MANUFACTURING — NON-METALLIC MINERAL PRODUCTS

1995
Corobrik gearing up for expected rise in demand

BY MAGGIE ROWLEY

Cape Town — Corobrik is gearing up to meet higher demand for building products by recommissioning five factories mothballed during the recession.

Executive chairman Errol Rutherford said yesterday two factories closed in recent years had already been reopened — one at Ondandaalrust to supply bricks for the first RDP housing programme to get off the ground at Kuthlicong, and the second at Glencoe in KwaZulu/Natal to meet demand from the Hillside smelter at Richards Bay.

The third factory to be dusted off is the Pheasant Kraal 1 factory in Durbanville, closed since 1989. Recommissioning the factory to target regional demand from RDP housing programmes will lift Corobrik's capacity in the region by about 32 percent and create 100 jobs.

Rutherford said he was bullish about prospects for the industry in the medium term and he had no doubt the two remaining factories, where capacity had been halved in recent years — Rietvlei in Pretoria and a second plant at Ondandaalrust — would be fully commissioned by year's end.

This would bring Corobrik's capacity, currently running at 90 percent, to one billion bricks per annum and boost employment levels from below 5,000 to roughly 5,400, he said.

In addition, Rutherford said the huge stockpile of bricks they had been sitting on for the past couple of years had dropped significantly from a peak of 300 million to 200 million.

"We expect the surplus to be rapidly absorbed by the market this year," Mike Ingram, director of Corobrik's Eastern and Western Cape regions, said recommissioning of the Pheasant Kraal 1 factory in Durbanville was already in progress and the factory would start operating next month.

Clay brick sales, he said, had increased nationally by about 4 to 5 percent in 1994, despite a very slow first half-year due to election uncertainty, which had negatively impacted on the construction industry.
Corobrik dusting off old factories

By MAGGIE ROWLEY
Property Editor

COROBRIK is gearing up to meet increasing demand for building products and recommissioning five modern factories mothballed during the recession, including one in the Western Cape.

Executive chairman Errol Rutherford said two factories closed in recent years had already been opened — one at Odendaalsrus to supply bricks for the first RDP housing programme to get off the ground at Kathleenkong and the second at Glencoe in northern kwazulu/Natal to supply the demand from the Hillside smelter at Richards Bay.

The third factory to be dusted off is the Pheasantkraal 1 factory in Durbanville which has been closed since 1989. The recommissioning of this factory, which will be targeting regional demand from RDP housing programmes, will increase Corobrik’s capacity in the region by about 25% and create about 100 jobs.

Rutherford said they were bullish about prospects for the industry in the medium term and he had no doubt the two remaining factories where capacity had been halved in recent years — Rietvlei in Pretoria and a second plant at Odendaalsrus — would be fully commissioned by the year’s end.

Smaller stockpile

This would bring Corobrik’s capacity, currently running at 90%, to one billion bricks per annum and boost the company’s employment levels from below 5,000 to roughly 5,400, he said.

In addition, Rutherford said the huge stockpile of bricks they had been sitting on for the past couple of years had dropped significantly from a peak of 300 million to around 200 million.

Mike Ingram, director of Corobrik’s Eastern and Western Cape regions said work had started at the Pheasantkraal 1 factory in Durbanville and the factory will be operating from next month.

Clay brick sales, he said, had increased nationally by about 4% or 5% in 1994 in spite of a very slow first half year due to election uncertainties which negatively impacted on the construction industry.

"This was more than made up for in the second half of the year and we are optimistic for the outlook for the industry over the next five years."

Sales this year, said Ingram, were expected to show growth of around 15%.

"The recommissioning of the Pheasantkraal 1 factory will provide more capacity than our immediate needs and will stand us in good stead for the next few years particularly as our other four factories in the region all have spare capacity."

Ingram said that to meet the ambitious RDP requirements to housing, building materials companies would need to improve production output and reduce the cost of building materials.
Two years' service for doctors 'unlikely to be implemented'

A RECOMMENDATION made this week that newly graduated doctors be forced to serve for two years in the public health sector is unlikely to be implemented.

Health Department deputy director-general Dr Harm van Pretorius said recently that public service would not be compulsory. Instead, ways of luring doctors to under-resourced areas through incentives were being investigated.

Aside from increased pay for doctors serving in rural areas, the department was looking at a scheme whereby graduates with state bursaries could work them off in half the time in rural areas than they would in urban areas. Improving working conditions would help to attract doctors.

The recommendation was included in a report compiled by a team of health experts serving on a finance advisory committee appointed by Health Minister Nozizwe Madikizela-

Their report, submitted in November, was finally made public on Tuesday — but Zuma emphasised its contents did not reflect the view of the Ministry. The Ministry would choose which aspects of the report it wished to follow up.

The Representative Association of Medical Schemes (Rams) said yesterday it was greatly encouraged by the Minister's decision to make the report public.

The report has been at the centre of controversy over the way the Ministry has dealt with a plan to introduce a national health fund. Her refusal to release the report provoked allegations that the process lacked transparency.

Rams yesterday voted unanimously in favour of its executive director, Reg Magwaza, serving on the technical committee investigating the possibility of a national health insurance fund.

Rams chairman Keith Hollis said the association would look for practical solutions while taking into consideration the country's economic constraints.

The recommendation that newly graduated doctors be forced to do two years compulsory service is one of a range of measures put forward by the finance committee to strengthen the public sector.
Cement sales up for first time in five years

DOMESTIC cement sales rose 10.22% last year over 1995, the first real annual increase in more than five years as the industry emerged from the lengthy recession. Figures released by the SA Cement Producers' Association yesterday showed sales rose to 7.9-million tons (7.17-million tons). Analysts said the higher sales were indicative of the upturn in the building and construction industries. Demand had risen on several major projects, including Columbus, Aluaf and the Lesotho Highlands projects, came on stream.

The figures showed a steady rise in sales in the second six months, with a slower increase in the first half. Association executive director Graham Mitchell said the higher sales did not reflect the reconstruction and development programme, as government's low-cost housing initiative had not yet taken off.

"The industry is, however, bullish that the housing programme and the construction of related infrastructure will get underway by midyear. This will boost sales and take up the slack once demand from major projects begins to dissipate.

Analysis estimates that the RDP should boost cement sales by 8.5% on an annual average compound basis over the next five years. This would increase manufacturers' total revenue by R1.8bn.

ROSY CHALMERS
Building material suppliers (193) warned of price controls

PRICE increases for building material supplies have to be transparent and defensible if suppliers are to avoid government's threat of price controls, says Building Material Suppliers Consortium chairman George Thomas.

There have been signs of building material price increases beyond the rate of inflation over the past few months, despite an agreement reached among suppliers last year to keep price rises reasonable.

The recently released Bureau for Economic Research survey on the building industry showed that building costs rose 11.2% in the fourth quarter of last year, and looked set to increase further this year.

Housing Ministry director-general Billy Cobbe warned last year that should prices begin to spiral, it would undermine government's housing programme and force the implementation of price controls.

Thomas said the consortium, which had mushroomed over the past few months to represent more than 380 companies, had attempted to instal a measure of discipline and transparency among members.

"Price increases are, however, often beyond the control of companies which have to contend with international pricing and rising input costs."

"In addition, the lengthy recession has bitten deep and many organisations have suffered so there is a temptation to raise prices significantly. This would be counter-productive and exceedingly harmful to the industry as a whole," he said.

At the Boksburg housing conference in October, the organisation committed its members to price discipline and value for money. As a signatory to the housing accord, the consortium said it believed stable prices were best delivered by fair competition and limited import tariffs.

A further key concern was the loss of capacity because of the recession and production slump, fuelling fears that the construction sector would run out of capacity once the housing programme geared up.

The White Paper on housing stipulated that it was essential to have certainty on government's housing policy and strategy to initiate sustained capacity growth.
Italtile boosted by lower debt costs (93)

JOHANNESBURG — Improved margins and lower debt helped tile and sanitaryware retailer Italtile grow attributable profit 60.3% to R5.2m in the six months to December, against the same period in 1993.

Turnover lifted by 19.5% to R105m (R87.8m) on which operating profit rose 57.5% to R7.6m, showing operating margins at 7.2% from 5.5%.

The interest bill dropped to R269,000 from R1.5m as cash sales rose by 27%, but this was partly offset by an increase in the tax rate to 30% from 23%.

On a slightly higher number of shares in issue, earnings were 59.8% higher at 29c (18.2c). An interim dividend of 5c (3c) has been declared.
Concrete body changes name

THE Concrete Masonry Association has changed its name to the Concrete Manufacturers' Association.

CMA director Patrick Kelly said the name better indicated companies and products represented. These were concrete masonry, block paving, retaining blocks and roof tiles.

Kelly said the Concrete Roof Tile Association had joined forces with the CMA to form a wider body representing the interests of an industry with yearly turnover of R1bn.

"We believe the association now reflects the greater diversity of the products produced by its 26 member companies," he said.

Companies represented by the association produced about 43% of the 4-billion bricks manufactured in SA yearly — up from only 5% when it was established 23 years ago.

"The CMA and its members are becoming more proactive this year and are looking for substantial growth as a result of the reconstruction and development programme (RDP). Our products are ideally suited to infrastructural projects called for by the RDP. These include concrete products for mass housing, roads and township services."

Consol climbs on wine bottle boom

PAPER, packaging and rubber group Consol lifted earnings 15% to R94,3m as the improved economy saw sales increasing in most divisions, chairman Clive Menell said yesterday.

Turnover rose 21% to R1,48bn (R1,30bn), with operating profit increasing to R104,2m (R109,4m), but tight competitive conditions had resulted in pressure on the group's margins.

Profit after tax was 15% higher at R94m. In terms of turnover split, packaging and related products improved 27%, contributing R69,4m, and rubber and related products' contribution increased 16% to R79,9m.

Packaging and related products' operating income was 27% higher at R94,2m and rubber and related products moved up 10% to R79,9m.

Menell said the 27% improvement in packaging's turnover and operating profit resulted from the contribution of Interpak, which had been acquired during the previous financial year.

"Glass volume improvements resulted mainly from growth in demand for wine bottles to meet increased exports. The general improvement in the economy also led to increased sales, particularly of soft drink bottles and food jars," he said.

The plastics division made losses.

The rubber operations benefited from sustained demand for tyres and industrial rubber products.

However, the 10% increase in profit reflected tight competitive conditions. Imports of low margin earthmover steel radial tyres also affected earnings, and a sharp increase in the world price of natural rubber had a further impact on earnings.

Group MD Piet Neethling said while a 15% earnings increase was achieved, a number of constraints curbed a higher earnings increase.
Mines warned of ‘unstable’ cement

A TYPE of cement used in the mining industry might decay rapidly when exposed to the temperatures experienced in SA's deep-level mines, says a report by Lafarge Foudo, one of the world's leading cement makers.

The Lafarge report refers to a cement known as calcium sulphaaluminate (CSA), which is widely used in the mining industry because of its rapid hardening characteristics.

According to Lafarge, CSA decays at a temperature of 50°C, leading to a complete destruction of the cement. The report adds: "This process could commence as low as 30°C."

CSA is widely used in the mining industry in rock-bolting grouts, which form a crucial part of the support for the roof and walls in deep-level mines.

SA subsidiary Fondarge's mining sales manager, Dennis van Heerden, said although there had been no major disasters resulting from the use of CSA, the cement's stability was uncertain. He questioned its use in a situation where its failure could kill people.

He also said the paper showed the acid in CSA contributed to rusting and could accelerate the failure of steel roof bolts.

Van Heerden was expecting a response from mines that had been sent the CSA findings last month.

Peter Bredenkamp, MD of Fosrock, the sole supplier of CSA cement in SA, denied that his company's cement decayed and said comprehensive studies by international research centres and UK universities had shown that CSA was stable.

Fosrock had switched from high aluminous cement (HAC) to CSA a few years ago as a cheaper alternative. CSA was sourced from China.

The mining houses said no conclusive proof had been presented to show CSA was unsafe. One rock mechanic described the conflicting claims as a commercial dispute between Fosrock and Fondarge.

JCI chief rock mechanic Willem de Maar said there was no conclusive proof that CSA was unsafe. There had been no problems with it. JCI mainly used conventional cement, because of costs, he said.

Anglo American spokesman James Duncan said both types of cement were used in Anglo mines.

There was a continuous investigation of CSA by a UK-based firm of consulting material engineers and Anglo was monitoring the application of CSA in its mines, he said.
Strong demand for masonry goods

Cape Times, Friday, February 24 1995

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300,000 strong.
Significant growth for local cement industry

THE cement industry is forecasting a significant growth in demand from the middle of this year as major road contracts take off and government’s housing programme gets under way.

There are fears the industry could run out of capacity before the year 2000, and both Anglo-Alfa and Pretoria Portland Cement are investigating the possible construction of kilns worth about R1bn.

Evidence of an upturn in the recession-hit sector began to filter through last year, with the SA Cement Producers’ Association saying figures showed that sales rose 10.22% last year. [Pd61.3]95

Murray & Roberts (M&R) Holdings CE Andre van der Colff said M&R subsidiary Blue Circle was expected to benefit significantly from increased activity in the fixed investment market.

“Growth in the cement industry is expected to be huge, with significant demand coming from the informal sector.”

Blue Circle former CE Graham Hardy said in M&R’s annual report that options to increase capacity were being investigated, although there was sufficient capacity to supply the short term market.

He said planned capital expenditure over the next three years totalled R500m, of which 40% was earmarked for expansion projects.

PPC group MD John Gomersall said domestic demand for cement had risen substantially since April 1994, increasing the utilisation of the group’s production facilities and focusing attention on future capacity expansion plans.

PPC was budgeting for an increase of 8% in sales volumes this year, but sales during the past three months indicated that growth could exceed expectations.

“A team is currently reviewing plans for recommissioning the Duiinboom plant. Our estimates of cement demand growth indicate that it will have to commence production within two to three years.”

In the Eastern Cape, Gomersall said PPC’s Port Elizabeth factory could not meet local cement demand and there were moves afoot to discover a new limestone reserve to allow the expansion of the factory’s production capacity.

Anglo-Alfa deputy MD Ronnie Searle said the organisation was considering building another kiln at its Dudfield plant.
No overtime, so 70 fired

Denver workers fired

By Gloria Mogase

SEVENTY Africa Glass Mirror workers at Denver were dismissed yesterday for allegedly refusing to work overtime.

Angry workers, all members of the Chemical Workers Industrial Union, said they were surprised by the move because they were not given any notice.

They said they found the security guards waiting for them with dogs at the entrance yesterday morning.

They were not allowed in and were told by security guards that they had been dismissed.

Glass Mirror manager Mr. John Tenderini said he dismissed the workers because they refused to work overtime.

"I fired them for three other charges too, which I cannot disclose to you. You can come to my office if you want to know more," he said.

Secretary of CIWU Mr. Nelson Mthombeni said he contacted Tenderini, who told him of the workers' "actions of misconduct, intimidation and their refusal to work overtime."
Concern over safety of defective cement

The cement industry has warned independent firms selling defective cement, particularly in black areas, are mushrooming which could adversely affect the reconstruction and development programme.

This follows a number of incidents reported in Gauteng and KwaZulu/Natal where the use of blended Portland cement led to cracked houses and threatened bond boycotts.

Portland Cement Institute executive director Graham Greve said a growing number of operations were using incorrect proportions of waste materials as extenders.

This weakened the product and had led to the construction of unsound buildings. In many cases the percentage of fly ash or other extenders mixed with Portland cement was not disclosed on packages, usually sold as plain brown paper bags.

The operations were widespread in Gauteng, and had also extended to the Eastern Transvaal, Northern Transvaal and KwaZulu/Natal.

Greve said the operators were mainly targeting small builders and consumers in the townships.

He said this had far-reaching implications on health and safety standards and could have a spin-off on the builders' warranty mechanism under discussion between banks, government and the construction sector.

SA Bureau of Standards civil engineering and packaging director Iain Benne said the lack of markings on the packages was of concern to the bureau, as the quality of the cement could vary considerably.

The SABS has been assisting the Business Practices Committee in a preliminary investigation to identify and control these operations. A company recently agreed to stop blending and merely re-package cement.

A committee spokesman said the organisation was formulating a revised code of conduct for the cement industry in a bid to govern the conduct of local producers.

She said the existing code was too technical and was not user-friendly. The new code would ensure quality principles and standards were adhered to.
Consol to spend R650m on expansion programme

Consol Ltd's glass division, Consol Glass, would spend R650m over the next five years on an expansion and technology advancement programme, it announced at the weekend.

MD Dave Spandler said it would spend R500m on its Western Cape operations, including a new capacity expansion programme and enhancement of capabilities at the Belville factory.

The balance of R150m would be used to develop the northern factories of the glass packaging division. He said Consol Glass had been a strong cash generator for many years and the expansion would be funded from internal funds.

The Western Cape expansion programme would add about 70 000 tons of production capacity and enable Consol Glass to meet projected market requirements well into the next century, Spandler said.

"The investment ensures and demonstrates Consol's commitment to the long-term requirements of the wine and spirits, beer, soft drinks, fruit juice and food industries of the Western Cape," he said.

In the five years up to last year's election, volumes were depressed, but there had been a "significant and unexpected surge" in demand for glass containers late last year, especially from the wine and spirits markets. Consol Glass had increased output and all its facilities were in full production. However, it had taken several weeks "to get the downed facilities up and running."

The increase in capacity on the same skills base meant it was not running as efficiently as before and there were some supply and service problems. The situation had eased and damaged goods stock levels were back to normal. The company did not expect to be in short supply to the wine and spirits industry.

Spandler said customers would be able to compete more effectively in local and overseas markets. "This is of tremendous importance to our customers who are increasingly exporting their products into highly competitive and demanding world markets."

It was reported last year that there was some criticism about Consol's domination of the bottle industry, particularly from the wine producers. Wine exporters said it would be cheaper to import from Europe if duties were lowered, that Consol held monopolistic control over the market and that the supply of locally manufactured bottles was insufficient. Spandler said at the time this criticism was unfounded.

Last month Consol reported 15% higher earnings of 146.5c a share on a 21% turnover increase to R1.5bn for the interim period to December. At the time directors said glass volume improvements largely reflected growth in demand for wine bottles to meet increased exports.
CONSOI GLASS

Glass expansion

The post-election future arrived with startling suddenness for the packaging division of Consol Glass, as surging demand for containers — largely wine bottles for export — caught the industry unaware. Never again will Consol spend R650m in the next five years to upgrade plant and expand capacity by 20%-30%.

Of this, R300m will go to Western Cape operations and R350m to "northern" sites in Wadeville and Midrand. One Bellville furnace has already been rebuilt at a cost of R32m, taking the division part of the way into its modernisation programme.

"We have pulled ourselves out of the arroy but are not yet into the spaceship", jokes MD David Spindler.

But this will change with the new electronically controlled furnaces, which will take the group through to the 21st Century, both in increased volume and in technological achievement. Customers who export want glass packaging that meets international standards and Consol aims to meet the challenge.

Spindler reckons the local industry is "looking at real growth in wine and spirits, soft drinks and returnable beer containers" and also wants to increase direct exports. Growth is estimated to be over 30%. SA wine and spirit producers are expected to welcome the investment.

Consol, whose main shareholder is Anglovaal Industries (59.8%), is assessing funding options. It plans to fund capex internally and from borrowings, and does not intend going to the market. The initial outlay will be heavy as most of the money will be spent within three years, but Spindler expects the investment to promote shareholder confidence.

"More development makes us more competitive and this will translate into dividends in future", he says.

The pathway to the future is not entirely smooth, though Challenges from other packaging materials have to be faced, particularly in the soft drinks industry where steel and aluminium cans are the major threats. However, modern manufacturing techniques produce strong, lightweight glass containers that can hold their own.

In the wine and spirits industry, glass containers are a staple. There, the question is who supplies the best. Though Consol Glass has the lion's share of the market, Metal Box Glass is in the running again, and Nampak is rumoured to be considering a glass plant in the Western Cape.

US company Owens Brockway, which holds 19% of Consol, will contribute technological know-how and management backup to the expansion. One of its strengths as a shareholder is the link it offers with the global marketplace.

The share is trading at a 12-month low of R40, which may be an excellent time to buy. Profitable expansion of the glass packaging division will increase profits, helping to offset possible weakness in the plastics division. Returns to shareholders over the medium to long term ought to prove worthwhile.

