152%

GENCOR-controlled granite producer Kelgran says attributable income to R15.2m (R6.4m) for the year to February on turnover which jumped 28% to R250.2m (R195.7m). Kelgran — one of the largest granite producers in the world — lifted operating income to R16.9m (R9.8m). Net interest paid fell to R32.5m, from R2.3m.

The company's tax bill dropped to R501,000 (R1.3m). Earnings a share rose 152% to 21.7c a share (8.6c). A final dividend of 10c a share was declared. Yesterday the share hit a new year-high of 390c, from an annual low last June of 95c.

Rusplat MD

LONDON — A surplus of 500,000 oz platinum was likely this year, the London Platinum mining company said at the London Platinum directors’ meeting today.

The latest Metal Bulletin said the group would be reduced by large investments in platinum products, such as platinum alloys, leaving a net surplus of 125,000 oz.

The bulletin said assuming the Northern mine reached its production targets, SA would control
ANIES

Big task for brickmakers

ROBYN CHALMERS

BRICKMAKERS will have to plan more effectively and do away with paternalistic attitudes to meet the task of supplying 300,000 low-cost homes a year, says Clay Brick Association president Harry Voorma. Addressing the body's 32nd AGM, Voorma said the industry must work closely with Housing Minister Joe Slovo to address a number of important issues.

"We also need to move away from the paternalistic approach of prescribing alternative construction methods without consultation with the people who will occupy these houses."

Potchelstroom University's Theo Venter said the industry had to lobby at local and national government levels if it were to become a force.
Lion's share of PGSI sales drawn from replacements

BY STEPHEN CRANSTON

The continued focus on supplying glass for the replacement motor market means that the market now accounts for 82.2 percent of the sales of the entire Plate Glass and Shatterprufe Industries (PGSI) group, up from 50.6 percent a year ago.

PGSI chairman Ronnie Lubner says in the annual report to March that he aims to make the group's international subsidiary Belron the leading, and perhaps the only, global specialist automotive glass replacement and repair network.

That ambition has caused a drain on group profitability in recent years, but in financial 1994 the turnaround finally took place.

Belron contributed $8 million in losses to the PGSI bottom line in 1993, but this was turned to a $74 million profit in 1994.

Belron cannot yet claim to be truly global as it has no operations in Asia or Latin America, but it now has profitable operations in Europe, the US and Australia.

In Australia, O'Brien Glass focused on the development of its replacement glazing business, keeping a tight control on overheads, while surpassing sales targets.

It traded well and plans aggressive growth, despite the difficult economic conditions in that country.

Market conditions for Windscreens O'Brien deteriorated in the first half because of excess capacity from local producers of automotive glass.

But with tight overhead control and targeted marketing and sales programmes, the business delivered a healthy profit performance.

In the UK, the 207-branch Autoglass chain saw its results in the first nine months of the year heavily influenced by the introduction of windscreen testing as part of the annual vehicle inspection.

Autoglass made headlines during the year as one of the two companies which withdrew its advertising from the Daily Mirror after that newspaper printed lurid pictures of Princess Diana in a West London gym.

This milestone event, however, is not mentioned in the annual report.

In the US there was a substantial turnaround from Windscreens America, and the network expanded to 145 branches.

Much of Belron's current focus is in continental Europe. It has well-established businesses in Belgium, Holland and Luxembourg, which showed a strong improvement in profit. The less well-developed network in France made strides and is on the verge of profitability.

The German market, which is where the number one prize, with a population of 80 million, is proving to be a steep learning curve.

The management team there spent the major part of the year re-organising the infrastructure to develop further significant opportunities.

There was a focus on investment in marketing and sales services to accelerate planned growth.

The Italian operation looked unlikely to become profitable within a reasonable period and the business was sold to a local company on a franchise basis.

Glass South Africa had a difficult year and its contribution fell from R103 million to R80 million. Sales were up 3.3 percent to R187 million, but margins came under pressure in a more competitive environment.

CEO Rod Fehrson says that Glass SA is committed to becoming truly globally competitive, building long-term relationships with customers based on sound pricing, consistent service levels and an appropriate range of quality products.

PGF Building Glass was awarded anti-dumping protection, but currency movements late in the year reduced the attractiveness of imported glass.

PG Glass Express made inroads into the quick glazing market and there was a significant increase in the volume of glass installed because of the need for replacement.

Automotive Safety Glass, which supplies the original equipment market, benefited from the four percent increase in passenger and light commercial vehicle sales.

Fehrson says Glass SA's short-run manufacturing skills remain comparable with the best in the world and it aims to be a niche supplier of choice to the worldwide automotive glass aftermarket.

PG Autoglass grew market share through strong marketing of its dual-free service and the mobile fitment service is now offered 24 hours a day.
Ketter Granite revises forecast

BY STEPHEN CRANSTON

Ketter Granite will not meet the 10.4c a share earnings target of its listing statement, says MD Leon Kaplan. The forecast has been reduced to 8.3c for the 18 months to September (1988).

Ketter's R16 million cash balance earlier in the year and its year-end changed from March to September.

In the 12 months to March, Ketter reported attributable earnings of R317 000 and earnings per share of 1.1c.

The results reflect nine months of income from Racy and three months of granite sales. Turnover for the period was R6.6 million, but unannounced turnover is running at R20 million to R25 million.

Kaplan says the March quarter was particularly difficult as pre-election labour difficulties reduced output at both the 'African Red' quarry near Potgietersrus and the Belfast Blue's quarry.

Output has increased significantly since new plant and equipment was commissioned in May at a cost of R5 million, financed out of a R6 million loan facility.

The remaining R1 million has been earmarked for an additional excavator for the Potgietersrus quarry.

Kaplan is confident that worldwide demand for granite has increased in recent weeks. Belfast Black prices have firmed up to 15 percent.

The Ketter share has traded at 45c to 70c since listing, and is now quoted at 50c. This gives a modest prospective P/E ratio of six, which offers some value.
Ketter production below target

IMPROVED demand for Ketter Granite's products for the 12 months to March was offset by abnormally high rainfall and pre-election labour difficulties which reduced production to below target levels.

Recently listed Ketter Granite Holdings reported attributable earnings of R317 000, which translated into earnings a share of 1.1c. This result was achieved on a turnover of R6.6m.

Ketter MD Leon Kaplan said that due to the recent listing, the company did not feel it appropriate to declare an interim dividend. The earnings forecast for the period to September has also been revised down, from 10.4c to 8.3c a share.

Comparative figures were not available because Ketter Granite was listed for the first time in March after the recent reverse takeover of the Racy Group Holdings cash shell. Subsequently, Ketter's financial year end was changed from March 31 to September 30.

Kaplan said the period under review was also a difficult period for the granite industry as a whole due to the winter in the northern hemisphere, and he expected the company's results to improve substantially over the next six months. The company could pay a dividend of 2.5c to 3c, depending on circumstances, he said.

Kaplan said one objective of the listing was to raise R6m for capital expenditure designed to speed up production at the company's quarries at Belfast and at Potgietjersrus.

The process was almost complete, said Kaplan, and this put the company in a good position to catch the expected upswing in the granite market. He said he viewed granite prices as being at the "bottom of an upward curve" and expected prices to rise by about 10% to 15% this year.

Ketter mines Belfast Black at its Belfast quarry, and African Red at Potgietjersrus.
No 'reprieve' for Rooiiberg

MICHAEL URQUHART

GOLD Fields of SA would not re-
prove tin mine Rooiiberg despite tin's
strong price recovery in recent
months, executive director John Hop-
wood said at the weekend.

Gold Fields said last week it had
been approached by a prospective
buyer for the operation, which has
been winding down since Gold Fields' de-
cision to close it late last year.

Hopwood said the interested par-
ties were local, but he was not pre-
pared to divulge their identities. He
could also not say whether they in-
tended to reopen the mine.

He said Rooiiberg had extensive
surface and mineral rights, two vil-
lages in a potential game reserve
area and a tin smelter and tin mines
which could be turned to account
should the tin price rise substantially.