Margaret Anon Heise
Aries aims at industry giants

JOHN VILJOEN

PROSPEROUS Cape-based packaging group Aries hopes to take on the industry's big players when new machinery comes on line at its Atlantis plant.

Aries was installing a R500 000 die cutter in what amounted to a significant modernisation step, sales director Garth Glassby told the group's AGM this week.

The machinery would allow Aries to add a wide range of packaging products to its present capabilities. "We intend taking on the big players in the packaging industry, like Nampak and Kohler," Mr Glassby said.

A tax break helped Aries increase attributable earnings by 57 percent from R2.2 million to R3.4 million for the year ended December. Earnings a share rose from 19.7c to 31.1c. The Aries directors have declared a final dividend of 7c.

Turnover increased just over nine percent to R36.2 million.

MD Dieter Neckel said the fibre drums division was the only one showing a loss and it was possible it might be sold.

"It is under close observation," he said.

Chairman George Kohler said Aries would investigate possible acquisitions. "We are on the lookout all the time. We are not short of cash. We have the capabilities, manpower and cash."

The results for the first quarter of this year had been the most encouraging so far since Aries was founded in 1981. The group was benefiting from the economic upswing.

This week's budget contained a slight let-down, however. "We were disappointed to find that our optimistic prediction of a removal of STC (secondary tax on companies) has not materialised," Mr Kohler said.

In his statement Mr Neckel said the group had achieved its objectives for 1994.

The paper situation became critical during the last quarter with severe shortages and constant increases in price.

Aries had, however, anticipated this development and was able to avoid shortages in its operations. Forward buying also produced significant savings.

There were encouraging signs of improvement in the economy as a whole, Mr Neckel said.

A lot would depend on good labour relations and strict fiscal disciplines Aries was trying to position itself in the best possible way to reap the maximum benefits from the economic upswing.

There would be further extensions and modernisations in the year ahead and Aries was looking forward to further improvements in its results, he said.
THE cement industry is experiencing an unexpectedly strong growth in demand, with a 16% surge in domestic cement sales during January surprising analysts.

SA Cement Producers' Association figures released recently showed domestic cement sales rose to 551,271 tons in January against 475,633 tons for the same month last year.

Analysts and cement producers have predicted that the main growth in demand would filter through from the middle of this year when major road contracts take off and government's housing programme gets under way. However, one analyst said he was revising the projected growth of the industry for this year, as there were early indications that sales could exceed expectations.

He said his initial prediction for growth in sales volumes this year had been 10%, but this had been revised upwards by 2% to 3% particularly as the association's figures showed sales had reached 10.23% last year.

Another analyst said the higher sales were a positive trend, but cautioned that January was not always a reliable pointer of the market's direction.
Marlin benefits from industry recovery

A general recovery in the SA granite industry and tight cost controls enabled Marlin Corporation to turn a R4.6m loss for 1993 into a R1.2m profit in 1994.

Marlin chairman Peter Gain said a focus on unit costs had allowed the group to produce a profit despite prices last year which were 20% lower than in 1992. The group had built up a heavy overhead structure during "good times" prior to 1991, which had not been cut back quickly enough when the granite market slumped.

Marlin's turnover for the year ended December rose sharply to R78.6m (R54.4m) due to higher sales volumes. Gain said the market was recovering from the Gulf War and a decline in building activity.

The group did not declare a dividend as the level of gearing at 61% did not make this feasible. Reducing the high gearing, which had led the market to perceive the group as vulnerable, would be a priority for 1995.

Marlin was considering a rights issue this year to recapitalise, upgrade plants and place the group in a position to take advantage of the improved market.

Prospects were better for 1995, with the market for granite blocks showing an improvement. Selling prices of blocks had not yet, however, shown expected increases.
Price rise trend for building materials

BUILDING material prices will continue to firm this year on strong growth in the local industry and a shortage of supply on expert markets, says Masonite chairman Alan Wilson in the 1994 annual report.

Wilson said the market price of hardwood pulpwood had escalated by 20% during the year. "The export of a considerable tonnage of wood chips out of Richards Bay, due in part to a strong yen and a world shortage of timber, will adversely affect the availability of timber locally," he said.

Earnings for the building material manufacturer rose to R9.7m (R8.7m) during the year ended December, on turnover which increased 15% to R184.6m (R157.1m). This translated into earnings of 142c (15½c) a share.

The company participated with Masonite US and Masonite UK in the joint marketing of door panels in international markets, which reduced selling costs and enabled a full product range to be offered.

The forestry operation achieved a modest profit against a budgeted break-even, but he said lack of rain remained a problem which would affect future yields.

While capital expenditure was modest at R10.8m in the light of the company's commitment to invest in capacity, technology and products, Wilson said a number of new opportunities continued to be researched.
SA to step into fibreglass gap: South Africa's only fibreglass manufacturer, Acoustical Fibreglass, is increasing the capacity of the furnace at its Springs factory from 5,400 tons to 9,000 tons a year. The company's executive chairman, Henne Steyn, says there is a severe shortage of fibreglass worldwide, and it could export at very favourable prices.

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Cement sales set for strong growth

THE building industry's annual turnover should surge by more than R10bn to reach R25bn by the turn of the century with positive spinoffs for the cement sector, says the SA Cement Producers' Association 1994 annual report.

The association, whose members are Anglo-Alpha, Blue Circle, Pretoria Portland Cement and Natal Portland Cement, said domestic cement sales should increase by an average of 10% this year.

Cement sales rose 9.8% last year to 7,5-million tons against 7,2-million tons in 1993, and analysts said the association's forecast of a 10% hike in sales this year could be conservative.

The report said sales would be boosted by an expected growth performance of up to 3.5% and higher fixed investment spending.

Increased fixed investment would not only be as a result of spending on the reconstruction and development programme (RDP), but would also emanate from higher investment in export orientated businesses.

This followed a sharp drop in cement exports to neighbouring countries and overseas destinations last year, with exports falling 20% to 113,000 tons. However, clinker exports more than doubled to 316,000 tons last year, with a large proportion going by sea to the Gulf states.

Prospects for the civil engineering industry this year were bearish. Apart from the planned Saldanha smelter, no new large civil engineering projects were envisaged on the domestic front and the RDP was expected to add only about 5% to civil engineering turnover this year.

The report said clarification on government policy regarding the privatisation of toll roads was still awaited. This approach was seen as the only way to finance large road building projects in the future.

The major growth for the building and cement sectors was expected to come from the RDP's housing objectives, which, if achieved, would see the delivery of 300,000 houses a year by 1997. This would entail annual expenditure of at least R10bn.

The report estimated the provision of related social infrastructure such as roads, schools and clinics would have a multiplier effect of about 1.5 on resource requirements.

ROBYN CHALMERS
Cement sales spark optimism

DOMESTIC cement sales continued their strong growth during February, rising almost 12% and sparking early predictions that the industry was heading for a record sales year.

SA Cement Producers' Association figures released yesterday showed that domestic cement sales increased to 626,007 tons in February against 562,943 tons for the same month last year.

The February figures were slightly lower than those of January when sales rose 16% to 551,271 (475,853) tons, but an association spokesman said January was traditionally a buoyant month as pre-Christmas orders were fed through.

The association predicted in its 1994 annual report that cement sales would rise by an average 10% this year, but major manufacturers were reporting better than expected sales and orders.

This followed a four-year recession when total cement sales plummeted from a high of 8,4-million tons in 1988 to below 7,3-million tons in 1992, before picking up to total 7,99-million tons last year.

Analysts said the higher cement sales were indicative of a general upturn in the building and construction industry.

One analyst said there were encouraging signs that the housing component of the reconstruction and development programme (RDP) would get off the ground by mid-year and further boost sales.

He pointed to Housing Minister Sankie Mthembu-Nkondo's swift movement in apportioning a share of the R1,8bn housing budget to the nine provincial housing boards.

The R1,8bn Mthembu-Nkondo made available to the provinces at the weekend would be siphoned to the boards in monthly tranches for subsidy programmes for the development of low-cost housing projects.

He said the stronger trend in gross domestic fixed investment was also encouraging, having improved by 2.7% in real terms for the first three quarters of last year against the same period in 1993.

This improvement was more significant in the non-residential market which recorded an increase of 8.1% over the period, compared with a rise of 8.5% in the residential market.

However, another analyst cautioned that with major infrastructural projects such as Columbus Stainless Steel and Alusaf nearing completion, there would be a drop in demand for cement.

Despite optimistic predictions that the RDP would get going by the middle of this year, he said it might not be soon enough to take up the slack left by the completion of the projects.
MASONITE (AFRICA)

Ringing growth

The 1994 annual report shows the continuing improvement in Masionite's performance as it pulls out of recession. Turnover was up 13% and pre-interest profit rose 34%. Chairman and MD Alan Wilson says the group is "in general in a strong position." It was "hit hard" by the recession in 1992, but has fought back hard and appears to be winning.

Good management increased the return on capital employed by 25% to 13.4% and reduced borrowings to R3.9m from R6.9m in 1993. Cash reserves of R4.2m comfortably cover the debt. Interest payments dropped 70% to R207,000 from R707,000, which contributes to the strong positive cash flow.

The major shareholder is Masionite USA, owned by International Paper, the largest paper company in the world, with sales exceeding $15bn. The SA group is "quite close" to its parent, with whom it conducts joint marketing programmes for its door panels overseas.

Masionite's order book for the year is holding up well. Products are supplied to a wide range of markets. "Some have been quite weak, such as furniture," says Wilson. "others, such as building and packaging, have compensated. We are, of course, unhappy with our market position right now."

The mix of industrial and domestic markets tend to even out the more severe fluctuations in the group's business cycle. But there are weak areas. Because about 50% of its core product, hardboard, is sold through distributors, the group is vulnerable to destocking cycles when times are tight.

Wilson expects exports of "value-added products" such as painted and embossed door panels, now contributing about 20% to total income, to increase in value, if not volume. Wilson says the group's only problem is that "We have a finite capacity." Management is monitoring the market with a view to increasing capacity, to maintain export volumes.

There is a shortage of timber now, due primarily to large SA timber exports to Japan, and worsened by the drought. Japan, with its strong yen, is setting the local price for timber, which Wilson sees as a looming problem for the industry, though not for the group.

Masionite (Africa) has a significant advantage in the SA market because it produces about 75% of its own timber in connection with its technology. Particularly in access to kilns, and ensuring continuous production. The current price is R10.87 per m³, the highest in the industry in the past 10 years.

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Strong cement sales boost PPC

ROBYN CHALMERS

CEMENT maker Pretoria Portland Cement (PPC) benefited from greater cement sales volumes, posting a 41% hike in earnings to R214,1m (R151,7m in the previous six-month period) and operating profit increased to R138,3m (R119,4m) Pre-tax profit rose 27% to R146,7m A drop in average tax rate meant its tax bill increased only 9% to R57,6m, leaving post-tax profit 43% higher at R88,8m An interim dividend of 80c (65c) was declared

PPC group MD John Gomersall said that while good results were expected in the second half, growth was unlikely to match that achieved in the first six months "Cement volumes are the key factor. In the first half of the year they were up, reflecting the effects of post-election confidence" He expected profit for the year to be up 25% on year-earlier figures

Gomersall said PPC Lime put in a solid performance in a static market, increasing its contribution to R34,5m (R24,3m) despite higher energy costs. PPC Cement saw a 25% increase in manufacturing turnover, largely attributable to domestic sales volumes, which rose 14% to 1,559-million tons Advances in development of the company’s distribution capability pushed distribution turnover up 39% to R185,6m

“We have been able to improve our operating profit margins in cement to 16.7%”

PPC (193) £D 26.95

from 15.8% despite the impact of increased turnover from lower margin distribution business and while maintaining our three-year commitment to keep factory prices below inflation” Gomersall said Two focused management teams had been created in the cement division to ensure that opportunities presented by the impending collapse of the cement cartel were maximised

Plans to bring the mothballed Dwarsboom plant in Northern Transvaal on stream to produce clinker in the first half of next year were moving ahead This project would add 900,000 tons to the group’s clinker capacity If the market continued to grow at current rates, PPC would need to counter this by installing additional inland capacity by the end of the decade. “We have several options, including raw material from nearby Beeste- kraal quarry Several of these options will enable us to further improve our strategic positioning in the region” Work on providing additional limestone reserves in the Eastern Cape was nearing completion It would enable PPC to install sufficient capacity to supply all the region’s cement requirements
‘No price war’ as cement cartel ends

BY JOHN SHEIBROCKS
CAJERO NAMAL BUSINESS EDITOR

Faced with the dismantling of the cement cartel, Natal Portland Cement (NPC) has ruled out the prospect of embarking on a price war, warning customers instead that in certain areas prices are likely to climb.

"We need to make a reasonable return in order to be able to expand our production facilities in Samsun and grow with the economy of KwaZulu Natal," said Ramund Weber, NPC general manager.

Weber said building trends and the demands of the RDP will stretch to the limit supply capacity at NPC, which is at present a beneficiary of cartel subsidies.

"It is quite possible that we might not be able to meet the cement demand of our peripheral markets such as Mantisburg and the North Coast. These markets will be supplied from the north and this could be more expensive." He disputed popular belief that the dismantling of the cartel would cause the price of cement to fall.

He said NPC had always relied on clinker and cement at subsidized transport rates. "This will be a thing of the past and any shortfalls in future will be filled in. Whether the old suppliers and new competitors will subsidize transport as in the past is a serious question." Weber said he was confident NPC would retain its traditional market. "Our cement blends are suited to coastal conditions and the transportation system is meeting customers' requirements."
Concrete profit from PPC

FROM SAPA

Improved cement sales propelled Pretoria Portland Cement's after tax profit 43 percent higher to R88.9 million in the six months to end March 1995, from R62.1 million in the same period last year.

PPC's 23 percent rise in turnover to R751.1 million (R612.1 million) was largely driven by its cement division which increased domestic sales by 14 percent.

Improved operating margins also helped to push the group's operating profit 25 percent up to R138.3 million (R110.4 million).

In addition, a 71 percent growth in investment income to R8.4 million (R4.9 million) resulted in a 27 percent rise in profit before tax of R146.7 million.

Earnings a share climbed 41 percent to 214.1 cents (151.7 cents) and PPC declared an interim dividend 15 cents up at 80 cents a share.

However, managing director John Comensall said the group was unlikely to match the first six months' strong performance in the second half of the year.

"Cement sales volumes are the key factor," he said. "We anticipate a more sustainable growth rate of 6 percent for the second half, giving an average of 11 percent for the financial year."

Saficon could be split up or sold off, analysts say

March will be released shortly, and analysts expect them to be good, off a high base. They said the company had been doing well, and market sentiment was reflected in the share price.

Saficon gained 50c or 3.4% on Wednesday to close at a R16 high -- up more than fourfold since this time last year. The share has gained nearly 24% in the past month.

Holding company Sakers' share closed unchanged on Wednesday at its R24 high. The share, which was trading at R5.50 a year ago, has gained 28% in the last month.

At the September interim stage, Saficon increased earnings by 18% from R18.2m to R17.9m. Interim results indicated it was continuing the recovery evident at the March 1994 year-end.

MOTOR and building materials group Saficon, which had cautioned shareholders that it was involved in negotiations, could be sold, market sources said this week.

Analysts said it had been speculated for some time that chairman Sidney Borsook wanted to sell his stake, or that the motor and building supplies interests could be separated, with either one or both being sold.

Saficon's major interests are Cargo Motors, Lindsay Saker and other motor companies and listed building supplies company Boumat. Malbak Motor Holdings and Barlow Motor Investments have been suggested as possible buyers for the motor interests, and McCarthy has been mentioned as a more remote possibility.

It was not clear if Boumat would be sold.

Results for the year to
Cement makers’ fortunes cast in signs of the times

PRETORIA Portland Cement’s fortunes have certainly improved since South Africans patiently stood in line to vote this time last year.

More confidence in the economy and movement on previously deferred decisions have meant better cement sales and profits for the volume-sensitive company.

Domestic cement sales tend to be heavily influenced by political disruptions and the level of gross domestic fixed investment.

Sales dropped after the Sharpeville shootings and Soweto riots, boomed with the gold price in the late 1970s and crashed with P W Botha’s Rubicon speech in 1985. After a boom spurt of several years, sales levels turned last year and PPC posted a better than expected 25% rise in earnings a share for the year to September.

This week it announced a 41% leap in earnings to 214.1c a share for the half-year to March. Its dividend was 23% up at 80c a share.

The improvement came on the back of a 14% rise in cement sales volumes and a drop in its tax rate. These gains offset the disappointing performance from its lime interests.

Fellow cement producer Anglo Alpha has also scored from better cement sales, posting a 90% rise in earnings a share for its year to December.

The cement industry now looks set for a record year with trends indicating that cement demand in 1995 could rise by more than the forecast 10%.

On the back of improved building activity, domestic sales in February were almost 12% higher than in February last year. January sales were 16% higher than January 1994.

Indeed, the talk now is that the industry could run out of capacity before 2000. Capacity levels are running at about 85%, but most players are looking at expanding production facilities. This week PPC confirmed it was recommencing its Dwalabalboom factory.

The change in fortunes could not have come at a better time. Towards the end of last year, Minister of Trade and Industry Trevor Manuel accepted the Competition Board’s recommendation to disband the cement cartel within two years. The cartel consists of PPC, Anglo Alpha and Blue Circle. It fixes prices and its market-sharing agreement covers 70% of cement sales in South Africa.

Analysts, however, expect a relatively painless transition because the industry will be deregulated into a growing market.

The growth is largely linked to the economic upturn. Benefits from the reconstruction and development programme will be “the cherry on the top” and could last for several years.

All three cartel members have been gearing up for the changes for some time and have been buying up distribution outlets to gain a competitive edge.

Because much of their production takes place in remote areas, they are unlikely to make huge inroads into each other’s markets. However, the more competitive Gauteng and Western Cape regions may be somewhat more hotly contested.

Lesley-Anne Dry, an analyst at Race, Rinaldi & Co., says a price war in the next few years is unlikely. "Demand will be such that the guys will be more than busy," she says.

But after deregulation of the industry, which is subject to cyclical swings, may find earnings fall much faster in a downturn than they did in the past.

The “negatives” surrounding cement companies appear to be their high ratings. PPC has a price earnings ratio of 21.5 and Anglo Alpha’s is 20.3 — far higher than most companies in the building and construction sector. An analyst says these are based “on the optimistic high road scenario” which is not necessarily a certainty.

PPC is most favoured because it has the best geographic spread, plant and the lowest unit costs in the industry. It also has mothballed capacity which can be commissioned at the lowest costs.

Coming off a higher base, PPC’s management predicts earnings growth of at least 25% for the year to September. Several analysts, however, have hedged their bets at a 20% rise and may increase this if cement sales continue to show strong growth.

Zilla Efrat
Building sector pledge

The major building material manufacturers around SA have stuck to a pledge they gave government last year, and kept price increases reasonable, the Building Material Suppliers' Consortium said at the weekend.

Consortium chairman George Thomas said recent research showed that any price increases implemented by larger manufacturers of cement, bricks, paint, ceramics and door frames had been in line with the inflation rate. This followed a prediction by Stellenbosch University's Bureau for Economic Research (BER) that building costs could rise 10% this year as the building and construction industry emerged from a lengthy recession. The BER survey for the first three months of this year found that building contractors and subcontractors experienced a much better quarter in terms of work on hand.

It said the main factors still constraining activities were demand and cost of financing, with no apparent shortage of bricks, cement or plumbing materials, although contractors did report slower delivery.

Industry analysts feared that the upturn in the building sector would lead to higher building material prices, which could have a negative effect on government's plans to build 1-million low-cost houses within five years.

However, Thomas said the only two materials which had been affected to date were timber and plastics.

Masonry chairman Alan Watson said recently that the price of hardwood pulpwood had risen by 20% last year, which he attributed to strong growth in the local market and a shortage on export markets.

He said the export of a considerable tonnage of wood chips through Richards Bay, due in part to a strong yen and a world shortage of timber, would adversely affect the availability of timber locally.

Thomas said the major manufacturers were, by and large, sticking to the compact they entered into last year after government called on them to keep any price rises reasonable in a bid to ensure the reconstruction and development programme was not impeded.

He said one of the biggest concerns for building material suppliers was that labour unions had not been included in the compact and a significant hike in labour costs could render the compact ineffectual.

"It must not be forgotten that price increases are often beyond the control of companies, which have to contend with international pricing and rising input costs," he said.

However, Thomas said the imminent dismantlement of the cement cartel was a positive factor for the industry, as competition was the surest way of keeping price increases reasonable.
PPC’s flexible cement strategy.

Walker

July 15/94

(13)
PGSI lifts attributable earnings 32% to R210m

Chairman puts improvement down to strong growth from Belron International and record performance from PG Bison

BY CHARLOTTE MATHEWS

Plate Glass & Shutterplate Industries (PGSI), the SAA-controlled glass and timber products manufacturer and distributor, grew attributable earnings by 32 percent to R209.7 million in the year to March 1999 compared with the same period in 1998.

Roger Lubner, PGSI chairman and chief executive, said the improvement, which is off a high base, was mainly due to continued strong growth from Belron International and a record performance from PG Bison.

According to figures released today, turnover was 17 percent better at R5.8 billion, in line with the increase shown at half-year. Operating profit grew by 9 percent to R389.3 million, showing operating margins overall down to 10.3 percent from 11.1 percent.

Lubner said operating margins had, in practice, improved but development costs had been incurred. Net financing costs rose to R31.1 million from R28.5 million, although gearing was down to 24 percent from 27 percent. The tax rate dropped to 27 percent from 37 percent as assessed losses were used.

Lubner said development costs in one country could not be offset against another country. As each country's operations returned to profit they were able to use assessed losses. Whether a 27 percent tax rate was sustainable depended on how long it took for each country's operations to return to use those losses. At present, Germany is the only country which has not yet returned to profit and it will turn the corner as planned, in the current year.

Attributable earnings are 845.9c (641.9c) a share, and assuming conversion of the convertible shares, are 644.7c (512.3c). Capitalisation shares, or a final dividend of 160c (145c) are being offered, bringing the cash dividend for the year to 290c (230c).

Lubner said PGSI would continue to develop although it did not intend to move out of the areas it had already established itself in - the United States, United Kingdom, Continental Europe and Australia - because it felt there was still market share to be achieved.

PGSI has four operating divisions: Belron, the international arm, contributed 38 percent to fully diluted earnings a share. Glass SA contributed 35 percent and PG Bison 15 percent, while PG Industries, the central African operations, contributed about 9 percent.

Corporate activities accounted for 3 percent.

Glass SA maintained its contribution at the same level as 1998/94 despite the lengthy strike in the motor industry. Sales at PG Bison surged on post-election confidence and there was record production at factories around the country.

PGSI is targeting continued growth in earnings in the current year.

The directors are positive about prospects for Belron International but overall financial performance will depend on productivity improvements in South Africa and a meaningful start to the housing drive.
Plate Glass results are 'commendable'

MARcia Klein

SA BREWERIES subsidiary Plate Glass & Shatterprufe Industries (PGSI) increased earnings 28% to 644,7c (512,3c) a share in the year to March, thanks to strong growth from international arm Belron International, a lower tax bill and a record performance from board division PG Bacon.

The group, which has interests in building and automotive glass division Glass SA and central African operation PG Industries, improved its performance in the second half. Earnings had risen 20% at the interim stage.

Chairman and CE Ronnie Lubner said the improvement, off a high base, was "commendable". Local operations had been affected by the motor industry strike and pre-election anxiety during the first quarter.

A sound performance by all divisions pushed up turnover 17% to R3,8bn. Lubner said operating profit, which was 9% up at R389,5m (R355,8m), would have been higher but for strategic costs covering development of Belron's European distribution system, rapid expansion of its branch network and re-engineering local operations.

Net financing costs increased 9% to R31,7m, bringing pretax income up 8% to R338,2m from R308,3m. A sharp drop in taxation to R97m (R123,4m), which largely reflected utilisation of assessed losses in foreign subsidiaries, saw taxed income climb 26% to R281,2m (R222,7m). A final dividend of 160c a share was declared, taking dividends for the year up 25% to 290c (230c). Shareholders were offered a cash dividend or capitalisation shares.

Belron, which Lubner said performed impressively, contributed 246c a share or 38% of group earnings. This compared with a loss of 12c a share in financial 1994.

Operations in the US, France, Germany, and Benelux countries continued to show significant growth. Belron reinforced its position in the UK, and its Australian business was "maintaining its success in the face of strong competition". Belron was doing well in the US, where its market share was small but growing. It had more than 800 vehicle glass replacement branches in 11 countries. PGSI had more than 1,000 outlets worldwide.

In SA, PG Glass reported record turnover and earnings despite a slow start to the year. It expected to be able to increase capacity at a substantially lower cost than the R800m originally envisaged.

Glass SA increased turnover and earnings despite the motor industry strike. The world market for glass had started to stabilise and was moving into a position of undersupply, helping reduce imports and bring prices locally. Glass SA would begin its R150m repair to the float glass line at PPG Building Glass in the second quarter. Lubner said it had provided for the effect of being out of production for 12 weeks, building up stocks and importing substantial quantities of glass.

Central African operations had a good year, holding a 25%32% stake issue, acquiring for 2,850m Zimbabwe Safety Glass and commissioning of the Zimboard 111 hardboard plant in Mutare.

Directors remained optimistic about Belron's prospects. However, overall results would depend on productivity improvements in SA and a meaningful start to the housing drive.
PGSI's (193) growth

BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

Plate Glass & Shatterprufe Industries (PGSI), the SAB-controlled glass and timber products manufacturer and distributor, grew attributable earnings by 32% to R209,7-million in the year to March 1995 compared with the same period in 1994. PGSI chairman and chief executive Ronnie Lubner said the improvement, which is off a high base, is mainly due to continued strong growth from Belron International and a record performance from PGBson.

According to figures released today, turnover was 17% better at R3,8-billion, in line with the increase shown at half-year. Operating profit grew by 9% to R399,3-million, showing operating margins overall down to 10,5% from 11,1%.

Lubner said operating margins had in practice improved but development costs had been incurred.

Net financing costs rose to R34,1-million from R28,5-million, although gearing was down to 24% from 27%
PLATE GLASS

Saved by the Belron

It isn't all wonderful but Plate Glass & Shatterproof Industries (POSI) has certainly lived up to broad market expectations

The disappointment is Glass SA, the home-grown business where it all began. However, chairman Ronnie Lubner's aggressive venture into world markets, Belron International, is contributing handsomely. It now accounts for 50% of total turnover (R2.1bn of R4.2bn) and 38% of fully diluted earnings.

Belron did well almost everywhere. Continuing difficulties in Germany are countered by inroads in Australia where Belron is "maintaining its success in the face of strong competition." The conclusion is that the opposition is experiencing problems, but it's a funny way of saying it.

Glass SA took unavoidable punishment from strike activity (the five-week motor industry strike), was forced to export at low margins and then, when the strike ended, needed expensive overtime to make up.

Another factor is the need to contain costs. Lubner admits the SA operation was far from competitive on a global basis. Detailed examination has resulted in a substantial trimming of the local workforce, perhaps by as much as 20%.

Interestingly, PG Bison's turnover was a record despite an unpromising start. In line with the furniture sector, it enjoyed an impressive recovery, rather damped this year by a poor March quarter. That follows an earlier pattern in which analysts expect strong furniture sales to resume by mid-year.

In planning forward strategies, the critical issues are: first, whether PGSI can tailor its Glass SA operation to meet the rigid requirements of global competitiveness and, second, the extent to which it can continue to grow its international business.

Lubner doesn't hide difficulties with productivity in SA. Efforts to demonstrate the effect of these have been helped by an understanding at union level of productivity failures. Sending shop stewards abroad to see first-hand the nature of real, Western-style output has left a startled impression. It is split a bit, though, by the need to repair the float glass line this year at a cost of R150m. This occurs every 10 years or so, the pity is that it's this year.

-- The counter at R136.50 now reflects a p/e of 16. In a demanding market that means it is probably fairly priced,
Growth in cement sales has slowed

Robyn Chalmers

GROWTH in cement sales dropped sharply during March, catching manufacturers off guard as they had increased production significantly in expectation of strong sales.

SA Cement Producers' Association figures showed sales for March rose only 4.8% to 725,866 tons from 692,365 tons a year earlier. This followed strong sales in January and February of 13.8% and 11.56% respectively.

Manufacturers, some expecting higher demand, boosted production 25% for the month to 806,837 tons from 641,658 tons during the same month last year.

Industry spokesmen and analysts said a contributory factor was that a number of kilns would be closing for maintenance soon so producers had increased stocks of cement to ensure that enough was available to meet demand.

One spokesman said the lower sales figures were largely attributable to strong growth in March last year as contractors had increased their work levels to meet construction targets before the election.

The cement industry was still on target to achieve 10% growth for the full year, he said. The figure could be higher if contracts from the reconstruction and development programme (RDP) filtered through.

Last week's announcement by the Housing Ministry that the housing programme would kick off on June 5, with banks once again lending in the low-cost market, was expected to boost the cement industry.

However, one analyst said there were doubts that this would have a significant effect before next year as there were long lead times between the conceptual stage of projects and the start of construction.

In addition, major infrastructural projects such as Columbus Stainless Steel and Alusaf were nearing completion. This would lead to a decrease in demand for cement.

Analysts said the RDP might not get going soon enough to take up the slack left by the completion of these projects.
LAND USE

Making the most of it

Brick producer Corobrik wants to start quarrying a 69 ha tract of land north of Durban that would yield important brick-making clay deposits and enable the phased development of a new business park.

The site is bordered by Rung Road in Industrial Park to the west, Glen Anil in the north, Glen Hills to the east and North Coast Road to the south.

Land owner Tongaat-Hulett has already set a precedent by developing other industrial parks in the area after quarrying. These are neighbouring Redhill Industrial Park, which was sold out nine months ago at prices ranging between R150/m²-R170/m² and the first phase of Brundine Industrial Park, also on North Coast Road, which sold out last year at about R200/m². Further phases will come on stream next year.

A similar development is planned for nearby Effingham, where quarrying is now under way. A rezoning application from "extractive industry" to "light industrial" has been submitted to Durban municipality.

The plans to quarry the North Coast Road site were published for the first time a fortnight ago after extensive discussions involving Corobrik, the Mineral & Energy Affairs Department, Durban City Council and affected neighbours. The site should yield 750,000 m³ of clay—enough for 360,000 bricks or more than 20,000 houses.

Rehabilitation of the quarry after use is being planned with the help of Tongaat-Hulett's property development arm, Moreland Estates. Tongaat-Hulett's properties planning director Nels Brink says the property will comprise an office and light industrial park with a residential component.

The development will be undertaken in two stages. On completion of quarrying, which is planned to start on the south-west side and proceed in a clockwise direction, light industrial and commercial development will follow.

The first land for development should be available in two to three years' time. Medium residential development will take place in the second phase in about the year 2005.
Brick makers gear up for RDP: Claybrick manufacturers throughout South Africa are gearing up for increased production to meet demand as reconstruction and development programme housing looks set to start-up, Clay Brick Association (CBA) executive director Nick Louw said. He said it envisaged increasing production by 40 percent to six billion bricks a year in 1996.
Brick firms set to double output

Robyn Chalmers

BRICK manufacturers are gearing up to almost double production output by next year when an estimated 6-billion bricks will be required to meet the demands of the reconstruction and development programme.

There have been doubts about the ability of brick manufacturers to increase their production capacity sufficiently to meet the growing demand for building materials.

The brick industry was hard hit by the lengthy recession in the building and construction market. Industry statistics showed that between 1986 and 1994 consumption fell 50%, the sector's stockpile of bricks more than doubled to 460-million and the number of manufacturers decreased from 450 in 1980 to about 165.

However, the Clay Brick Association's Nic Louw said yesterday that brick manufacturers throughout SA were now gearing up for increased production.

"By early 1996 manufacturers could easily have increased capacity by more than 40% to 6-billion bricks a year," he said.

A National Housing Forum study estimated that almost 4-billion bricks would be required each year just to build 300 000 low-cost homes. This excluded what was needed for infrastructural support such as schools and clinics as well as requirements for commercial, industrial and retail property developments.

The study highlighted the need for the industry to significantly boost production output, and found that its performance in terms of labour and capital productivity had been declining over the past decade.

It noted that lost capacity was often hard to rehabilitate, but said there were substitutes for clay bricks in the form of concrete blocks and wood which could lessen the effect of an increase in housing demand for bricks.

Louw said industry members were becoming increasingly frustrated at the lack of information and consultation on what would be required in terms of the reconstruction and development programme.

Increasing the production capacity of the brick industry could not be done overnight, he said. It took at least two to three months to raise the capacity of a major plant by as little as 10% to 15%.

"The brick sector, along with other material suppliers, is crucial to the RDP effort. To go ahead without consulting us is bound to lead to problems," he said.
Cement sales stage good recovery

Robyn Chalmers  

DOMESTIC cement sales staged a good recovery in April after a sharp drop in March left analysts concerned that growth for the year would not meet predictions.

SA Cement Producers' Association figures showed sales for April increased 11,3% to 580 699 tons from 522 426 in March last year. Growth in March sales dipped sharply to 4,8% after strong sales in January (15,8%) and February (11,5%).

The association has predicted total sales for the year should be about 10% up on last year, but the strong sales growth during the first two months sparked predictions from analysts of a record sales year.

One analyst said while the lower sales in March had put a damper on prospects of record growth, the April statistics were heartening. "There can be no doubt that cement manufacturers have moved into a high-growth scenario after more than four years of recession left kilns mothballed and profits pared."

The association said the political, economic and social changes last year had set the building industry on a high road which could take its annual turnover from R15bn to R20bn by 2000. This would have positive spinoffs for the cement sector.

Cement manufacturers Pretoria Portland Cement, Anglo Alpha and Blue Circle have been bullish about sales. All three reported significantly higher demand this year than last year.

Analysts said much of the demand this year had come from major infrastructural projects such as Columbus Stainless Steel and Aluza, but these were nearing completion. However, sales would be boosted by the reconstruction and developmental programme and government's "target" of raising the gross domestic fixed investment (GDFI) component of GDP from 15,7% to 20% within five years.

One analyst said GDFI needed to grow at a real 10% a year for four years to achieve this.
Plate Glass ‘equipped for consistent growth’

Marcia Klein

PLATE Glass & Shatterprufe Industries was equipped to compete effectively in domestic and world markets and to achieve consistent growth in earnings, chairman and CEO Ronne Luhner said in the annual review.

The 26% rise in earnings to R247m on 17% higher turnover of R3,88m in the year to March represented a sound all-round performance and was achieved off a high base.

The group was optimistic about prospects for international division Belron. But its overall financial performance would be dependent on “the achievement of productivity improvements in the domestic market and a meaningful start being made to the housing drive in SA”.

Building and automotive glass division Glass SA increased turnover 12% and earnings 9% despite general strikes, motor industry strikes and “the lack of progress in the mass housing initiative”.

Glass prices had firmed recently, but PPG Building Glass would derive limited benefits as it had had to import substantial quantities of glass while it repaired its float glass line.

Glass SA CEO Rod Fehsen said the division was forecasting improved earnings in financial 1996. Further investment in the automotive business would enable it to pursue export opportunities “more vigorously”.

Glass SA was looking at the viability of a second float glass line.

Board division PG Bison had a successful year after a slow start.

All of Belron International’s operations increased market share and their customer base, and attributable earnings improved to R94m from R74m previously. The US remained Belron’s biggest market. Opportunities for expansion had been identified “to ensure that the rate of growth continues to accelerate”.

Businesses in Europe were growing strongly, and the potential for further growth was significant.

PG Industries Zimbabwe performed strongly until the last quarter when consumer confidence was affected by tax increases and the drought. There was strong demand from the construction and furniture industries, and exports grew 58%.

The drought would affect trading results this year, but this would be partially offset by good tobacco prices and an accelerating export drive.
Diverse sources invest R2bn in SA

John Duodu

THERE was a strong tide of direct foreign investment to SA, with an estimated R2bn worth of new multi-sectoral investments since early last year, trade and industry's chief director for industry and technology, Alan Hirsch, said yesterday. "This is a very significant inflow of investment" compared with reports in the last 10 years. What is most encouraging about it is the diversity of the sectors into which the new investment is going. This bodes well for the future," he told a one-day seminar - jointly organised by the UN Industrial Development Organisation (Unido) and the National Economic, Development and Labour Council.

The first obligation of government was to create a favourable sociopolitical and economic environment to accelerate direct investments.

At present government was pushing for the creation of a more effective national investment bureau, involving both government and business in a greater capacity than the under-resourced industrial development and investment centre - a department in the trade and industry department falling under Hirsch.

The role of the proposed bureau would be to process information for prospective investors, identify investment leads and pass them onto the nine provinces. The bureau, which was also discussed within Nedlac, would also advise government on investment policy adjustments.

In a speech delivered on his behalf by technology promoter director Joz- hendries Potgieter, trade and industry director-general Zavehard Rutstjema said the department hoped to achieve a 6% growth rate and create 300,000 to 700,000 non-agricultural jobs a year by 1999. "Technology will play an important role in the above-mentioned goals." The challenge for industry was to create internationally competitive products by applying appropriate technologies, developed locally or through joint ventures or licensing with foreign partners.

New initiatives would include programmes aimed at promoting the use of best practice, inter-firm linkages and technology linkages. Unido director S Dlamini told the conference his organisation's assistance would be more effective if SA joined it. It was up to the country to determine areas in which it would like to be assisted.

Reuter reports that SA Chamber of Business economist Keith Lockwood warned at the seminar that policy-makers should avoid introducing incentives for foreign investors which left SA a "net loser".

"In the competitive international investment environment we keep having to offer bigger and bigger incentives and the chances are we could be a net loser," he said.

RDP recognised for efforts to deliver

Sello Motshhabeki

MOST black people who were informed about the development programme (RDP) claimed to have benefited from its projects, Market Research Africa said in its last survey.

The survey, which monitored the RDP's progress, said there was a high awareness of the RDP among urban dwellers (73%). Awareness was strongest among blacks at 76% followed by whites at 75%, Indians at 64% and coloureds at 56%.

One in every 10 respondents, the majority of them black, said they personally benefited from the RDP by way of electrification of their homes, education facilities, access to water, housing a better environment and health facilities.

Brick prices 'could shoot up within 5 years'

Robyn Chalmers

SA BRICK: will be markedly overpriced within five years if the industry does not address low productivity and rising costs, says Clay Brick Association president Harry Voorma.

Addressing the association's AGM in Swellendam he said there were three main challenges facing the clay brick industry as it geared up to meet the demands of the reconstruction and development programmes. These were a need to increase productivity, update technology and keep prices down.

He said SA's clay brick manufacturers were at the bottom of the ladder in terms of output per man. If drastic action is not taken, within five years the labour cost in producing bricks will amount to 50% of the total production cost and SA bricks are likely to be seriously overpriced.

Voorma said long-term goals of the industry should be to increase through increasing prices but more effort should be put into efficiency.

He said that over the past year the clay brick industry had seen a growth of between 20% and 30% and sales continued to improve on a month to month basis.
PLATE GLASS & SHATTERPRUFE

Meteoric rise in offshore profit

Activities: MAKES, DISTRIBUTES FLAT AND AUTOMOBILE GLASS, PRODUCES, MAKES, PROCESSES AND DISTRIBUTES STEEL, BOARD AND ALUMINIUM PRODUCTS

Chairman: R Lubner

Capital: 60.3%

Capital structure: 24.5m ords Market capitalisation R3.3bn

Share market: Price 13.400c Yield 2.2% on dividend, 6.3% on earnings, p/e ratio, 15.6, cover, 2.9, 12-month high, 17.00c, low, 11.00c, Trading volume a matter of 4.36m 000 shares

Year to March 31

<table>
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<th>'92</th>
<th>'93</th>
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<td>Tangible NAV (c)</td>
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<td>1,273</td>
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* attributable

On the face of it, Plate Glass & Shatterprufe Industries (PGSI) returned a sound year of growth; indeed, it is difficult to argue with a 32% increase in bottom-line earnings (26% on a fully diluted basis)

But - and without wanting to sound churlish - this isn't exceptional. Many SA companies are returning improvements like this as a matter of form and are hardly exceeding it. That shouldn't deter from an essentially robust result which contains some intriguing aspects

The first relates to the information released all those years ago when Plate Glass bought flat glass from Pilkington. What has become evident since then is that PGSI's selling price for its product is naturally capped not by competition in manufacturing (there really isn't any to speak of) but by the landed price of equivalent imports

For some years, this has been a good place for PGSI to be, but that's no longer the case. Imports from China have had an impact and Glass SA's profitability record demonstrates what happens when what can be called a natural monopoly advantage is attacked. Ironically, what may come to Glass SA's defence this time is that demand for flat glass around the world is rising rapidly. That underlines the reasons for the construction of new plants - a new float in France and another in Poland, along with some replacement.