But Gold Fields believed the tin
price would have to rise at least an-
other US$1,000 above its current US$6,200/}

before Rooiiberg's reopening was vi-
able. The company wanted to sell its
entire interest.

"The tin price is coming off a very
low base," he said. "Currently it is
lower in nominal terms than it was 20
years ago.

A source doubted tin would rise
significantly, and it was possible that
the prospective buyer was looking at
the cash value of the mine versus the
share value, or at using Rooiiberg for
the listing of another project.

Sources have warned that base
metals markets are being driven
more by technical than fundamental
demand. But Hopwood said these
prices should also be seen against the
low levels they were coming from.

Copper LME stock had come down,
he said, but the price was way above
fundamentals. "I expect to see a cor-
rection in the copper price to around
US$2,200, but even this is not a bad price
in the circumstances."

A number of new low-cost produc-
ers will come into the market within
the next nine to 18 months which
would keep a lid on the price, he said.

Other Gold Fields' projects which
would benefit from improved base
metal prices are copper producer
O'okiep and lead, zinc and copper
company Black Mountain, which had
shown a substantial turnaround.
1 in 2 ‘must’ get jobs

SOUTH AFRICA must create one job for every two of its people, Trade and Industry Minister Mr. Trevor Manuel said last night. He told a dinner held in his honour at the Peninsula Technikon that resolving South Africa’s “sad story” of massive unemployment hinged on the country repositioning itself in the world economy through technology and human resource development. “People need to be equipped in order to exercise their resources,” he said.

Mr. Manuel said that trade and industry had helped shape rapidly developing countries and this could apply in South Africa.

Chairperson of the Peninsula Technikon council, Mr. Essa Moosa, said Mr. Manuel had “not only brought honour and prestige to this institution, but also to the people in Salt River, Kensington and Athlone with whom he grew up, lived and struggled.”
Marlin posts poor results

Granite producer Marlin Granite's financial statements were again qualified by its auditors after posting weak results for the past financial year.

The company reported another poor financial performance for 1993, with losses of R4.2m compared with a 'loss' of R16m previously. Extraordinary items, of R6.8m relating mainly to the sale of interests in Barracuda Granite, were written off.

The auditors said the ability of Marlin to continue depended on the provision of finance by its bankers and its ability to return to profitability.

Finance director Ian Macmillan attributed losses to poor industry conditions and heavy gearing. The company had redeemed R41.4m preference shares until the 1992 financial year, which meant it came out of share capital into short-term loans at a time when the granite industry was in a trough.

Macmillan said the second half of the year would produce substantially better results (1983).
Building the rand hedge element

Activities: Makes, distributes and installs flat and automotive glass, provides, makes, processes and distributes timber, board and aluminum products
Control: SA Breweries 50.2%
Chairman and CE: A Lubner
Capital structure: 24.7m orcs Market capitalisation R3.8bn
Share market: Price 15.30c Yields 1.5% on dividend 4.2% on earnings, p/e ratio, 23.8, cover, 2.2 12-month high 18.50c low 4.850c Trading volume last quarter 531 000 shares
Year to March 31
- ST debt (Rm) 1800 248.4 293.6 107.5
- LT debt (Rm) 515 133.7 64.4 111.0
- Debt/equity ratio 0.49 0.29 0.52 0.21
- Shareholders' interest 0.39 0.34 0.26 0.26
- Int & leasing cover 10.5 6.5 7.0 6.7
- Return on cap (Rm) 13.0 13.5 13.6 13.6
- Turnover (Rm) 2 299 2 175 2 775 3 237
- Pre-cont profit (Rm) 288.6 212.1 270.1 358.6
- Pre-cont margin (%) 13.0 11.6 9.6 11.0
- Earnings (c/0) 40.9 30.9 32.0 64.2
- Dividends (c/0) 222 150 150 230
- Tangible NAV (c/0) 2.474 2.113 1.275 1.750

*attributable to shareholders changed in 1992 to 1.0. Figures are not strictly comparable.

What Ronnie Lubner threatened for years has finally come to pass. Plate Glass & Shatterprufe Industries (Plate Glass) has turned in results which can dryly be described as better than expected.