SA's long recession didn't help either. With a depressed building industry and much lower demand from the automobile sector, it's not surprising that the local operation suffered. There is evidence now of a substantial turnaround but it comes as the Springs plant is scheduled to be taken down for 12 weeks for a rebuild which will cost about R150m. This is unavoidable maintenance - it just comes at a bad time.

Naturally, chairman Ronnie Lubner is adamant it won't impair results and claims downtime has been fully provided for. But it raises other questions such as whether the company is spending enough to bring the plant up to world-class standards. Financial director Mike Reed says that when the repairs are completed, the plant will be "as good as any."

This is PGSI's original business, where the Brodie and Lubner families got their start. So it follows that Lubner is sensitive about performance and contribution to profitability by the SA end of what has become a global business.

He should be, the SA arm has taken severe strain in recent years, not least from labour problems associated with the transfer of political power.

However, it is now unambiguously that the group's international arm, Belron, has transformed PGSI from the parochialism associated with operating solely within a set region to a much wider global arena. It hasn't been an easy passage and the decision of directors to expand overseas has attracted criticism. But it's fair to note that Belron pays off to register Belron's growing success. In financial 1995, it accounted for 39% of attributable earnings and 57% of turnover.

In the past two years, the rise in Belron's profitability has been meteoric. Much of the European operations have matured into solid performers, with PGSI's intelligence and experience helping to attract some of the UK market share and maintain its leading position.

Belron is finding a market in Germany a harder nut than most to crack, though there is evidence it is gaining ground there. The Benelux countries and France provide growing profitability and an increasing market share and the UK operation has long been successful. Belron has retreated from the Italian market, which is clearly disorganised and somewhat chaotic, but retains only its distribution arm.

But real growth for Belron will come from North America, where the number of outlets continues to expand rapidly (up 30% to 192) and where a determined effort is being made to provide a comprehensive service across all the American time zones. All this was achieved with pain at the time, reflected against the income statement. The losses now provide tax shields in many of Belron's operating areas. These will gradually diminish and emphasise is bound to swing to expansion. I cannot leave this without a comment about Belron's ownership.

PGSI's Lubner confidence in Belron pays off

PGSI holds 81% of the equity and directors own the balance (presumably mainly the Lubner family) having increased their stake by 2% over the last year. It shows they know where the action is.

An area of disappointment is PG BISON, a producer of wood-based boards. PGSI owns 75% of the equity. BISON's contribution to attributable income is R35m, which implies net profit of R50m after-taxed or R80m pre-tax. On total sales of nearly R1bn, this suggests margins remain thin. But, to be fair, results from Penny Pinchers did nothing to enhance the bottom line. The balance sheet remains strong and borrowings are conservative. However, the company is some way below its 12-month high, which may be the market's way of saying it will wait a while.

EDGAKS

Strong organic growth

The figures in the 1995 annual report confirm yet again the blue-chip status of this retail group. In spite of the difficult year.
Dissolving bricks turn fairytale to nightmare

ART 4/7/95

Consignments 'crumbled'

ROGER FRIEDMAN

Staff Reporter

THE big bad wolf might just as well save his breath and carry a watering-can.

Because it seems there is absolutely no huffing and puffing required these days - the rain simply comes down and dissolves bricks like Dipsirs.

Fortunately for 74-year-old Magdalene Hopwood, the brand new bricks melted before too much progress had been made on the fairytale extensions to her Silvertown home.

Imagine if we already had the roof up, when the rain came down. The whole place would have collapsed," said Mrs Hopwood.

She had ordered 2,500 "run-of-the-mill" (ROK) bricks from Peninsula Bricks in Parow and they were duly delivered on the last day of May. They cost R1 068.

Her son Barry packed them inside the half-completed, roofless extensions so they would not be stolen.

Nobody suggested they could dissolve.

"It started to rain a week later. We wanted to build but as soon as you touched the bricks they just dissolved," said Mrs Hopwood.

She said all the bricks dissolved. The darker ones fell apart but the lighter ones didn't.

Mrs Hopwood contacted the company to complain. She was told the bricks conformed to SABS standards although they did not carry the SABS stamp of approval - but would be replaced anyway.

She waited for several weeks.

A spokesman for the company said yesterday ROKs were meant to be plastered immediately.

"In winter, you do find these problems with them. They are fairly soft bricks."

He said in summer ROKs were baked outside "sometimes when it rains the fire goes dead."

The consignment shipped to Mrs Hopwood must have been baked in autumn before the brick-firing was shifted into doors.

As with all fairytales, this one has a happy ending.

Brand new ROKs were delivered to Mrs Hopwood after The Argus contacted the company and she was assured they were of the non-dissolving variety.

"A spokesperson for the SABS said no bricks conforming to its standards would dissolve."

SLOPPY WORKMASHIP: Building headaches? Dissolve two bricks in half a glass of water and take before meals three times daily, says Silvertown grandmother Magdalene Hopwood. She has been able to retain her sense of humour in spite of watching her pitic of bricks suffer meltdown.
Masonite lifts performance
Nicola Jenvey
DURBAN — Building and construction company Masonite (Africa) had enjoyed a better first half than last year’s and chairman and MD Alan Wilson was confident about prospects for the next six months, he said.
Wilson said the reconstruction and development programme, particularly where it applied to housing and construction, was not yet fully under way and the company would be looking for ways to maximize opportunities in the future.
Local market sales had been “very strong”, but Wilson said several customers, who were in turn suppliers to the building industry, had been stockpiling until planned housing projects could be developed.
“The next six months will be very interesting for business. While the SA economy has been stuttering along, we are again waiting on a political event — the local government elections,” Wilson said.
Granite Industry

Watchword for SA's

Caution is the

VERBAL適合

MICHAEL URBANART
A substantial recapitalisation of ailing granite producer Marlin Corp is to be put into effect. Italian investors, operating through Luxembourg-based investment company IIE, have mounted a rescue action which includes a cash injection of R54m-R60m. At the same time, control will pass from Peter Gam’s USAT Trust.

Marlin’s track record has been distinctly unimpressive for some years. Attributable earnings of R27m in 1989 haven’t again been equaled. It made R14m in 1990, R10m in 1991 — then lost R16m over 18 months in 1992, followed by another loss of R4m in 1993 and a break-even last year.

Along with other granite producers, Marlin’s conspicuous weakness has been its stretched balance sheet. Interest charges have consumed almost all spare cash, and financial director Ian Macmillan says R6m was absorbed this way in 1994.8

About R42m of the new cash injection will be applied in retiring short-term debt. That will leave Marlin effectively ungeared and with as much as another R28m in cash reserves.

Of the R60m issue, R54m has been underwritten, half by First National and half by IIE. In addition, FNB will take up R10m worth of preferred ords, redeemable between five and seven years out.

Marlin is controlled by Marlin Holdings (Marhold), which has 69.7% of the equity. This is expected to fall to about 51%. Gami has undertaken to relinquish stock and rights to ensure IIE takes effective control; when the transaction is completed, it’s expected his USAT Trust will hold about 10%. Gam will stand down as chairman.

Though the deal involves a change of control, the JSE isn’t insisting on a standby offer to minorities, because it falls into the ambit of a rescue operation. The FM understands that if the Italians hadn’t come to the party, Marlin’s future would have been limited.

Another feature of the deal is the new perspectives it adds to Marlin’s operations. Over the last year, says executive director Mario Marcellino, operating costs at all quarries have reduced by around 30%. The group has a wide range of product, principally Belfast black but also Rustenburg and greens from the Northern Cape. It also owns two granite quarries in the US (in Georgia and North Carolina), both of whose product is exported to Europe.

Finally, the change of control to Italian investors should give the group access to the centre of the international stone-cutting industry. Based on its renowned marble deposits mined since antiquity, Carrara in southern Italy is the acknowledged fulcrum of the global business.

Assuming a forward p/e of only 8 for financial 1995, Marlin now offers a good call option on the granite market, itself gaining from recovering demand.

David Glenan

Marlin’s Gam... losing control
Marlin gears up for firmer granite sales

MARLIN Corporation aims to raise R60-million in a rights offer at 51c a share to recapitalise its balance sheet.

Peter Gaunt, the granite company's current chairman and major shareholder of pyramid Marlin Holdings through the Unit Trust, will relinquish his rights in favour of Luxemburg-based IIE, an international investment company. This will result in a change of control and the elimination of debt.

IIE has requested Mr Gaunt to step down as chairman Ian Macmillan, Marlin's financial director, says the position will become non-executive and an SA businessman will be appointed.

Two years ago, Marlin appointed Mario Marcenaro to the board. Mr Marcenaro had many years of experience in the granite business in Europe and Africa.

Marlin's debt is R42-million, and Mr Marcenaro intends to repay this after the repayment of debt. This will be used to pursue opportunities. Marlin's granite processing plant, Marble Pentelic in Germiston, also requires modification to improve productivity.

Shareholders in Marlin Corporation will be offered about 230 shares per 100 held at 51c a share, 14c above the current market price of 37c. Marlin will raise R37-million at 51c a share — market price 37c — to follow its rights.

Mr Marcenaro says the price is fair and it will be in the interests of shareholders to follow their rights, particularly if they are looking for a large parcel of shares. His priority is to recapitalise and he has secured IIE and First National Bank as underwriters. It would be odd for minorities to clamour to pay 51c when the same share can be picked up for 37c.

Marlin has been in financial difficulties for some years, partly because it overproduced during the Gulf War.

It currently quarries five types of stone, principally Belfast black granite. Mr Marcenaro intends to double production to about 40 000m² a year in the medium term through new quarries and expansion. Local demand takes about 5% of the volume but provides more of turnover.

Mr Marcenaro observes a firm undertone in the world's granite market and shift in preference for the better quality stones such as South Africa produces.
Foreign group gets Marhold

Business Editor

CONTROL of granite group Mar- 
hold Holdings is to be taken 
over by a Luxembourg-based company 
in a rescue operation

The group said today Luxem-
bourg registered IIE would sub-
scribe for R23 million of Mar-
hold's R27 million rights offer 
and would take up shares not 
taken up by other shareholders, 
giving it more than 50 percent of 
Marhold shares.

The Johannesburg Stock Ex-
change had agreed to consider 
the deal as a rescue operation, 
authorising the rights offers in 
Marhold and subsidiary Marlin 
Corporation (Marcorp) at prices 
above market levels.

The Marhold rights offer is 
pitched at 27c a share and the 
R60 million Marcorp offer at 51c 
a share.

Engen is to list on the Na-
mibian Stock Exchange from to-
day, with nearly 160 million 50c 
shares.

The petrol group said it had 
applied for a dual listing to dem-
onstrate its commitment to the 
development of Namibia and to 
offer the Namibian public access 
to its shares.

Commercial Union issued a 
cautions announcement to 
shareholders today, saying nego-
tiations in progress could affect 
the share price.

Anglovaal's gold mines 
rased after-tax profit 13 percent 
in the June quarter to R42,2 mil-
ion from R37,3 million the previ-
ous quarter.

Gold production was up only 
one percent but average revenue 
rose 4,4 percent to R43 389 a kilo.

Lorame sparked with the first 
profitable quarter since March 
last year, showing a profit of 
R4,1 million from a loss of 
R2,2 million as yields improved.

But lower yields at Village 
Main Reef turned the previous 
quarter's R876 000 profit into a 
loss of R519 000.

The mine said operations 
should be profitable until at least 
the end of September, when the 
mine's profitability would be ex-
amined on a monthly basis.

Village Main Reef declared a 
dividend of 53c (35c).

Hartebeesfontein's June divi-
dend of 51c a share makes 116c 
(160c last year) for the year. Af-

ter-tax profits were barely 
changed at R34,2 million.

Eastern Transvaal Consolidat-
ed's profits slipped slightly to 
R4,4 million but working profits 
from gold mining totalled 
R3,8 million compared to a loss 
of R2,2 million the previous 
quarter.

A dividend of 3c makes 8,5c 
(14c) for the year.

Gengold reported a 10,7 per-
cent drop in attributable income 
to R29,3 million for the June 
quarter.

But the group said the down-
ward trend of the previous two 
quarters had slowed.

Main moneyspinner Beatrix 
improved profits 8,3 percent to 
R19,5 million, as grades were 
maintained and production slight-
ly increased.

Grootvlei, which improved 
both volumes and grades, showed 
a loss of R700 000 because of the 
R3 million capital outlay to fi-
ance the purchase of rights from 
Consolidated Modderfontein.

St Helena's quarterly results 
were disappointing, with profit 
sliding from R16,7 million to 
R2,3 million as working costs 
rise and volumes fell. Unzel, 
Leslie, Buffelsfontein, Kinross 
and surface dump operations at 
Stilfontein also showed lower 
profits.

Winkelhaak reported a small 
increase in profit to R3,9 million 
from R3,3 million.
Red granite factory to be established

Northern Province regional government has finalised agreements with top Taiwanese construction company Sun Sea to establish a granite beneficitation factory in the province MEC for economic affairs, commerce and industry Thaba Mufamadi said.

At a press briefing to announce the inaugural sitting of the new Northern Province Development Corporation, Mufamadi said in terms of the agreement with Sun Sea the province would select 20 candidates who would in January next year be sent to Taiwan for six months of technical and management training.

On their return, the trainees would help staff the beneficitation factory which was expected to be fully operational by next year Mufamadi said the province's red granite was sought after in international markets because of its rarity.

A French company was among several potential investors who had indicated interest in mining the red granite. The French had indicated they would include black participants in the deal.

He said the twinning of the Northern Province with a district in Taiwan was imminent following discussions between his delegation and the mayor of Shansi – an agricultural district. The twinning would be formalised sometime next year.

A White Paper on economic development policy was expected to be finalised in November.
The concrete industry of SA is not a society of blockheads

BY NIKKI WHITFIELD

Being labelled a "concrete person" could be seen as unflattering by some. In fact, they might get positively stony-faced at the suggestion

"Blockhead", "cast-off", or "set in your ways" are unfortunate phrases an unknowing person might use to describe the "concrete type".

However, there exists a group of people in southern Africa who fight hammer and chisel to be called Concrete Person of the Year (193) (Law 118/95)

Take Maro Lupu, for example. He became a Concrete Person in 1993, and "it's certainly been good for business", he raves.

In the concrete jungle out there, a Concrete Person is a solid block of talent. Architect Lupu became one for his contribution to the concrete industry through the work he did at The Palace of the Lost City.

John Lang of the Concrete Masonry Association became one for the service he has rendered to the concrete industry as a whole. Other winners have been Peter Lord for his work with pre-stressed, pre-cast concrete flooring and the Department of Water Affairs for "their pioneering work with rolcrete for dams", a press statement enthused.

Now the Concrete Society of Southern Africa is looking for its 1995 winner.

Just phone Pat Guild for nomination forms on (011) 315-0300, or fax number 315-0564.
“The key to this whole deal,” says an observer, “is Marci’s impeccable credentials with the Italian cutting industry.”

Indeed, not only was Marci born in Carrara in southern Italy — the pivot of the international stone industry since antiquity — but he has had 10 years’ experience as a producer and processor in Africa. This was mainly in Zimbabwe, where he was sent by Italian investors to set up a granite factory. He joined Gian’s Marini in 1993.

“I’d known of Marini since 1988,” he says, “and dealt with it during my years in Zimbabwe, and it always had a good name. But of late it was like the Ferrari of SA, only it wasn’t winning anymore.”

Marcnaro points out that granite is a business grounded in costs — and in keeping it simple. Though he is a reluctant critic, he reckons local producers, all of whom have been through tough times, were not only hampered because they were isolated but because they put too much time and effort into fighting among themselves.

“They should have been assessing what was happening in the rest of the fashion-led granite world and adjusting their costs and prices in order to be more competitive.”

SA Granite Association director Alex Hawes says there is no doubt Marcnaro is the right man at the right time for Marini.

“He has a unique global understanding of the business and is focused, energetic and dedicated.”

He is also here to stay, though his Milanese wife, Elena, who delivered their first child, a daughter, a month ago, took some persuading.

Marcnaro speaks excellent English, a result of having a naval officer father who travelled extensively, and of having spent a few years at an American school in Carro. He, too, went to a naval college — Marini in Venice — before studying engineering at universities in Trieste and Milan. Having completed his military service at a naval academy, he joined his father’s engineering business for a spell before Zimbabwe beckoned.

Neither of Marci’s hobbies are easily pursued in SA — sailing (he is a former instructor) and skiing. But he catches up on them whenever he returns to Carrara, where he and Elena also have a home.

—

MARIO MARCENARO (193)
At the cutting edge

“When nobility goes through hard times,” declares Mario Marci, “it has to marry into money.”

The colourful remark is typical of Marci, who played a vital role in plan to refinance ailing granite producer Marini Corp (June 14).

He downplays his influence, claiming with a twinkle in his eye, for instance, that he was too young to become chairman of a public company. But it was clearly the neatly turned out, talkative Marci who brought Luxembourg-based IIE to the negotiating table.

In the event, the low-profile Italian investment company is injecting R54m-R60m into Marini and taking control from Peter Gian’s Usat Trust. Gian has stepped down as chairman.
Slagment considers new factory for Saldanha

BY ROY COXAYNE

Cement extender producer Slagment is considering building a new factory, which will cost between R60 million and R100 million, alongside Iscor’s Saldanha Steel project.

Slagment is a cement extender that makes concrete denser and enhances its durability with time. It comes from the materials formed by the blast furnaces at Iscor, which would normally be discarded.

A major environmental benefit of Slagment is that it minimizes the ugly dumps that could blot the landscape in the proximity of urban environments and puts material that would have had to be dumped to constructive use.

Peter Graham, general manager of Slagment, which is owned by the major cement companies — Anglo Alpha, Pretoria Portland Cement and Blue Circle — confirmed they were “talking to Iscor and the Iscor Saldanha Company”.

“If Iscor’s Saldanha project goes ahead, we will be interested in building a factory there.”

“There is also a chance to put up a factory inside the Saldanha plant, which will reduce our transport costs,” he said.

Graham said the envisaged factory would be similar in size to its Pretoria factory, which produces between 300,000 and 400,000 tons of Slagment annually.

He said a factory at the coast would also boost the company’s exposure in the export market.

Slagment sales manager Ian McKenzie said it was prohibitively expensive to transport Slagment to the coast.

“Thus kills exports. We get a lot of export inquiries and a lot of countries, which will take big volumes, have been identified for export.

“We could utilise everything that is available out of the Saldanha factory for exports, but the margins are low and the government does not offer incentives for exporting cement.

“It is vital for us to get government assistance. The General Export Incentive Scheme provides negligible benefits, which means it is not attractive to take risks on the international market for the returns we can get out of it.”

McKenzie believed about half of the output of the Saldanha factory would be for the Cape Town market and the balance for exporting. He said Slagment was currently being exported to Malawi and Uganda. This year about 10,000 tons of the 300,000 to 400,000 tons of Slagment produced by the Pretoria factory will be exported.

Slagment has just installed a new bag loading facility at their Pretoria factory, which will increase the hourly loading capacity of bagged Slagment by more than 85 percent.

“Loading capacity has increased from 700 bags an hour to 1300 with both the inverter and the shuttle conveyor in operation. As the monthly demand increases, the production output can be increased from 100,000 bags to more than 300,000 bags.

“Not only has the facility improvement meant an increase in capacity, but our customers receive better service,” Graham said.
CEMENT INDUSTRY

Producers dust off spare capacity

Cement producers are taking more than 1 Mt of spare production capacity out of mothballs and putting it to work to meet increasing demand.

Pretona Portland Cement (PPC) is to bring its Dwalboom manufacturing plant out of mothballing completed in 1985 at a cost of about R200m, the 600 000 t/year plant has lain idle since then Divisional MD Clive Tasker says if Dwalboom were undertaken as a greenfields project now it would cost R1,3bn PPC will spend a further R220m completing the plant "At the time of construction, we didn't go as far as building cement silos and dispatch areas. The plant should again produce clinker by June next year."

Tasker says the upturn in the industry has been evident since last year's general election and is looking strong for the remainder of 1995. Though the effect of the RDP "hasn't kicked in yet," the industry expects demand to continue to grow next year.

Other producers, who invested in extra manufacturing capacity in the Seventies and Eighties are also bringing idle plant out of the dust covers.

Blue Circle's Piet Strauss sees the positive trend continuing to year-end and beyond "We have taken our number four kiln — which has been idle since 1985 — out of mothballs and it is up and running. The kiln has a capacity of 300 000 t/year."

It's difficult to pinpoint what caused the upturn but there has been a general increase in all sectors, Strauss says Some major projects, such as the Lesotho Highlands Water Project, are still taking a lot of product but others like Alusas's Hadsdale smelter and the Columbus Stainless Steel project have all but finished. But there is underlying growth in general. "We are seeing the benefits of the RDP trickling through slowly."

But no massive government projects have been announced yet. Anglo-Alpha director Marco Germaine says spare capacity at the company's Ulico factory in the northern Cape — also mothballed in 1985 — will be brought back on stream early next year allowing the facility to produce an extra 350 000 t/year. "With the increases in volumes, we are using spare capacity and market* forces indicate that more will be required." He expects a 9%-10% increase in sales this year over 1994. "This is a volume-sensitive industry and any improvement in sales has a big impact."

Analysts say the sector has moved into a high-growth phase with most of the business coming from the private sector. Further improvements are expected when the RDP mass housing projects start.

The two JSE-listed producers have shown much-improved results for the six months to June. Anglo-Alpha lifted operating profit by 50% to R150.2m, attributable profit doubled, as did earnings per share, to R74.9m and 249c respectively. Barlows-held PPC reported earnings up 44% at R53.1m. Analysts say delisted Blue Circle has also contributed significantly to holding firm Murray & Roberts' bottom line.

The industry went on a major mothballing exercise in the mid-Eighties as the economy faltered and building activity dropped. The sector grossly over-estimated consumption and instigated capex plans to cater for projected growth that failed to materialise. Millions of rand in shareholders' funds were tied up in idle plant as the economy bounced along with growth rates of between 1.5% and 2%. But the scene is changing rapidly.

Total production for the industry is running at over 15% ahead of last year. The Cement Producers' Association's year-to-date figures show that 4 128 098 t were produced in the first six months of 1995 compared with 3 589 171 t for the corresponding period in 1994 June production at 805 748 t was 13,4% up on the 710 262 t manufactured in June 1994.

Domestic sales for the first six months of 1995 are running at 4 063 050 t compared with last year's 3 632 970 t — an 11,8% increase.

The industry's confidence in the market is borne out by figures released this week by Central Statistical Service (CSS) which show approved building plans for flats and townhouses rose 88,8% to 12 210 units in the five months to May. The CSS says the value of buildings completed in the period was R3,24bn — 10,8% up on last year.

The value of total building plans passed was R7,1bn — R3,5bn for residential buildings, R1,8bn for nonresidential and R1,7bn for additions and alterations.

MOTOR INDUSTRY

Taking stock

Toyota is back to full production after closing its Prospecton, Durban, assembly plant for a week, says CF Bent Wessels. The closure was to allow vehicle stocks to run down after a cooling off in industry sales.

Other companies have cut back production, but they have preferred to do so through shorter working weeks rather than total shutdown. According to Wessels, the market was "overheated" in the first half of the year, and companies worked flat out to cope. Given the market's current fall off, production cutbacks were inevitable to counter growing stockpiles of vehicles. For Toyota, the lost week has brought the company back to a comfortable stock situation.

The greatest decline in demand, for most companies, has been among small vehicles. The market for heavy trucks and buses, on the other hand, remains comparatively resilient. The decision by Mercedes-Benz to introduce a new range of Freightliner vehicles to the SA market highlights the motor industry's view that there is scope for continued growth in this sector, particularly for niche products.

Toyota is building about 20 US-sourced Peterbilt trucks a month now, and expects to eventually push this to 30. The arrival of the Freightliner, also US-sourced, will space up a market already the battleground for several imports.

Further evidence of the heavy vehicle sector's buoyancy. Swedish truck manufacturer Scania this week returned to SA after eight years. Ivecq has cut prices by between 6% and 9% to meet increased competition, and the Greater Johannesburg Transitional Metropolitan Council has ordered 100 Volvo buses, reputedly the biggest SA bus order for more than 10 years. The first buses were delivered last week.
About Anglo Alpha looks to expand and build more cement facilities for new cement factories.

In the future, Anglo Alpha is planning to expand their production capacity at their existing facilities and build new cement factories to meet growing demand. The company is considering various locations for new facilities, including expansion at existing plants and new greenfield projects. The expansion drive is part of Anglo Alpha's strategy to become a leading cement producer in the region and to meet the rising demand for cement in the construction industry. The company is also investing in research and development to improve the quality and efficiency of its cement production processes.
Consol boosts turnover

BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

Higher consumer spending and export sales, partly offset by raw material and restructuring costs, resulted in a 19 percent climb in profit from Consol, the glass and packing group, in the year to June compared with last year.

Turnover was 22 percent better at R2.9 billion, of which 43 percent was contributed by packaging and related products and the rest from rubber and related products.

Operating profit rose 19 percent to R598.5 million, showing operating margins at 11.4 percent from 9.7 percent.

Net financing costs doubled as a result of higher interest rates and the acquisitions of Interpak and Plastform.

Consol benefited from a lower tax rate, at 30 percent, than was expected at the half-year. The tax rate in the previous financial year was 37 percent.

Piet Neethling, the managing director of the Consol group, said yesterday that the tax rate had fallen owing to the absence of the transition levy, some capital expenditure allowances, sale and leaseback agreements and write-offs of trademarks in Plastform.

On attributable earnings of R196.5 million (R165.4 million), earnings were 305,9c (257,0c) a share. A dividend of 88,0c (74,0c) was declared.

Restructuring

Neethling said two major events had affected the group's bottom line in the past year.

There had been large increases in commodity prices, not all of which were fully recoverable. The second factor was the restructuring of the business.

The ultimate effect of the restructuring programme would be to increase the proportion of automation in the business. In the glass division this could eventually reduce the size of the workforce, now about 4,000, by about a quarter.

However, some large price increases in paper were still in the pipeline.

In the glass division, the soft-drinks market had been the most buoyant, with volume sales up 40 percent, followed by wines and spirits where volumes were 20 percent higher, driven mainly by export sales.

Neethling said despite the ongoing capital investment and restructuring programme, Consol's profit next year was expected to increase by about 20 percent.
More exports help Consol to 19% profit rise

Higher consumer spending and export sales partly offset by raw material and restructuring costs resulted in a 19 percent climb in profit from Consol, the glass and packing group in the year to June. Turnover was 2 percent better, which contributed by packaging and rubber products and the rest from operating profit rose 15 percent to R330.5 million, showing operating margins at 11.4 percent from 11.2 percent. Net financing costs fell by 24 percent, and the acquisition of tax rate at 30 percent than was 35 percent in the previous financial year.

Nothing, the managing director of the glass division, said that the tax rate was lower than the previous year. The tax rate of 35 percent in the previous financial year.

On attributable earnings of R16.9 million (R15.4 million) a dividend of 9.3% (8.4%) was declared.

Nothing said two more events in the past year were significant. The first was the closure of the glass division's businesses in the business. The second was the closure of the glass division's businesses in the business.

The restructuring programme would be designed to increase the proportion of glass volumes sold in the business. The business had been purchased by a local company and the new investor had made a good profit. Partly in increasing paper buying, some large price increases in paper were still in the glass division. Some had been in the glass division. The soft market had led to the most difficult period in the past year by about 20%.

Nothing said despite the ongoing capital investment and restructuring programmes, Consol's profit by about 2 percent.
Consol may reduce staff dramatically

Beatrix Payne

PAPER and packaging group Consol, which reported a 12% earnings increase for the year to June, had embarked on a major re-engineering programme which could see staff numbers reduced dramatically, MD Piet Neethling said yesterday.

The group had a staff of 13,000, but Neethling would not say how many would lose their jobs through the restructuring. However, staff numbers at the glass division were expected to be cut by 25%.

The group intended to rely more on automated equipment. It was being assisted in technology development by US-based shareholder Owens Brockway and intended to become more globally competitive.

Neethling was speaking at the release of results which saw attributable earnings rise 19% to R196.8m as higher commodities prices and costs associated with the restructuring programme bit into the bottom line. Turnover rose 22% to R2.9bn after consumer spending and demand increased. The operating profit increased to R339.5m (R265.4m).

Financing costs jumped 102% to R57.2m on interest rates increases, and interest bearing liabilities rose to R399.5m (R197.4m). Liabilities rose after the acquisition of Interpak in November 1993 and Plastform in January this year.

The tax bill fell marginally to R84.8m (R91.3m) as the effective tax rate dropped to 36.1% (38.7%) after the end of the transitional levy. This left income after tax 19% higher at R173.3m.

Continued on Page 2.

Consol

Continued from Page 1

Earnings a share rose to 385.5c (227c) and a dividend of 66c (76c) a share has been proposed. The directors said that in view of the abolition of non-resident shareholders’ tax on dividends declared after September 30, the declaration of the dividend was postponed to October 2.

Turnover for the packaging sector increased 24% and operating profit rose 29% as Interpak’s results were consolidated for the full financial year.

The plastics division reported an “unsatisfactory” loss which was lower than the previous year. Its results were improved by the acquisition of Plastform. Volumes at the glass division improved, but were partly offset by “a less than satisfactory production efficiency programme”.

Sales in the soft drink market rose 40% after Pepsi and various own-name brands entered the market. Sales of wine and spirit bottles rose 20%.

The market was very lively in August and September last year, but the group had not been prepared for the sudden jump in demand, Neethling said.

The rubber sector posted turnover growth of 24%, but the operating profit increased only 14%, reflecting increases in raw materials prices. But the sector should perform well after the completion of the restructuring programme which would result in reduced warehousing, handling and overhead costs.

Based on additional volumes forecast for the current year and better cost control, earnings should rise more than inflation, he said. The glass division would continue its investment and re-engineering programme but the full benefits would not be felt this year.

In line with recommendations set out in the King report on corporate governance, an audit committee was established, to which external and internal auditors had unrestricted access, the directors said.
Re-engineering programme set to constrain Consol’s earnings

CONSL’s 19% earnings growth for the year to June was marginally better than several stockbrokers had been forecasting, but the share price has changed little since the results were announced, indicating that expectations have been fulfilled.

Consol's directors do not agree, however. At the recent presentation of the annual results to the Press, group MD Piet Neethling led his colleagues in saying the market was underestimating the share and Consol's future earnings performance which would be "above inflation".

Neethling’s vague forecast would appear to be lower than that expected by the stockbrokers who follow the share. Their forecasts of annual earnings growth over the next few years fall in a remarkably tight band of between 15% and 22%.

The main concern would appear to be the effect of Consol’s re-engineering programme, and thus is expected to be a restraint on the company's earnings until it is completed in 1997/98.

By then, the glass division will have upgraded its furnaces which should be operating at full capacity.

The continued rise in demand for glass particularly from the export wine market should boost the bottom line.

Neethling said the re-engineering programme would be phased in and staff numbers would be reduced largely through natural attrition, but there are expectations it could pose labour problems if there are large-scale redundancies.

The R650m capital outlay to upgrade the glass operations could be a major drain on cash resources and was likely to raise borrowings.

The group was already struggling under a heavy bill for finance changes and the increase in borrowings could see interest charges increase by as much as 25% a year over the next two years.

An expected increase in demand for aluminium cans could trim glass bottles' market share and the group could do worse than hedge its bottling business by moving into the manufacture of cans.

The performance of Consol’s tyre manufacturing operations seemed murky in the face of cuts in import tariffs which have been cranking the local vehicle manufacturing industry.

Neethling was confident, however, and said the Gett requirements would not pose a major threat to the group.

Consol’s share closed unchanged yesterday at R40.25.
Results from Anglovaal’s packaging and rubber maker Consol for 1995 are pedestrian. A 19% EPS increase is nothing to write home about in an economy inspiring many companies to produce much higher returns.

Turnover rose 22% to nearly R3bn but the operating margin slipped to 11.4%. Pretax profit was only 10% better. The balance of the increase came from a fall in tax.

Two features affected the performance. The first was that costs of commodities used by Consol in its manufacturing operations rose inexorably — and sometimes precipitously, as in the case of natural rubber and wire used in tyre making. While Consol could recover rising input costs of paper and plastics from users, it was much harder to pass on the rubber and wire charges. It often takes time for these to filter through and for the offsetting benefits to accrue to the company.

The second feature was the company’s acceptance of the philosophy that it must become globally competitive. It is one thing

<table>
<thead>
<tr>
<th>Year to June 30</th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (Rm)</td>
<td>2,442</td>
<td>2,978</td>
</tr>
<tr>
<td>Operating income (Rm)</td>
<td>285</td>
<td>339</td>
</tr>
<tr>
<td>Attributable (Rm)</td>
<td>185</td>
<td>197</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>257,0</td>
<td>305.9</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>74.0</td>
<td>88.0</td>
</tr>
</tbody>
</table>

sharply over the past few years. Gearing is 37% — high compared with competitors.

Finally, the share has been significantly depreciated by the market. Its relative price rating, at 1.2 in February 1993, now stands at an ordinary 0.88. If this is a judgment, it is harsh but understandable. Most analysts canvassed agree the counter is interesting to watch but not to buy.

David Gieseman
PPC opens in southern Cape

Robyn Chalmers

PRETORIA Portland Cement opened a new cement distribution centre in George yesterday, capable of dispensing about 70 000 tons of cement a year.

PPC Cement coastal MD Graham Fabian said the centre had been established to provide a more efficient service to customers who previously obtained their cement from PPC sites in the Western Cape.

"Our first objective is to provide an uninterrupted supply of cement to customers in the southern Cape. Initially, all cement at the centre will be distributed in bags. However, we will assess the viability of supplying bulk once the centre has been operational for a few months," he said.

Fabian said the new distribution centres were becoming increasingly important in the post-cartel environment to ensure a high level of customer service.
PPC opens George distribution centre

BY FRANCOISE BOITHA

PPC opened a new distribution outlet in George yesterday on the back of strong expected cement demand and growth from the southern Cape informal construction industry.

According to Craig Waterson, sales and marketing director for the coastal region, sales in the cement market in volume terms over the last 12 months had grown by approximately 10 percent and a further 8 to 10 percent was expected for the coming year.

Speaking about the slowing in the formal construction sector in the area, Waterson said: "In the past there were a lot of big contracts. Some figures show that construction have declined, but cement sales have increased, which indicate there are now more smaller jobs."

The outlet, aimed at servicing this growing demand, is expecting sales of R21 million for the year to October next year.

"At present, we are using rented accommodation, but in the first year, we are hoping to reach break-even volumes to recover the establishment costs," he said.

The market was previously serviced by the group's distribution centre in Montague Gardens in Cape Town.

Cartel

Waterson said that the previous long distance deliveries meant that orders had to be placed well in advance by builders to avoid shortages.

"Now they can expect immediate delivery," he said.

Another reason for the establishment of the centre was the agreement with government to disband the cement cartel that had been in operation for many years.

A two-year period, ending in October next year, was allowed for the disbanding.

In terms of the cartel operations, Waterson said that PPC had supplied all the cement in the George region for the past 25 years, and continued to do so.

"We are not expecting to expand our market share because we already have 100 percent of the market." However, he said, the move was aimed at securing it in terms of the new freedom of competition and bringing the product to the consumer at a reduced cost.

Graham Fabian, the managing director for the coastal region, said that initially all cement would be supplied in bags, but that the company would re-assess the viability of bulk supply once the centre had been operational for a few months.
Future looks rock-solid for Kudu

BY JOHN SPERIA

Demand for South African dimension stone granite continues to show signs of strengthening.

Orders exceed Kudu Granite’s ability to supply, says Paul Nelies, the group’s non-executive chairman, in his annual report to shareholders.

“The group has also continued to build on its reputation for quality, and its worldwide registered trademarks have become synonymous with its quality and reliability.”

In the year to June this year, Kudu’s earnings declined from 18c to 13.7c a share and the dividend reduced from 4.9c to 3.9c.

Nelies draws attention to Kudu’s improved performance in the second half of 1994/95, which he attributes to innovative technological advancements and Kudu’s commitment to develop its mines for long-term sustainability.

He acknowledges that gearing at 64 percent is still high, though it is down from 99 percent at the end of June last year.

In the past two years Kudu has focused on a transition from traditional boulder quarrying to the professional mining of solid rock formations. The long-term objective is to mine these formations exclusively. The planning and development of the group’s solid formations are now at an advanced stage.

Nelies says exploration for new products has been intensified over the past few months.

“Some exciting prospects are under review and detailed feasibility studies are being carried out.”
Ceramic Industries (193)
staves off competitors 60 12/9/95

Sello Motlhakwe

TILE and sanitary ware manufacturer Ceramic Industries lifted attributable earnings 42% to R14.2m for the year ended July despite increased international competition which minimised price hikes.

Earnings a share rose 42% to 78.2c and a final dividend of 9c was declared, giving a payout of 15c for the year.

The company said a continuing cost reduction programme and further improvements in productivity had resulted in operating profits rising by a satisfactory 36% to R13m. Interest from investments stood at R2m, with interest paid dropping to R25 000, down from the previous period's R1.2m.

Pre-tax income increased 46% to R15m.

The directors said trading conditions had remained difficult in the past financial year in keeping with company policy of being price competitive internationally, only minimal price increases were introduced. This had contributed to a marginal increase in turnover to R130.4m.

The board said delays in implementing the reconstruction and development programme and competition from imports were expected to result in trading conditions remaining difficult.

The capital expenditure programme to increase capacity at the Sameca and Betta branches, amounting to more than R50m, had been completed and the plants were commissioned after year end.

The benefits of the plant upgrading and further improvements in efficiency were expected to result in real growth in operating profit. This year's tax bill was up 19.6% to R772 000.

Executive chairman Gianni Ravazzotti said the results were relatively pleasing in all light of the difficult trading conditions in which the company operated this year.

"Competition from imports is expected to continue and we will need to work hard at augmenting our market share in the future."
Taking the capex plunge

Can the ambitious spending plan be completed without denting earnings?

A year ago, packaging and tyre company Consol's price was at a record high of R57. The market rated the share highly. Its p/e ratio of 21 was at a premium to the 19.6 average for the JSE Industrial index.

The previous week, Consol announced a 19% advance in EPS and dividends for the year to end-June 1995 — a much faster pace than the 6% for the 1994 year.

Yet this week its share price was R39.75 or 30% below its record high on August 10 last year. Market capitalisation had shrunk by about R51bn to R22.5bn. Its p/e ratio has fallen to 13 and the share has significantly dentated against the Industrial index, whose p/e is now 15.9.

There appear to be no major problem areas within the group operations. Where there have been laggards, such as the plastic packaging operation, which lost money over the past two years, management is forecasting improvement this year. Operating profit rose by almost a fifth last year and there seems to be no reason to expect deterioration.

However, with the economy growing, corporate profits are now bouncing ahead. The pace of earnings growth produced by Consol in the past year may be well above inflation, it is below average — now about 28%-30% — for large industrial groups.

What may be more important, though, is investor unease about Consol’s hefty capital spending plans, and the effect this may have on the bottom line during the funding phase. The group has already accelerated its capex, it spent R163m in 1994 and R192m in 1995, more than double the amounts spent in the previous two financial years. Now it wants to spend about R1bn over the next three years.

Group spending estimates are R330m in 1996, R360m in 1997 and R310m in 1998. The glass packaging division will get the lion’s share of the capex, about R180m-R220m a year. About R100m a year will go to the rubber division, about R20m to plastic and about R30m to paper packaging.