With attributable EPS (at 641.9c) almost exactly double that of last year, Luber can at last afford to grunt “I told you so.” It was a superlative year all round so it seems curious to remind investors — though I must — that the company has been in a state of gentle decline since 1988.

For three years the dividend was held at 22c, before plunging to 15c for another two years. This year, with the payout at 230c, Plate Glass has edged upwards though in real terms, of course, shareholders’ rewards have been pitiful.

The key to Plate Glass’s remarkable success in financial 1994 is Belron, its international operating arm. Sales by Belron subsidiaries and managed associates rocketed 33% to R1841m — it now constitutes 49% of total turnover. More important, Belron’s contribution to attributable earnings swelled from a negative R8m in 1993 to a positive R74m and it now provides 38% of total earnings.

Lubner has, therefore, fashioned a company which now contains an important — and growing — rand hedge element. In a country wrecked by financial uncertainty and continual attacks on its currency, this is significant when calculating investment strategies.

On a scale, Lubner says all Belron’s operations performed well though he singles out Australia and the US, where it now has 145 branches, for special mention. Operations in France are inching towards profitability though, curiously, the toughest nut has been Italy from which Belron has since retreated. Chief operating officer John Mason says, “It became clear that it was not going to provide a positive contribution within a reasonable period. Action was taken to disinvest.”

Lubner’s philosophy appears to have been to attack markets — certainly in the UK and most of continental Europe — by approaching problems from the perspective of the short-term insurers. It is a policy simple enough to earn plaudits from the discriminating vehicle insurers are plagued by get-rich-quick artisans who seek to exploit the deepest pockets. In this case the insurers over-charging for spare parts and panel repair is universally practised.

So, when Lubner’s teams offer standardised charges backed by instant access to windscreen replacement through toll-free call facilities, insurers sign up willingly, they are relieved of the need to act as policemen and they can sleep soundly because they know a uniform charge scale is applied. It is an instant and totally acceptable solution to a long-standing problem, insurers must wish they could apply the principle in other areas of their business.

Still, I cannot avoid an odious comparison in neatly colourless prose. The annual report which shows the group’s constituent parts, shareholders will note that what is called Glass SA, an amalgam of PG Glass, PG Building Glass, PG Autoglass and Safety Glass, contributed R80m (from sales of R837m) of the total attributable income. This contrast is most marked: the former’s performance on sales of R1.84bn was an earnings contribution of only R74m.

Expressed as crude trading margins, Belron operated on 4%, Glass SA on 9.6%. Roughly, it implies we pay in SA twice the margin imposed on lucky motorists elsewhere. Could that be because, effectively, Plate Glass operates a near monopoly in this country? It certainly illustrates the beneficial power of competition in free markets.

Lubner denies this the comparison is wrong, he says, because it’s like comparing “apples and army boots.” That’s because Glass SA “encompasses two major manufacturing businesses. PG Glass is nowhere a monopoly and holds a market share of something like 30%.” You could have fooled me.

As with other companies in the SA Breweries stable, Plate Glass now accounts fully for its Zimbabwean operations rather than accounting as in the past. Lubner defends the decision on the grounds that exchange controls in Zimbabwe have been “relaxed” (a delicate way of saying scrapped), the effect is to add R10m to Plate Glass’s earnings, a handy enough bonus for years of persistence.

Gearing has declined to a substantially better 42% from last year’s worrying 71%. Within that, however, are some surprising movements between short-and long-term debt. Short-term borrowings have fallen by no less than 48%, long-term loans have nearly doubled. Lubner says this reflects the company’s view on interest rates they will rise over the next year and he considers it prudent to lock in some borrowings at rates lower than those he anticipates a year hence.

Plate Glass is a cash generating business over 1994 it produced R3,285m in sales and paid R1,859m for product. That leaves it with R1,325m, of which R922m went to employees, R72m in direct taxes and a modest R85m to shareholders, R218m was retained to be invested in new and replacement assets.

Belron remains the key to the future growth path if its advances in international markets can be sustained, shareholders will enjoy a comfortable ride, if not in dividends then through the share price. It is now on a p/e of 24.6 (using attributable earnings) which many may consider high.

Nevertheless, in the face of a flailing rand and with growing unemployment among shareholders, this is a ratio which, in the end, proves self-fulfilling.

(193)

PLATE GLASS

Plate Glass's Lubner apples and army boots

Plate Glass

FINANCIAL MAIL • JUNE 17 • 1994 • 19

Nevertheless, in the face of a flailing rand and with growing unemployment among shareholders, this is a ratio which, in the end, proves self-fulfilling.

(193)
Rustenburg nickel yield disappointing — claim

LONDON — Rustenburg Platinum’s nickel output has been below expectations, a source has told the Metal Bulletin.

In its latest issue the magazine quoted the informant as saying output had “not been what we wanted” and that the upgrading of the company’s smelter and the installation of fresh drying equipment had “caused some problems”.

“The JCI-owned company does not disclose figures for nickel production as it does not want to reveal pgm output.

However, the company official said as platinum production was set to increase this year, so would nickel production. It is estimated that Rustenburg produces between 20,000 and 21,000 tons of nickel. Analysts believe the upgrading of the smelter will result in a loss of 3,000 to 4,000 tons of nickel this year.

Meanwhile, in Zimbabwe, BUndura nickel produced 12,769 tons of nickel-in-concentrate in 1993, the second highest level of production for the company on record. This was achieved despite the 10-week closure of BUndura’s BRS smelter to facilitate the complete rebuilding of the electric furnace.

However, the average nickel price received by the company fell to $2.42/pound in 1993 from $3.29/pound in the previous year. This meant a fall in pre-tax profits from ZS134,6m in 1992 to ZS56,3m in 1993.

Nickel production at Rio Tinto Zimbabwe’s Express refinery this year has remained at its 1993 level of 6,000 tons. Frank Webster of Rio Tinto Zimbabwe told the Metal Bulletin that the planned expansion project was “under constant review — it depends upon additional feedstock.” Most of the feed comes from Phoenix mine in Botswana.

The company showed an after-tax profit of ZS47m in 1993, compared to ZS80,4m in 1992. The increase in profits was attributed by Webster to the successful installation of the Siro-smelt furnace which smelts residues on site.

In Tanzania, Sutton Resources and BHP continue drilling in the Kabanga and Kagera areas in the northwest of the country.

Resource estimates at Kabanga are for 25.5-million tons, grading 1.19% nickel, 0.39% copper and 0.16% cobalt which would yield 600-million pounds of contained nickel, 100-million pounds of copper and 50-million pounds of cobalt.

The deposit is amenable to open pit mining with metals recoverable in the 50% to 60% range.

Sutton is most excited, however, by the drilling work at the Kagera deposit. Sutton president Michael Kenyon explained that while this was “definitely a nickel deposit, it looks like it is a significant and substantial cobalt deposit.”
Stone industry can look forward to good growth

THE world stone industry could expect an annual growth rate of at least 5% in the years to 2000, according to the World Stone Industry Report for 1994.

This figure is deemed conservative by the report, which says the growth in world stone production, exchange and consumption has been almost twice that of world economic growth over the past four years.

The industry has been through a difficult period during the economic recession, mainly due to decreased demand from the construction industry.

Although the building industry is not affected proportionately to the total economy, according to the report, finishings, which accounts for 50% of the granite market, are affected even more than the general building industry.

SA Granite Association spokesman Alex Hawes said the nature of the industry had changed. The processing end had decreased margins but had increased capacity utilisation, he said.

There was new optimism in the world granite industry, with major construction projects starting up and central Europe "doing a rebuild."

Previously central Europe had used local stone, but now that the countries had opened up to world markets they were using choice materials.

SA supplies 12%-13% of world raw materials. Of this, 60% is Rustenburg granite — a high quality, near-black stone which, according to Hawes, is extremely popular with designers and architects, and for monuments.

Rustenburg producers are low on stock and short on production, said Hawes.

The large number of new producers, such as China, meant the low stock situation would not result in large price opportunities, but it would mean good capacity off-take.