MD Piet Neethling believes this can be financed with borrowings and internal cash flow, without calling on shareholders for equity funding. It could well be possible to do this without straining the balance sheet. But investors may need convincing that growth in earnings and dividends will remain attractive.

Consol has several factors in its favour. Many of its operations are highly volume-sensitive, it holds leading positions in its main markets, in particular glass packaging and tyres, some divisions should now be benefiting from earlier capital investment, and the group is a strong cash generator. Its R3bn turnover and R340m operating profit are derived from two main activities: packaging and related products last year contributed 43.5% of turnover and 51.2% of operating profit, rubber and related products provided 36.6% of turnover and 48.8% of operating profit.

Neethling scheme to refit packaging’s sales were 50% from glass, 33% from paper and 17% from plastics, its profit came 80% from glass, 25% from paper and a negative 5% from plastics. In the rubber division, tyre maker Tycoon produced 45% of turnover and 60% of operating profit, re-treader and distributor Tredcor contributed 55% of sales and 40% of operating profit.

Abrupt changes in volumes sold to swiftly rising markets were a major influence on the 1995 results — though the effects were not all favourable. In the bottling market, where Consol is the dominant supplier with a share of 75%, demand for glass containers grew in all sectors, averaging 8%. In some sectors, demand grew at much higher — if unsustainable — levels.

Soft drink bottle volumes rose by about 50% over the financial year, boosted partly by the launch of Pepsi and other new players. Demand from the wine and spirits industry grew about 20%, lifted by the surge in wine exports after the elections. Expanding fruit exports saw corrugated packaging volumes up 13%.

In the rubber division, most sectors showed volume gains. Tycoon’s business sold grew 12%, with much of this exported to meet a large order from the Far East.

Despite these higher volumes, the group operating margin on sales dipped from 11.7% to 11.4%. This is an unusual effect, especially considering the large manufacture (and high fixed cost) component in Consol’s operations.

It seems management may have been caught off guard by the suddenness of the recovery. In the glass division, three furnaces had to be brought back into production quickly to meet the demand. The recommissioning of these furnaces required expenditure and skills that had to be spread over shorter than usual. Neethling says their return to production carried a high cost, which Consol had to bear almost throughout the year.

Surging commodity prices hit the costs of raw materials used in various parts of the group. Materials affected include soda ash for glass, paper and plastic polymers in other packaging activities and natural rubber in the rubber division. Neethling notes that such cost increases often cannot be fully passed on in the short term.

The low in the plastic packaging operation has been a continuing problem. Neethling says the activity has performed far below its potential, especially with a major reconstruction over the past two years. The latest loss was smaller than that incurred in 1994. This year, at least breakeven is expected.

With its returns either negative or well below the group figure, it has to be asked whether Consol should stay in this business. Neethling says “Plastics account for 25% of the total packaging market, so it is a very important market segment.”

The Gauteng rigid packaging operation still a problem area. Traditional low-cost product markets have been shrinking under the pressure of imported product options. Concentrate and refill strategies. An early reversal of this trend is not expected, so this operation will be sized down to match demand.
What chairman Clive Menell calls reconstruction of Consol’s operations has moved progressively though the group. In the plastics division, he says, a programme of product focusing and reduction of overheads is being pursued with vigour.

Contred, holding company for the rubber activities, has largely completed this exercise. Menell says that, with enhanced systems and processes it will reduce warehousing, handling and overhead costs while improving service.

The rubber division has changed greatly since Consol entered this industry with its purchase of Goodyear from the US parent six years ago. It was an attractive buy for only R210m, on a p/e of less than five times. Consol has since ploughed capex of about R350m into this company.

Moreover, whereas it initially was primarily in the manufacture of tyres and related products, through acquisitions such as Tredcor (from Trencoar and Longmile) and Safe-T-Tyre, it has built up large retreading and distribution activities. Tyre maker Tycon claims to produce about 25% of local output but when Tredcor’s distribution activities are taken into account, the group contends it controls about 40% of the market with more than 180 outlets.

None of the other manufacturers has such large distribution activities, most have none. And Neethling says that even if imports — now about 11% of the market — continue to grow, the group could still benefit through larger imports by Tredcor, which is already an importer. “We could swing it either way,” he says. “Our strength really lies in our distribution.”

Being in distribution as well as making tyres proved helpful recently when the price of natural rubber shot up. It more than doubled over less than 12 months, involving a total cost for the group of more than R35m. Tycon felt the impact because it can take several months to have a price increase accepted in the industry. Neethling says Tredcor did well, which it usually does when prices are rising, as it can sell from existing stocks.

Now the upgrading and capital expansion will focus on the glass division, which has seen comparatively little capex recently. It has been a “wonderful money spinner” but modernisation and investment are clearly needed. The factory in Wadeville, Germiston, for example, is almost 50 years old.

Plans include a scheduled rebuilding of furnaces (there are 15 in total) to latest international standards. More productive machinery will be commissioned and production capacity will be increased by 25%-30%, though this will depend on how the market develops over the period.

This programme will follow major changes in strategic thinking. Production will be designed around the latest technology rather than the workers. That should mean better efficiencies and quality. It will also mean a lot fewer jobs. The plan follows recommendations made by US-based technology supplier Owen Illinois.

At June 30, borrowings had increased to R501m (1994 R277m) or R396m net of cash. Net gearing is 38%, certainly not onerous for this company but the market may not want to see it rise much higher.

Cash flow was a negative R170m in 1995 and management is projecting it will remain negative by R100m in 1996 and 1997 before becoming a positive R100m in 1998. Net debt is forecast to peak at R600m in 1997 and fall to R500m in 1998.

The success of these predictions — as well as the prospects for a sustained recovery in the share price — will depend heavily on the trading performance. This would need continuing sales growth and better margins.

Though 1995’s operating profit grew 19%, it was flat or down in the previous three years. Earnings have been driven largely by the fall in the effective tax rate to 30.1% from 46% in 1991.

“The next three years will be crucial for glass,” concedes Neethling. “But I think we can do it. What we are doing is large and expensive but we are used to these projects.”

With restocking by customers probably having largely run its course, he is expecting sales growth in the packaging division to fall from last year’s 24% to about 15%-20% and in the rubber division from 21% to about 15%. This would still mean better volume throughout and, it’s hoped, with less pressure on margins.

Over the next three years, packaging’s operating profit is forecast to grow by 20%-30% and rubber’s by 15%-25%. For the group, Neethling is calling for annual earnings growth of 20%-25% over this period.

If these figures are achieved, the share is on a prospective p/e of 10.4 on a 12-month view and is not particularly expensive.

The capex programme could greatly enhance long-term prospects, so the current price may offer an investment opportunity. But for now the market may want greater assurance that all will go as planned. Industrial unrest, commissioning problems with new plant or competitive actions are among the potential risks.
Local demand for doors and glass helps boost Masonite

Nicola Jenvey (193) 69191985

BURBAN — Strong sales of doors and glass products saw building and construction company Masonite (Africa) double its attributable earnings to R7.8m for the six months to June, chairman and MD Alan Wilson said yesterday.

Masonite manufactures hardboard, insulation board, cryogenic mineral wool, prefabricated accommodation units, wood and mineral fibre ceiling panels, decorative wall panelling and forestry products.

— Turnover rose 29% to R39.3m as the company experienced stronger demand for local sales than for international sales, particularly in doors and the packaging sector.

— Operating income increased to R32.6m from R4.1m, which Wilson linked to strong local demand. The shift away from international demand also impacted on operating income as costs for shipping were not incurred.

— A R160 000 surplus on the cash balance was recorded during the review period compared to a R50 000 expense for the six months to June last year.

Earnings per share rose to 11.6c from 6.5c and a 20c (12c) interim dividend was declared.

"Demand in both domestic and international markets was strong. The performance of forestry and manufacturing was excellent and also contributed towards the improved results," Wilson said.

However, international prices were "softening" and although local demand should remain firm until year-end, certain market segments which had traditionally strengthened in the second half-year remained depressed.

"The general economic signs are not as good for the remainder of the year as they were in the last six months of 1994, and shareholders should not expect second half-year rates for 1995 to be on a par with those achieved last year."

The company had earned "at least half" of its earnings for this year during the period under review, he said.
Masonite turns in impressive first half

By Shirley Jones

Durban-based building materials manufacturer, Masonite, has turned in impressive results for the six months to June 30 this year, thanks to strong demand for products on both local and international markets.

The company's net earnings a share increased to 115c from 55c and a 20c dividend was declared for the six months to June this year.

This was on the back of a 29 percent increase in turnover from R69 million during the first six months of last year to R89 million. Earnings before tax climbed to R12,8 million from R4 million. Earnings after tax stand at R7,8 million as opposed to R3,7 million over the same period last year.

Alan Wilson, the chairman and managing director, put the company's strong performance down to strong local sales, but said that there were not related to the RDP.

He cautioned that the company was unlikely to repeat either its impressive performance during the final six months of last year or its pleasing results during the first half of this year because the general economic indicators were not as strong as they were.
COMPANIES

R3.6m. The company seems set to do at least as well again this year.

The new closed cell expanded polyethylene manufacturing plant, costing R1.5m in equipment and R500 000 in installation fees, came on line in August as planned. This raised production capacity by 70%, relieving a difficult bottleneck. The original plant was operated without pause six days a week but still couldn’t meet demand.

Installing a new state-of-the-art plant became inevitable. This will enable growing demand to be met, and allows for expansion. The project was financed by an Industrial Development Corp loan.

Borrowings are expected to resume this year but should remain well below 40%. This isn’t surprising given the debenture repayment of R720 000 in July, and the use of cash (R4.2m) for the latest acquisition, Executive Tape (Pty). Sondor now controls 75% of Executive, which will be able to capture between 15%-20% of the self-adhesive tapes market. The acquisition could lift EPS.
Cement manufacturers ensure good distribution

Robyn Chalmers

IN LINE with the cement industry's bid to strengthen its distribution capacity, following a decision last year to disband the cartel, PPC Cement has incorporated its two leading cement distributors, Cooper & De Beer and M Führer & Son, into its business.

MD Clive Tasker said the operations of Cooper & De Beer and Führer would be merged with PPC to spearhead the company's sales and distribution services.

He said the move was in line with PPC's aim of smoothing the transition to a free market environment once the cement cartel was officially disbanded next year.

"Once the cartel is disbanded, the cement industry's central transport and distribution optimisation system will fall away. By merging Cooper & De Beer and Führer into our business, we can assure customers of ongoing service and uninterrupted supplies."

"The merger allows us to provide a direct service to retailers, concrete product manufacturers and larger building and construction products."

Tasker said Cooper & De Beer had been a subsidiary of PPC for eight years, and was SA's largest cement distributor, while Führers, SA's third largest distributor, became part of the PPC group in 1993.

The merger was an example of PPC's efforts to become a more market-driven organisation which was aligned more closely with its customers, and this would make it the only company to offer a delivered cement service on a national basis.

PPC's main competitors, Anglo-Alpha and Blue Circle Cement, have also consolidated their distribution systems to compensate for when the cartel's distribution arm is disbanded.

MD Marko Germana said the group had been active in boosting its distribution systems for a number of years in anticipation of the distributor's disbandment. He said that over the past three years, the group's sales outlets had been increased from four to 14 in key regions across its market area. This had been achieved by acquiring major distributors and building greenfields distribution terminals.

Blue Circle Cement had also focused on boosting its distribution, and cement MD Piet Strauss said it had recently formed Blue Circle Cement Sales as a separate entity to look after distribution systems.

Blue Circle Cement Sales had been borne out of the former De&A Cement which was formed a year ago and changed its name in July.

"We believe we needed to look after our sales distribution and we acquired 50% shareholding in the privately owned Ptermax last year."

...
PPC Cement expands

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Clive Tasker, the managing director of PPC Cement, said that the move was in line with PPC Cement's aim of smoothing the transition to a free-market environment.

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— Sapa
The future...
PPC opens service centre in Pietersburg

Robyn Chalmers

PPC Cement yesterday opened a cement service centre in Pietersburg, Northern Province, in a bid to establish a cohesive infrastructure around SA in a post-cartel environment.

PPC Cement MD Clive Tasker said each region had specific requirements and PPC was aiming to meet these by establishing regional representation countrywide.

He stressed, however, that PPC would not be establishing its own retail network in the area, and would be supporting local cement stockists.

He said PPC's presence in Northern Province would be further bolstered by the recommissioning of its plant at Dwanlbosom, due in the first half of next year.

"Recommissioning the plant will signify a welcome boost to the economy of the region," said Tasker.
Down in cement price unlikely, says producer

BY AUDREY D'ANGELO
CAPE BUSINESS EDITOR

There is unlikely to be any big drop in prices following the abolition of the cement cartel next year, Marco Germeina, the director of Anglo Alpha cement division, said at a presentation to the Society of Investment Analysts in Cape Town yesterday.

He told the society his company would concentrate on retaining its 36 percent market share but had "no deliberate intention to increase it. That could be done only by buying market share and we feel that would be fatal to consider."

Trevor Wagner, the company's director of finance and administration, said he did not think there would be pressure on cement prices. But he added that if there were a price war, it would affect Anglo Alpha far less than Pretoria Portland Cement because of Anglo's mix of businesses.

Anglo Alpha already has a ready-mixed concrete operation in the Western Cape, a PPC stronghold, but does not deal in cement powder there.

Germeina said the RDP would raise demand for cement by only 5 percent Anglo Alpha expected GDP to grow by between 3 percent and 3.5 percent. That translated into growth of between 3 percent and 4 percent in the cement market in the medium term.

He said all three cement producers — Anglo Alpha, PPC and Blue Circle — were in a strong position. "No one producer is in a position to dominate the others in spite of what PPC would like people to think."
Increase in demand for clay bricks

Residential demand for clay bricks had soared in the past year, offsetting in part the dramatic drop in public sector building contracts, said Harry Voorna, the managing director of Corobrik.

Corobrik, the largest manufacturer and marketer of clay bricks in South Africa, had seen volumes increase in the past year by about 12 to 15 percent and the company's 21 factories countrywide were now running at between 80 and 90 percent capacity, against about 65 percent in the middle of the six-year recession.

Corobrik, he said, had gained market share and the clay brick industry as a whole had seen volumes increase by about only 6 percent in the past year.

This improvement had fallen far short of expectations as Corobrik had expected volumes to increase by about 25 to 30 percent, boosted by RDP-related public sector building projects.

"However, government and municipal building contracts had dropped off dramatically during 1995 and to a large extent the building industry had been carried by the private sector particularly in the residential area," he said. "It is not as if we have lost market share. The public building programme ground to a halt and there are no indications that this will pick up."

Voorna said South Africa was tending to follow international trends and was seeing a strong surge in the use of clay brick pavers for commercial applications.
Low rate of work targeted

CHARLENE CLAYTON  
Property Reporter

LOW productivity on site has been cited by one of the country’s largest manufacturer of clay bricks, as one of the major contributing factors towards the high cost of building.

A recent Bureau for Economic Research report indicated that building costs for 1995 rose almost 17 percent and it forecast further increases of 20 percent next year.

The director of Corobrik Western and Eastern Cape, Mike Ingram, said that in 1976 the building industry norm was for 1 000 to 1 500 per person per day.

"Today, if bricklayers put down 500 bricks a day, it is considered a lot," he said.

Even six or seven years ago, the building industry was putting down 800 to 900 bricks a day per person.

Mr Ingram recalled that when the Pietermaritzburg police station was built, the developer specially flew in a Cockney bricklayer who could lay an impressive 2 500 bricks a day. The industry norm at the time was between 1 000 and 1 500 bricks a day, said Mr Ingram.

The current low productivity in the building sector was reflected in South African industry as a whole, he said.

SAPA reports that according to analysis of the 1995 World Competitiveness Report, South Africa’s overall ranking has declined by one place from 35th to 36th out of 41 countries.

According to the People factor, which makes up a country’s competitiveness, South Africa is still ranked last.
FRANCHISE ACTION IN THIS WINNING GRAB A PIZZA OF THE NORTWICH HEADS WITH GROWTH ASSURED FOR THE JSE WITH

COMM business market shares

Cement industry stands on solid DIACAL STREET

M ichael Klein

Sunday Times, Business Times, October 22, 1995 - 6
Building materials price hikes in dispute

Robyn Chalmers

BUILDING materials suppliers have insisted that they are sticking to the compact made last year with government to keep price increases in line with inflation, despite contradictory reports.

Building Materials Suppliers' Consortium chairman George Thomas said yesterday that an informal survey of the larger building materials suppliers showed that their prices had increased between 7% and 10.5% during the year.

These figures contradicted statistics from Stellenbosch University's Bureau for Economic Research and other research institutes which estimated that prices were expected to rise 13% this year and up to 20% next year.

Thomas said he was concerned that a perception was being created in the industry that building materials suppliers were pulling out of the compact agreed to with government to keep price increases in line with inflation.

"All the feedback we are getting from larger suppliers at the grassroots level shows that not only are we sticking to the compact, but in most or almost all cases we are keeping increases in the prices of building materials below inflation," he said.

The informal survey showed that prices in the cement industry had risen 6% in January and 4% in July — on average about 8% for the year — and cement companies had indicated that price increases would be held below inflation until 1997.

Federated Blaakie, one of the largest distributors of building materials in SA, had seen a 10% to 10.5% increase in materials used for low-cost homes this year, and expected this to be lower in 1996.

Penny Pinchers and Cashbuild reported increases of between 5% and 10% year-on-year to March.

The Clay Brick Association estimated that industry prices for clay bricks had risen 7% over the past year, but that sales had been below expectations due mainly to the lack of delivery on the low-cost housing front.

The survey showed that the price of timber had increased 6.5% between January and October, while the price of steel roofing products rose 9.2% in the first quarter of this year compared with the first quarter of 1994.
Johannesburg — PPC Cement has landed a contract to supply cement to the Far East Bank Housing Project, launched in Alexandra by Dan Molokeng, Gauteng's provincial housing minister. The project will see more than 800 low-cost houses developed for Alexandra residents. All contractor work will be undertaken by small local contractors overseen by entrepreneurial project managers from the community.

Musa Shangase, the business development manager for PPC Cement, said, "The housing project — a typical RDP approach — proves the viability of community-driven initiatives. It also underlines PPC Cement's commitment to supplying cement to and supporting the communities in which it operates."
Anglo-Alpha will wrap up cement

Robyn Chalmers

CEMENT producer Anglo-Alpha has fired another salvo in the increasingly competitive cement industry, with the introduction of stretch-wrap palletising for bagged cement at its factory in Roodpoort and its depot in Brakpan.

Roodpoort factory and Brakpan depot GM Amos Smit said the new system enabled customer vehicles to be speedily loaded with pre-palletised 40-bag units on a returnable wooden pallet.

"Apart from reducing the turnaround time for customer vehicles, the new system minimises bag breakages during handling and transport, as the bagged cement is subject to lower levels of stress. In addition, the bags are waterproof and may be stored outside for a limited period of time until required," Smit said.

Smit said the Brakpan distribution depot, which came on stream in 1995, dispatched 500 000 tons of cement products each year.
ABI posts modest earnings

Johannesburg — ABI, the bottler of Coca-Cola and allied products, posted a modest 7.3 percent rise in attributable earnings to R32.2 million in the quarter first half of the financial year to end-September.

Turnover rose by 7 percent to R621 million, and excise duty payable was little changed at R34.1 million, from R33.6 million previously, leaving sales revenue of R586.8 million (R546 million).

Trading profit fell to R36.6 million from R42.1 million previously, with dividend income marginally better at R4.1 million (R4.4 million).

However, net interest received doubled to R1.8 million.

A lower tax bill at R14.7 million from R18.1 million, as well as a more than doubling in equity-accounted retained earnings of associates to R2.3 million, boosted taxed profits to R32.3 million, from R30.1 million.

ABI’s Managing Director, Trent Odegard, said tight trading in the first half was offset by strict cash management, strong growth in can sales and a cut in the tax rate. The period traditionally contributes about a quarter of annual earnings.

Trading in the first half had picked up and the growth reported in the second quarter had continued into the current financial period.

He expected earnings and dividend growth to be maintained. The interim dividend is 11.5c (10.7c).