Hawes said the main strength of the SA granite industry was its exceptionally good marketing and reliable products, such as those from Rustenburg.

The local producers market their products well and are constantly looking for new products to introduce into the market, he said.
From MICK COLLINS

JOHANNESBURG –
Motor retailer and
building products group
Saficon more than
trebled earnings to
R18.2m for the six
months to June despite
the motor industry
strike.

Group turnover increased
18.4% to R17.7m, mainly on the
back of the introduction of the
Mercedes-Benz C class model and
aggressive selling of all models. A
significant contribution was also
made by building materials sub-
subsidiary Boumat.

Operating margins remained
constant, but by containing in-
creases in overheads across the
group, Saficon more than dou-
bled operating profit to R8.6m.
Earnings a share rose to 56c (14c)

After a two-year suspension,
the group resumed paying an in-
terim dividend, and a payout of 6c
was declared.

Pre-tax profit rose 276% to
R38.7m and after a tax payout of
R16m (R4.2m), after-tax profit
nearly quadrupled to R23.6m
(R6.4m).

Chairman Sidney Borsook said
"Aggressive selling and strict fi-
nancial discipline carried over
from our reconstruction helped
enormously."

The good results achieved by
Boumat relative to the rest of the
group resulted in a substantial
increase in the share of earnings
attributable to outside share-
holders, notwithstanding the in-
crease in the number of Boumat
shares held by Saficon during the
period.

Borsook expected the supply of
new vehicles to improve during
the second half of the year.

He said he was confident the
group would double first-half re-
sults over the full year. “Higher
volumes, constant margins and
lower costs — that’s the answer,”
Borsook said.

CE Kurt Hipper said vehicle
sales had improved in real terms
and extra volumes were sold to
elections personnel. “All of the
vehicles were returned and were
sold off as second-hand stock
which also helped results,” he
said.

Other areas where the group
made inroads included the
second-hand car market.

● Sakers Finance and Invest-
ment Corporation, which derives
its income solely from its 50.4%
holding in Saficon, reported
earnings a share of 87c (33c) and
an interim dividend of 13c (nil)
was declared.
Brickmaking builds bridges for Grinaker in Khayelitsha

BY WAGHIED MISBACH

IN A BOLD move to provide employment in Khayelitsha, a construction company is forming a brickmaking firm in partnership with the community.

The company will provide jobs for about 20 people to produce about 1.5 million bricks a year.

Grinaker Construction in the Cape started the project after talks with the Khayelitsha community earlier this year.

Although the company has not started manufacturing yet, Grinaker has employed a Khayelitsha building contractor to oversee the project. Grinaker will support the company by providing finance, management and administration. They will also second an employee to control financial aspects.

"This person could become the financial director of the company. It is a great opportunity," said Mr. David Streder, Grinaker's Human Resource Manager.

The company will send the person on a basic bookkeeping course.

The rest of the employees will be nominated by the Khayelitsha Civic Association, said Mr. Eric Mafu, Grinaker's Community Development Office (192).

Grinaker has invested R150 000 while talks are underway for Anglovaal to add R500 000.

Mr. Streder said that Grinaker was trying to ensure the company would make a profit. The salaries of the employees would be linked to the company's profitability.

There was, however, no deadline placed on the company to become profitable, he said.

Mr. Streder said the company wanted to pre-empt any government decision to legislate for affirmative action and preferred to do it voluntarily.

The company was already involved in providing small businesses with contracts to supply materials.
around 1.0 instead of the 0.79 calculated by management.

Possibly one of the most positive aspects is that the market is apparently confident that things will come right. Amazingly, given the disappointing 1994 results, the 42c share price is 13% higher than a year ago, when the group was still hoping it would be able to hold on to the recovery achieved in 1993.

Taking the average industrial market price of around 20, the price now discounts EPS of at least 21c which, in the short term, looks optimistic.