On an attributable earnings basis, earnings a share of 30c (28.5c) were declared — 51.4c (48.9c) on a cash equivalent basis — and new fully paid ordinary shares are to be issued as a capitalisation award.
PGSI beats its margin squeeze

Yuri Thumbra

PLATE Glass & Shatterprufe Industries (PGSI) lifted attributable earnings 41% to R128.6m for the six months to September, despite declining trading levels.

The SA Breweries subsidiary pushed sales 15% higher to R2.1bn, but tougher competition and increased expenditure hurt margins to leave operating income 6% up at R197.7m.

\[ \text{Net financing costs rose to R18.9m} \]

from R12m, as borrowings jumped to R384.8m from R296.1m.

The bottom line was helped by a lower effective tax rate. The tax bill dropped to R41.6m from R60.2m.

Diluted share earnings rose 16% to 332.8c, as the share base expanded with the conversion of preference shares and the effect of previous capitalisation awards. The dividend rose to 148c from 130c, and PGSI again of-

Continued on Page 2

PGSI

Continued from Page 1

fired a scrip alternative.

Chairman and CEO Ronny Lubner said at the weekend that the performance was satisfactory, given market conditions. He said such conditions were likely to persist for the rest of the year, leaving earnings growth at similar levels to the first half.

Auto glass repair operation Belron International had continued to lift earnings, despite competitive conditions in the 18 countries it operated in.

Glass SA had suffered manufacturing disruptions, but still maintained supplies to both the motor trade and building industries and improved earnings. The division had also completed a R150m float tank repair.

But PG Bison suffered as expected; reconstruction and development programme benefits failed to materialise, and furniture manufacturing slowed.

PG Industries' Zimbabwe's earnings fell amid commissioning difficulties at its new hardboard plant.

Lubner said PGSI had been forced to borrow to fund its R513m investment programme as cash retained from operations was limited to R53.1m. Though long-term loans fell to R44.4m from R107.4m, short-term debt jumped to R340.4m from R187.7m.

Gearing had hit 38%, well within the company's 60% ceiling.
Huge coloured swing to ANC

In last year's election, the ANC won about 20 percent of coloured votes in rural areas. Initial results in the local elections show a swing of at least 30 percent to the ANC.

"Our estimate is that we are averaging between 50 to 60 percent of the votes in the coloured community," said provincial leader Chris Nissen.

He expected the trend would be repeated throughout the province as further results became known.

In early results, the NP won the small towns of Vredenburg, Roringberg, Reddinghuis and Aurora.

But at the same stage of counting, the ANC had won 60, about 42 percent, of 198 seats on local councils. Counting in allied candidate, the ANC has won 46 percent of the seats.

In Worcester, the ANC won all three wards, the five Swellendam wards and three from the proportional list to secure 11 seats on the seven-member council. The remaining six seats went to the NP.

In Riversdale, the ANC won six of the 16 seats on the council. In last year's election, the ANC won only 14 percent of the votes, the remaining 75 percent going to the NP.

Mr Nissen said the big shift away from the NP showed "people's eyes have opened — they are not as interested in division and racism, they are appreciative of President Nelson Mandela's approach to reconciliation, and see the ANC as the vehicle of effective change."

Commenting on the poor showing of other parties, Mr Nissen said: "It's like the cartoon you had in The Argus, of the tug o' war — the rope is pulling to our side and the people in the middle are falling off."

Hiccups but most local polls go well

The Argus Correspondents

Sixty percent of proportional representation votes cast in the local government elections have gone to the African National Congress, with 18 percent going to the National Party and 11 percent to independent candidates, according to preliminary information issued by the Local Government Elections Task Group today.

However, the group cautioned that "this is a preliminary figure and one should not try to identify any particular trend."

Electoral task group co-chairman Frederik van Zyl Slabbert said at a media briefing in Pretoria today that his group was grateful for the low level of violence which had taken place in the elections yesterday.

"I could argue that this augurs well for the spirit of democratic tolerance and for inter-party co-operation. We have come through a steep learning curve and have to face many challenges," Dr Slabbert said.

Millions of people turned out to vote, but far from only a few results have been released because in some cases counting started after the night of this morning.

The electorate went smoothly, but toothache problems and hiccups were experienced at some polling stations.

Provincial Affairs and Local Government Deputy Minister Mohamed Valli Moosa called the elections "a phenomenal success."

Election results for greater Johannesburg were not expected until later today, after a last-minute change in procedures delayed the start of counting in Soweto by up to 12 hours.

But the turnout was much lower than
PPC considering new cement plant

Robyn Chalmers

PRETORIA Portland Cement's presence in KwaZulu-Natal could extend to a new cement plant at an estimated cost of more than R750m if sufficient raw materials were found.

MD Clive Tasker said at the weekend PPC was prospecting in the province for suitable raw materials to allow it to meet long-term demand.

If these were found, the feasibility of building a new cement plant would be studied.

He said recent industry statistics placed the cost of setting up a new plant at between R750m and R1bn, depending on when the decision to build was taken.

PPC announced last year that it was looking into the construction of a new kiln in the Eastern Cape, but the lack of limestone in the region seemed to have placed a dampener on these plans.

Opening PPC’s regional office in KwaZulu-Natal, Tasker said more than 460 000 tons of cement had to be imported from inland to the province as the group and its former cartel partners Anglo Alphab and Blue Circle could produce only about 860 000 tons a year.

With the cement cartel falling away completely on October 1 next year, in terms of a Competition Board ruling, there would be a major impact on the distribution and price of cement in many areas, he said.

“PPC has committed itself to keeping its factory prices below the rate of inflation until 1997 as part of its contribution to the reconstruction and development programme,” he said.

PPC currently had four distribution centres in KwaZulu-Natal — in Durban, Maritzburg, Newcastle and Richards Bay.

Tasker said these depots had been supplied from factories in the north, and most of these operations had been doing business for many years as Cooper & De Beer and Northern Natal Cement Distributors — both of which were wholly-owned PPC subsidiaries.

To cater for any demand for cement in the province which could not be met by local production, PPC intended to use its production and distribution capability to serve this market.

The group had a capacity of 4.8 million tons, and the recommissioning of the Dwalboom factory, announced recently, was expected to add about 700 000 tons.
Plate Glass increases profit to R197.7m

BY LEWIS JONES

Johannesburg — Despite a squeeze on margins, South African Breweries subsidiary Plate Glass and Shatterproof Industries (PGSI) increased fully diluted earnings 16 percent to 332.6c (287.9c) a share for the six months to September.

While turnover rose 15 percent to R2.1 billion (R1.9 billion), operating profit moved up 6 percent to R197.7 million (R187.1 million).

Ronnie Lubner, PGSI's chairman, said that Glass SA, its largest operation, had completed a R150 million float tank repair, which, while coming in ahead of schedule and well under budget, resulted in inevitable disruptions at the manufacturing level. The plant was, however, back on budget and expected to show good returns following its update and repair.

Despite strong growth in the motor industry, price increases in the industry were down, Lubner said. He said PGSI had fought to become globally competitive in its pricing, which had resulted in tightened margins on car glass sales.

Demand

The expected flow of benefits from the RDP had not yet materialised, slowing demand from the furniture sector for products from PG Bison, a PGSI subsidiary that manufactures and distributes board products.

While Belton International, the group's offshore glass business, continued to generate increasing revenue, rapid expansion had squeezed margins. More than 30 branches had been added to the worldwide network.

Financing costs rose 67 percent to R18.5 million (R12 million) as short-term borrowings jumped to R340.4 million (R187.7 million), largely to finance the float tank repair and continued international expansion. The group's tax bill declined some 31 percent to R41.6 million mainly as a result of the utilisation of assessed tax losses by foreign subsidiaries.

Net attributable income rose 41 percent to R128.6 million, but the increase was largely due to the redemption of preference shares last year.

Lubner expected the strained trading conditions to persist for the rest of the financial year, and therefore expected similar earnings growth for the rest of the year.
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PPC restructured for post-cartel era

Robyn Chalmers

IMPROVED trading conditions helped recently restructured Pretoria Portland Cement increase its earnings a share 24% to 464.4c for the year to the end of September.

Turnover was 22% up at R1,2bn and operating profit rose to R286.8m from R243.5m previously, while profit after tax grew 27% to R194.7m.

Shareholders had the option of taking new shares or a cash dividend equivalent to 205c a share, increasing the total cash equivalent dividend 14% to 285c.

Group MD John Gomersall said substantial changes had been made within the PPC group during the review period to position it for a post-cartel environment.

"The cement business was reorganised into two regional business units — coastal and inland — and teams were put in place with responsibility for the performance of these units.

"Two cement distributors, Cooper & De Beer and Fibbers, were incorporated into PPC Cement and we believe that our initiatives will stand us in good stead in the new industry environment," he said.

PPC had acquired also the remaining 45% shareholding in cement sacks producer Kohler Sacks to promote a greater degree of integration with the cement business.

Gomersall said the PPC board had approved the R74m re-commissioning of the Dwaalboom quarry and clinker plant in Northern Province.
PPC posts profit hike despite slow RDP take-off

BY DEBOR AH TONKAS

Johannesburg — In spite of the slow take-off of the building activities of the RDP, the Pretoria Portland Cement group was able to increase its taxed profit by 27 percent in the year ended September to R154.7 million.

Earnings a share rose 24 percent from 375.1c to 464.4c.

In anticipation of an increase in demand, it is spending R219 million on boosting plant capacity by 720,000 tons.

At PP Cement, improved trading conditions led to its turnover increasing by 13 percent and profit rising 23 percent from R154.9 million to R191.1 million.

Increased efficiencies enabled PPC Lime to increase earnings by 14 percent from a 2 percent rise in lime sales.

Shareholders have the option of taking new shares or a cash dividend of 295c a share bringing the total cash dividend to 285c, which is 14 percent higher than last year.

The directors say they have increased the dividend cover ahead of an expected rise in capital expenditure requirements.

Group managing director John Comersall says substantial changes have been made to prepare the group for a post-cartel environment. The cement business has been reorganised into two regional business units — coast and inland — and teams have been appointed to implement regional sales strategies.

Two leading cement distributors, Cooper and De Beer and Fechtel, were incorporated into PP Cement. “We are confident that our initiatives, designed to bring PPC closer to its customers, will stand us in good stead,” he says.

While delivery of the RDP has been slower than expected, the company has continued its drive to develop entrepreneurs in the construction and related industries, and increase small businesses' capacity to deliver quality products and services.

Comersall says that future prospects are likely to be dominated by further growth in gross domestic fixed investment which is forecast to rise by 8 percent next year. But at about 17 percent of GDP, it is still low by international standards.

The full implementation of the RDP programme should provide the stimulus to higher gross domestic fixed investment.

To meet the expected sustained increase in cement demand in the inland area, it is recommissioning the Dwaalboom quarry and clinker plant at the Northern Province at a cost of R74 million.

A second stage costing R145 million has also been approved which will raise Dwaalboom’s annual capacity to 720,000 tons and PP Cement’s capacity to about 5.5 million tons.

Comersall says the company’s Eastern Cape exploration programme has proven exploitable reserves at a number of sites close to the Port Elizabeth cement plant.

An environmental impact assessment programme involving all interested and affected parties is taking place and a decision is expected shortly.

The modernisation and expansion of the Port Elizabeth operations will give the company the capacity to meet the cement needs of the entire Eastern Cape region.

Surplus capacity in the early years after an expansion programme will be available to boost exports.
Cement sales show downward trend

Robyn Chalmers

A DOWNWARD trend has emerged in cement sales during the past two months, due in part to slow progress on the reconstruction and development programme (RDP) and a tapering off of major infrastructural projects.

The decline in sales has sparked fears that cement groups might not meet their forecast of a 10% rise in sales for the year, a prediction made at the end of last year when the RDP was expected to move full steam ahead in 1995.

The figures, released yesterday by the SA Cement Producers' Association, showed that sales rose only 3.3% in August to 790 088 tons while they dropped in September to 760 084 tons from 779 968 tons recorded the previous September.

Association business manager Robyn Murray said there was a variety of reasons for the lower sales figures, but the foremost were the slow delivery of the RDP and that projects such as Columbus Stainless Steel and Alusaf were nearing completion.

"There also seems to be a cyclical component to the downturn, as the cement industry traditionally does its best business in the run-up to the builders' holidays, so we should see some strong sales coming through in November and December," he said.

Murray said a further factor could be the run-up to the local election, as producers had experienced a fall-off in demand during the months before the national election last year.

A round-up of the major cement producers showed they were still optimistic about a growth in sales for the full year, although a number believed they could fall short of the 10% figure.

There was strong growth in cement sales during the first few months of the year, with increases of 16% and 12% recorded in January and February respectively, compared with the same months a year earlier. May was a good month as sales soared 27% to 795 022 tons — a rise of 170 370 tons over year-earlier figures.

Cement producers appeared to be building up a stockpile of cement due to the lower than expected sales, with association figures showing they had produced 6.6 million tons by end September, but sold 6.3-million tons.
Huge industrial plans afoot

Residents of Saldanha Bay/Vredenburg will know within two weeks whether the area will become SA's "new Ruhr complex." A myriad of downstream industrial projects are on the cards for the area once the controversial steel mill, which was given the green light last week by the Western Cape government, opens.

All that is required is a commitment from steel giant Iscor, which MD Hans Smith says will be decided on before the end of the month.

Among the proposed projects are:

- A cement factory—Anglo Alpha is investigating its possible involvement—utilising the Corex slag as its major raw material;
- The erection of a steel pipe manufacturing plant for exports;
- Stainless steel rolling facilities of undisclosed tonnages, at the mini-mill, for a third party;
- A separate cold rolling mill plus coating plant, with a capacity of 300,000 t/year;
- A separate, but linked, stainless steel mill is also a possibility, and
- The development of a 3 Mt/year-6 Mt/year iron ore pelletisation plant at Sishen, in co-operation with a Japanese company. Most of the product would be exported while Saldanha Steel would use 345,000 t/year.

Also on the cards is the possibility of increasing the steel mill's hot rolled coil capacity to 2.5-3 Mt/year at a much lower capital cost than the capex required for the first 1.25 Mt/year. This extension, which can only be done with the approval of the Western Cape government and which has been allowed for in the layout of the plant, will require the addition of more iron and steel making facilities and one or more casters, says Saldanha Steel.

And, once the Kudu gas field off the southern Namibian coast is developed, this will open the possibility of new, gas-based direct reduction iron, steel and related industries developing in the same area.

Since the iron ore reduction plant would represent the largest single investment in such a future expansion, it is considered prudent to place Saldanha Steel at the location with the highest possibility of having natural gas available towards the turn of the century, when such an expansion could be realised. And, by sharing a Kudu gas pipeline with the Cape Town metropolis, cost effectiveness would be further enhanced.

The Industrial Development Corp, which has a 50% stake in the steel mill, says the competitive advantage of having all the steel-related plants on site at Saldanha Bay—saving on transport and handling costs—would naturally attract both local and foreign investors to the integrated downstream manufacturing complex.

Meanwhile, Western Cape Planning Minister Lampie Fick has joined forces with the Vredenburg/Saldanha municipal authority in asking for a speedy re-assessment of the industrial development structural guide plan for the area—which would provide for major industrial expansion in the area, following implementation of "the largest private-sector development in the history of the Western Cape." Coupled with this initiative would be a "total environmental and tourism development plan for the area," says Fick.

Assistant town planner Jaco Goodwin says inquiries have also been received from Austrian business interests regarding the possibility of linking the existing 45m barrel Stratege Fund crude oil storage facility at Saldanha Bay with a proposed oil refinery.

"But, obviously, such a proposal would be subject to far more stringent environmental considerations than those imposed on Saldanha Steel," he says. Goodwin says the vacant residential properties on the existing Mossgas property adjoining the steel plant site—which were used during the completion of the Mossgas steel "jacket"—could possibly be used to house the thousands of construction workers that would be employed in completing the steel plant. "But we are also looking at

BUSINESS

the possibility of negotiating its use for a possible technical training college," he adds.

With the huge Namakwa Sands plant, just north of the proposed steel plant site, already a feature of the area's possible industrial future, and with harbour expansions on the drawing board, Saldanha Bay's industrial role seems ensured.

Stephan Conradie, associate of Cape Town-based Van Niekerk, Kleyn & Edwards consultants—which has been briefed to draft a new industrial development plan for the area—says approximately 1,500 ha has already been earmarked for heavy and about 200 ha for light industrial zoning in the future coastal metropolis. "We are also assessing future transport, residential, commercial and relaxation land use needs for the area."
In the case of Plate Glass & Shatterprufe (PGSI), chairman Ronne Lubner's problem is that a 16% improvement in EPS at the half-year stage doesn't stand up all that well—in this issue, for example, the FM report on Nampak's 31% increase over a full year, and many major companies are consistently reporting bottom line improvements better than 25% for the second straight year. That makes PGSI a laggard.

The real problem lies in a nondescript turnover improvement of only 15%, accompanied by operating profit growth of 7%. This trading margin has come under severe pressure a year ago it was at 9.8%, for financial 1995 it was 10%, these interim results reveal a slump to 9.2%.

This has been an unusually difficult six months, punctuated by the massive planned float tank repair at Springs which cost R138m (against a budget of R150m). Though PGSI said in what it thought would be adequate stocks against the plant closure, unexpected strong car sales led Lubner's team scrambling. Imports became inescapable, the demand affected exports.

A sharp reduction in the tax bill (down 31%) helped to keep the bottom line respectable. This arose from the use of accumulated deficits in developing the group's rapidly growing and now very substantial offshore businesses.

Indeed, PGSI's international vehicle Belron is now firmly established as the largest segment of the business. In line with its performance last year, Belron accounted for half PGSI's turnover (just over R1bn), though financial director Mike Read says it's difficult at the half-way stage to determine its contribution to attributables. Lubner doesn't think it will vary much from financial 1995's 38%.

Along with almost every other businessman, Lubner confesses to being surprised by the comparative stability of the rand against the dollar over the period. This affects Belron's contribution at every accounting level.

In addition, Belron is now looking at stiffening opposition almost everywhere it operates. Lubner says this is understandable. Clearly, previously entrenched businesses watched PGSI's arrival with a benign indifference.

As Belron's operating methods in Europe and the US began to attract, first, customer and then insurance company support, so established companies with trading turnover and lower profits have reacted. The competition is limbering up and the action is bound to get hotter.

All this is reflected in the balance sheet, which now shows total borrowings at R385m, up R154m in the six months (almost exactly the cost of the float plant rehabilitation). This rise is concentrated almost exclusively in the short end, an indication that management believes interest rates will decline over the short term.

By PGSI's calculation, gearing is now 38%—it was 24% six months ago, and though it is substantially below what the company calls its self-imposed restraint of 60%, this is a level which attracts attention. Though the cash flow is strong (around R500m a year at trading level), debt of this kind affects the income statement (up yearly R7m in six months) and impacts the balance sheet.

Lubner sounds a little brighter about second-half prospects. While he won't commit himself, the chances must be good for EPS in the next six months of about 450. That will take the 1996 financial year to EPS of about 780c—an improvement of around 21% over 1995. Since this virtually level pegs the historic and forward p/e's, it is a view the market clearly shares. But it is a bit prosey in my book.
PPC opens plant

By Isaac Moledi

PRETORIA Portland Cement has opened its first blending plant and customer service centre at its largest factory, Slurry, in the North West.

The opening of the centre, according to managing director Mr. Clive Tasker, is aimed at gearing PPC to becoming more competitive and customer-orientated when the cement cartel is phased out.

This will result in the deregulation of the cement industry.

PPC and its two rivals, Blue Circle and the Anglo Alpha, have been members of the cement cartel that has been instrumental in regulating the cement industry.

Tasker says the opening up of the industry demonstrates PPC's commitment to change by putting the infrastructure in place to meet industry's demands in future in South Africa.

The new blending plant will enable the factory to produce a range of blended cements suitable for various applications. The opening of the plant is projected to create about 300 jobs in the North West.

In his opening address, North West premier Popo Molefe, whose Premier's Education Trust was presented with R5 000, described the project as an encouraging sign.