Brian Thompson

CULLINAN

Nightmarish accounts

Activities: Industrial ceramics and electrical goods

Control: Old Mutual (46%)

Chairman: A J L Clark MD M E Harbour

Capital structure: 14.5m ord. Market capitalisation R61.6m

Share market: Price 42c, 12 month high 550c, low 290c Trading volume last quarter, 100,273 shares

Year to June 30

<table>
<thead>
<tr>
<th>'92</th>
<th>'93</th>
<th>'94</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT (Rm)</td>
<td>21.8</td>
<td>31.4</td>
</tr>
<tr>
<td>LT debt (Rm)</td>
<td>73.8</td>
<td>35.7</td>
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<tr>
<td>Debt equity ratio</td>
<td>0.79</td>
<td>0.69</td>
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<tr>
<td>Shareholders' interest</td>
<td>n/a</td>
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<tr>
<td>Interest &amp; leasing cover</td>
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<tr>
<td>Return on cap (%)</td>
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<tr>
<td>Turnover (Rm)</td>
<td>250</td>
<td>320</td>
</tr>
<tr>
<td>Pretax profit (Rm)</td>
<td>42.4</td>
<td>11.5</td>
</tr>
<tr>
<td>Pretax margin (%)</td>
<td>1.7</td>
<td>3.5</td>
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<tr>
<td>Earnings (c)</td>
<td>138.5</td>
<td>153.3</td>
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<tr>
<td>Dividends (c)</td>
<td>nil</td>
<td>10</td>
</tr>
<tr>
<td>Tangible NAV (c)</td>
<td>820</td>
<td>813</td>
</tr>
</tbody>
</table>

At the best of times, company analysis tends to be a subjective art, based on ratios which, by themselves, don't mean much. Another equally nebulous "indicator" is a company's ability to market itself through publications such as the annual report — the premise being that if a company really knows what it is doing, it can normally be expected to perform well relative to business conditions and (if it chooses) will also usually find a way to present itself concisely and comprehensively to outsiders.

Without intending to be unkind, this annual report starts off as a nightmare and then, due to past balance sheet events, gets worse. There are two basic problems first, rather like Abercom many years ago (but hopefully not with the same consequences), activities are being hived off progressively and the financial statements are split on a continuing/discontinued operations basis, which makes year-to-year comparisons difficult, particularly if one wishes to go back further than 1993.

The second problem arises from the elimination of deferred tax assets from the financial statements. While this is welcome in that it is a more conservative approach, particularly given the group's current performance, it also has the effect of destroying historic data streams which depend on balance sheet values, since shareholders' funds and total asset figures have been severely mauled in the process — for example, 1993 shareholders' funds, originally R134m, have been whittled down to R118.1m in the latest report, before taking into account 1994 losses which reduced them further to R83m (193).

This all pales into insignificance compared with the decision to sell the group's half-share in Cullinan Refractories to Iscor — a move that will completely change Cullinan's character. Taken with last year's sale of the electrical contracting operations, the turnover base of the "new" group will be little more than half of what it was in 1994 -- R216m against R426m (which included R58m attributable to the discontinued contracting operations).

Based on 1994 results, the same effect will not be felt in the income statement. Out of total attributable losses of 146.2c a share (including 14.4c attributable to electrical contracting), Cullinan would still have been left with losses totalling 110.7c, if both disposals had been effective throughout 1994, underlining that there is still much work to be done to restore significant profitability to the rest of the group.

With the major change now in progress, there is little point in paying too much attention to the published financial statements. However, two factors will dictate the sustainability and quality of earnings:

First is the extent to which management can deal with what looks an extremely unwieldy and costly overhead structure — whereas aggregate operating profits of the six divisions (including Refractories) totalled R3.8m last year, there was a pre-interest group loss of R3.6m from what were then deemed to be continuing operations, a R7.4m difference. In 1993, aggregate divisional profit of R17.7m was cut to R11.5m at group level.

Second, something drastic needs to be done about the borrowings — including taking a more realistic view of what the gearing really is. In its own calculation, Cullinan takes R15m in redeemable prefs (repayable in February, 1996) as permanent capital instead of debt. If the ratio is recalculated to recognise these prefs as debt, the true debt/equity ratio leaps to 1.39 from 1.03. More important, even after the cash inflow arising from the sale of Refractories, the debt ratio is still likely to be...