Molefe challenged all role-players in the economy to devise strategies through which economic growth will be accompanied by a reduction of poverty and inequality, while also creating jobs.
KELGRAN

Struggling over debt

Activities: Quarrying, beneficiation and exporting granite

Control: Gencor

Chairmans: FJ P Roux MD HJ Laas

Capital structure: 71m ords Market capitalisation R128m

Share market: Price 270c Yields 4.6% on dividend, 8.6% on earnings, p/e ratio, 15:1 cover, 1.4 12-month high, 850c, low, 270c Trading volume last quarter, 1.5m shares

Year to June 30 '92 '93 '94 '95
ST debt (Rm) 58.7 58.8 86.3 77.4
LT debt (Rm) 4.9 2.6 2.5 2.9
Debt equity ratio 0.81 0.73 0.57 0.70
Turnover (Rm) 1914.4 1695.7 3502.2 3835.5
Operating profit (Rm) 169.9 98.5 220.5 272.2
Pre-tax margin (%) 7.7 3.9 5.9 4.6
Earnings (c) 28.2 6.6 19.3 23.8
Dividends (c) 20.0 nil 15.0 16.5

Can the granite business ever be the same again? The short answer is probably not. Peopled originally by characters larger than life, the granite industry was typified by rough-hewn men whose companies made fortunes overnight and which fell on hard times just as rapidly.

In SA, the business took on one aspect which made it unique: shares in these companies were listed on the JSE and it became possible for investors to participate in the vagaries of an industry as much involved in fashion and trends as Calvin Klein. What is different, smells asde, is that cutting pieces of stone is usually a family business. Try buying into the big operators in Carrara, for example, and watch the doors shutting.

In this country the industry has moved from entrepreneur to institutionalized respectability through, first, a graduation to the JSE's lists and then to ownership by the mining houses. The trouble with this process — which has been undeniably good for the original operators — is that it takes no account of the essential underlying nature of the business.

It is probably fair to say the granite industry was in its heyday when it was possible to “boulder hop,” to extract good granites from conveniently sited granite tors. Most of the good koppies have gone and the quarrying game is on in earnest — comparatively hi-tech with diamond wire line cutters and jumbo drill rigs. The old proposition that granite quarrying was an art form has been submerged in mining, rehabilitation and institutionalised correctness.

The acknowledged industry leader is Kelgran, over which Gencor now exercises full control. I doubt, though, that chairman Fred Roux would consider this to have been an unalloyed pleasure. The real struggle has been where it so often missed, in the balance sheet. Gencor-appointed executives have had to institute corrective action in four areas: change depreciation (now straight line), provide fully for leave pay, establish a sinking fund for rehabilitation and, perhaps most important, bring discounted receivables on to the book as contingent liabilities.

The impact of these changes shows principally in the debt, which stands at R107m, after offsetting cash of R46m. This is a net R61m. Gearing is 76% and this single statistic underlines the granite industry's real weakness. Every company listed in this sector suffers the same handicap — only Martin has addressed the problem through a rights issue (and change of ownership).

As Roux says: "The reduction of debt is an absolute priority for the company." As usual, the choices are to trade through the problem or to recapitalise through a rights issue. The silence suggests the method chosen is the tougher alternative of cutting costs, pushing up volumes, collecting outstanding faster. But that also means, if it is successful, that cash which might be paid to shareholders will be retained to repair balance sheet damage.

No-one doubts the commitment made by MD Henry Laas and a professional team. But the issues which have not been resolved...
Paper group to challenge Mondi

Sappi, Mondi

by Ross Hunter

Johannesburg: A partnership of Johannesburg and London-based Mondi and South Africa's largest paper company, Sappi, is breaking ranks to form a new player in the paper market.

"We are looking to establish a new entity in the market," Sappi's director of integrated operations, Steve Leão, said. "Mondi has been a significant player in the market and we want to challenge their dominance.

"The new entity will focus on high-volume, low-margin business such as newsprint and board.

"We expect to bring new perspectives and ideas to the market."
R40-m for rebuilding of homes

Top brick manufacturer donates a million bricks for rebuilding project

By Joshua Raboroko

Local builders are leading the R40 million project of rebuilding homes destroyed by political violence in Soweto, Alexandra and Vaal Triangle townships in Gauteng.

In addition to the involvement of local contractors the project is expected to create more than 200 jobs for local communities in the areas concerned.

Corobrick, a clay brick manufacturer, has helped the communities in the areas by donating one million bricks to the Gauteng's housing initiatives to repair homes which were destroyed in political violence. MD Mr Peter du Tervou said at the weekend.

Deputy general secretary of the National Black Contractors and Allied Trade Forum Mr Joe Majagule said that the programme would help local contractors to create jobs for their communities.

The move by Corobrick, he said, was part of the ongoing process taken by the private sector in an attempt to engage local contractors in the RDP projects. He was optimistic that more companies would take part in similar or other building projects.

Du Tervou said that particular attention was paid to involving local communities in the programme. Local contractors were used for the project to empower them economically.

"This project is part of the Gauteng government's plan to restore life in the communities after the devastating effects of violence. We would like to facilitate the process of bringing people together as part of the community and nation-building programme," he said.

Gauteng Premier Mr Tokyo Sexwale said the contribution by Corobrick showed the private sector's support for the principles of the RDP to reconcile communities and provide affordable housing with basic amenities to all.

He said "We intend to do a survey in these areas to determine the most critical building needs and the reconstruction costs involved. As these needs will vary from area to area a phased approach will be used to rebuild homes."
Ketter's earnings rocket 56% as world granite demand grows

BY CHARLOTTE MATHEWS

Johannesburg — Raising production efficiency to meet strong world demand for granite contributed towards independent producer Ketter Granite Holdings increasing earnings a share by 56 percent to 7.61c in the year to September, compared with an annualised 4.87c in the same period last year.

The group went public in March 1994 through a reverse listing into the Racy Group Holdings' cash shell.

Ketter's results for the twelve months to September 1994 include about three months of Racy, so are not strictly comparable.

Ketter's turnover surged by 127 percent to R26.7 million on which operating income grew by a similar percentage to R6.1 million. Finance charges trebled to R2.4 million.

Managing director Ofer Porat said higher borrowings and finance charges resulted from greater working capital requirements to meet the sharp surge in turnover. Working capital requirements for the industry are heavy because of a lag, sometimes of several months, between quarrying and payment from customers.

Gearing is now 40 percent and options are being considered to finance what is expected to be continuing growth. Another rights issue is an option, but not the "ultimate option," Porat said.

Tax was zero because the group had offset losses and should not be payable for about two years.

Attributable earnings more than doubled to R3.7 million, but the increase in earnings a share was less because the number of shares in issue grew as a result of a rights issue in March this year.

The dividend was passed to conserve resources for the growth expected in the coming year. Porat said new equipment had been bought in the past year and was being used successfully in the quarries, where the group was using solid formation quarrying, with higher efficiencies and better yields.

The world market for the black and red granite from South Africa, which is the focus of Ketter's business at the moment, is booming, but competition from all over the world is also increasing. Porat said it was critical for South African producers to work together to improve their competitiveness.
KETTER GRANITE

Promising signs

Fm 15/12/95

Ketter is probably the first of the granite companies to reveal the firmer trend developing for the industry. Its preliminaries for financial 1995 certainly underline a strengthening market.

The company has undergone a metamorphosis this year, and a successful rights issue of R7.1m has given substance to the balance sheet. Though the cash position isn't revealed, gearing is a comparatively respectable (for the granite business) 40%.

Ketter produces black (from Belfast) and red (from Potgietersrus). Its red granite is the big money spinner, with large blocks selling into a firm and expanding market, especially in the Far East. Black granite, which fell sharply out of favour two years ago, is experiencing a revival.

Results for the full year are cheerful. Turnover has rocketed to R26.7m, the operating margin has lifted to nearly 23% and EPS of 7.6c is acceptable enough, though a little less than some analysts expected.

What will not escape notice is that the dividend has been passed. Some bland language talks of conserving resources, but this merely cloaks management's anxiety to ensure the capital expenditure programme is brought to account without accident.

In summary, this is a small company well positioned to deliver reasonable results over the next two years. At 60c, the p/e on these results is nearly 8 — probably a bit rich but, if you are determined to participate in granite, this is as good a spot as any on which to drop your chips.

David Glasman
PRETORIA PORTLAND CEMENT

Preparing for the contest

PM 15/12/95

Activities: Manufactures and distributes cement, lime and limestone products
Control: Barlow 80%, Pretoria Portland Cement 20%
Chairmen: W A M Clewlow MD, J E Gomersall
Capital structure: 42.3m ords Market capitalisation R416bn
Share market: Price R9.60c; Yield 2.9% on dividend, 4.7% on earnings, P/E ratio 21.3, cover 1.6; 12-month high 11.20c, low 6.40c; Trading volume last quarter, 635 122 shares

Year to Sep 92 93 94 95
ST debt (Rm) 0.04 13.4 34.0 31.7
LT debt (Rm) 39.0 96.6 83.1 29.3
Shareholders' interest 0.62 0.69 0.55 0.54
Return on cap (%) 20.5 20.0 20.5 19.5
Turnover (Rm) 657 330 1,028 1,248
Pre-profits (Rm) 197 220 250 296
Pre-nr margin (%) 29.2 22.8 23.5 23.2
Earnings (c) 265 300 375 455
Dividends (c) 195 215 255 285
Net worth (c) 1,459 1,602 1,632 1,925

As the largest cement producer in southern Africa, Pretoria Portland Cement (PPC) is readying itself for the challenges of a free market.

Though the cartel will cease operating only in October next year, one analyst expects prices to start reflecting the change from January. The annual report details the moves group MD John Gomersall has made to handle the situation, including a restructured group and the integration of transport operations.

Turnover rose 22% to R1.2bn on an increase in volume of 13%. Comparison of annual performances is rendered more complicated by the restatement of figures as accounting standards change. In 1994, joint ventures were consolidated and prior years restated, this year turnover figures have been restated to exclude cement distribution sales within the group. The net effect appears to be to lift operating margin.

EPS rose 24% before exceptional items and 14% after Chairman Warren Clewlow points out that dividend cover is rising to cover capital expenditure and future expansion, though it's still only 1.6 times.

Increased capex is also expected to deplete cash holdings — R256m at year-end — and in turn reduce interest income.

At the divisional level, cement produced 64% of turnover and 60% of profit before interest and tax (PBIT), lime contributed 17% to turnover and 23% to PBIT and investments 19% and 17% respectively.

PPC’s adaptation to the break-up of the cement cartel next October has been relatively smooth. The group is now operating at about 82% of total capacity and should be good for the next couple of years.

It plans to add another production source by recommissioning the Dwaalboom quarry and clinker plant at a cost of R70m. This will bring capacity usage to 71% at current market activity. Dwaalboom has a capacity of 600 000 t/year and has been idle since its completion in 1985. Further R145m will be spent in 1997 on building a grinding plant, silo and packing facilities at the site.

The lime division has had its own challenges, as the agreement with Union Lime ended in May “eliminating lime industry sales quotas and pricing policies,” says Gomersall. Negotiations with customers over new arrangements are in progress and instability in the market has been minimal. Nonetheless, pricing levels are difficult to predict for next year.

Sales and distribution services have been refocussed by merging subsidiaries Cooper & de Beer and M Fuhrer & Son with PPC’s own operations. This will help contain distribution costs, which are increasing for all cement manufacturers as they prepare their own distribution systems.

Prospects look good for the cement division, though Clewlow thinks the lime business will achieve lower growth. Competition may heat up in Gauteng — supplied by all three cement companies — but there are effective regional monopolies countrywide which may continue to operate in the short term. However, the struggle for market share in a free industry may change that. Because cement is a high-volume, low-value commodity, geographic location and transport costs are important.

A year ago, the share price had hit R110, but now stands at a more realistic R99. The price has fallen largely on the RDP persistently failing to materialise.

Margaret Ann Bele

FINANCIAL MAIL • DECEMBER • 15 • 1995 • 85
Upswing in cement sales bodes well for producers

Robyn Chalmers

DOMESTIC cement sales staged a good recovery in October after a downward trend over the previous two months left analysts concerned that growth for the year would not meet predictions.

However, analysts said the improved sales in October boded well for annual sales as the cement industry traditionally did its best business in the run-up to the builders’ holidays.

Latest figures from the SA Cement Producers Association showed cement sales rose 7.17% to 792 000 tons during October from 743 728 tons during the same month in 1994. This brought total sales for the nine months to end October to 7.1-million tons from 6.5-million tons for the nine months last year.

Sales for the nine-month period had increased 8.46% over the previous comparable period — still short of the 10% predicted at the beginning of the year by the association when the reconstruction and development programme (RDP) was expected to move ahead in 1995.

Association business manager Robyn Murray said the lower-than-expected sales for the nine months were due to a number of reasons, but the primary factors were the slow delivery of the RDP coupled with the tailing off of major infrastructural projects.

There was also a cyclical component to the downturn, he said, as improved business could be expected in November and December when sales traditionally improved for cement producers.

Analysts said that while public authorities had failed to live up to development expectations of social infrastructure such as clinics, schools and housing, this was expected to improve next year.

In addition, as cement sales were closely linked to the level of gross domestic fixed investment, analysts expected sales to benefit from increased investment in infrastructural development.

There were strong expectations from cement producers that the RDP would kick off in 1996 and cement sales would be boosted over the next few years.

Blue Circle’s Carl Grum said while RDP spending had started slowly, its acceleration was inevitable particularly in the years leading to the next general election.

He said this was indicated by Blue Circle’s planned profit growth and capital expenditure programme of R578m over the next three years.

Pretoria Portland Cement and Anglo Alpha had also recently outlined plans for significant expansion and capital expenditure in the future.

However, slower than expected demand during 1995 had led to cement producers building up a stockpile, with association figures showing they had produced 7.5-million tons by end October but sold only 7.1-million tons.
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Anxiety Looms as Dura and Wispecco Propose Marriage

By Isaac Mockel 11/21/995 SOWTANIM

CONCERNED residents of the building...
Cement firms restructure to prepare for free market

Robyn Chalmers

THE share prices of cement producers Anglo-Alpha and Pretoria Portland Cement (PPC) have risen steadily over the past month after a year of mixed fortunes, with future growth expected to hinge on the reconstruction and development programme.

Anglo-Alpha, PPC and unlisted Murray & Roberts subsidiary Blue Circle will be operating in a free market from October when the cement cartel will officially be disbanded.

Analysts said that the need for cement producers to gear up for a free market had had an impact on the groups' share prices during the past year, particularly with the announcement of proposed capital expenditure programmes.

PPC's share price dropped during the first half of this year, falling from a one-year high of R110 to touch a 12-month low of R84 during the first week of July. The counter moved upwards during the second half of the year to close untraded yesterday at R100.

During the year ended September, PPC increased its earnings a share 24% to 464.4c on a 22% rise in turnover to R1.2bn and a growth in operating profit to R286.8m from R243.5m.

These results reflected significant restructuring to position it for a post-cartel environment.

Group MD John Gomersall said the cement business was reorganised into two regional units, while two cement distributors were incorporated into PPC Cement. It also acquired the remaining 45% shareholding in cement sacks producer Kohler Sacks.

A significant capital expenditure programme was likely to get under way next year, with the group set to expand its capacity after the discovery of viable, long-term raw material deposits in the Eastern Cape, Gauteng and Northern Province.

Anglo-Alpha's share price fared better than that of PPC this year, with the counter recovering from a low of R100 in February to move strongly upwards during the second half, closing untraded yesterday at R143.

Anglo-Alpha produced strong results at the halfway stage, with attributable profit surging 107% to R74.9m on a 33% rise in turnover to R667.2m and earnings of R49.3c (120.4c) for the six months ended June.

Cement division director Marco Germena said the group was also gearing up for a free market situation, having invested R75m over the past three years in mergers and alliances with distributors and investing in distribution centres around SA.

Germena said the group had embarked on a strategy to increase its cement production capacity through the recommissioning of previously mothballed kilns at the Ulco cement factory in the Northern Cape.

Blue Circle had also undertaken a variety of measures to increase capacity, including having spent R40m on improving the efficiency at its number four and budgeting R50m during the current year to increase its number five kiln's output by 230,000 tons a year.

CE Carl Grun said feasibility studies on the number seven kiln at Lichtenburg were being completed and an environmental impact study was being undertaken for the possible construction of a cement factory near East London.
MANUFACTURING - NON METALLIC MINERAL PRODUCTS

1996 - 1997
Building material suppliers gear up

Robyn Chalmers

BRICK and cement producers are gearing up to increase production output this year, but sales forecasts from building materials suppliers are generally less optimistic than they were last year.

A range of building materials suppliers were hard hit by the lack of demand for their products last year, and entered the new year facing an almost static market with some sitting on large stockpiles.

Suppliers said this was largely because of the slow delivery of low-cost houses and lower than expected investment in the building and construction industry last year, particularly by the public sector.

Brick sales were also estimated to be lower than expected last year, with industry volumes rising about 6%. But manufacturers said residential demand for bricks had increased, which had partly offset the decline in the number of building contracts coming from the private sector.

Harry Voorma, MD of Corobrick, SA’s largest manufacturer of clay bricks, said volumes had increased between 12% and 15% last year.

Brick manufacturers last year began gearing up to almost double production output by mid-1996 when an estimated 6-billion bricks would be required to meet the demands of the reconstruction and development programme.

This followed a lengthy recession, with industry statistics showing that between 1988 and 1994 consumption fell 50% and the industry’s stockpile of bricks more than doubled to 450-million.

Clay Brick Association executive director Nic Louw said SA needed labour-intensive systems of constructing homes to provide employment for the unskilled and unemployed as well as to build the millions of houses required in SA.

SA Cement Producers’ Association business manager Robin Murray said the three big cement producers expected sales to grow between 7% and 8% this year, which was lower than the 10% expected last year.

“We have not yet had the official cement sales figures for 1995, but it appears that sales in November were slightly lower than expected.”

“The real test will be to see how sales fared during the first few weeks of December as the cement industry traditionally does its best business in the run-up to the builders’ holidays,” he said.

Cement sales for the nine-month period ended October had increased 8.46% over the previous comparable period. This was still short of the 10% predicted at the beginning of the year by the association when the RDP was expected to take off.

All three of the big producers—Pretoria Portland Cement, Anglo-Alpha and Blue Circle—had embarked on strategies to increase their production output and ensure they were well placed when the cement cartel was dissolved later this year.
Drop in cement sales surprises producers

Robyn Chalmers

A DROP in domestic cement sales last November caught producers by surprise after the industry’s production levels had risen more than 10%, leaving a stockpile in a month when sales normally rocket.

SA Cement Producers’ Association figures showed cement sales fell 3.3% to 779 728 tons during November against the comparable month in 1994, with production levels rising 10% to 850 560 tons.

During the 11 months ended November last year, total sales amounted to 7.8-million tons on production of more than 8.3-million tons.

Association business manager Robin Murray said the drop in sales had been unexpected, particularly as sales traditionally improved in November and December in the run-up to the builders’ holiday.

"There are a few factors which could have caused the downturn, with the local elections on November 1 last year being the most obvious reason. In addition, it was a very wet month which meant building activity was lower and this would also have adversely affected sales," said Murray.

The lower sales have caused fears among cement analysts that the industry would not meet its target of a 10% rise in sales for last year, with sales for the first 11 months of the year reflecting a rise of only 7%.

Murray said it was quite possible that the 10% target would not be met, particularly as December, with the builders’ holiday falling in the middle of the month, consisted of just two weeks.

Analysts said one factor causing lower than expected sales last year was the slowness of the RDP’s low-cost housing programme in getting off the ground. One analyst said demand had been adversely affected by the winding down of major infrastructural projects such as Columbus Stainless Steel and Alusaf, which had not been replaced.

The underperformance of cement sales was offset by improved prospects for the building industry, with Central Statistical Service figures showing the value of building plans approved in October and November last year rose 8% and 7.5% respectively.

The 7.5% increase in the value of building plans approved in November could mainly be attributed to the 15.7% hike in the value of residential building plans. The largest increases were recorded in KwaZulu/Natal, Gauteng and Mpumalanga.
PGSI joins US Auto Glass in merger deal

Edward West

PLATE Glass & Shutterproof Industries’ (PGSI’s) offshore arm, Belron International, has merged subsidiary Windsheilds America with US Auto Glass to form the largest automotive replacement glass company in the US with annual sales of £1.5bn.

PGSI executive chairman Ronnie Lubner said yesterday the deal would increase Belron’s annual sales to more than £3bn. The combined company, 51% owned by Belron, would hold almost 15% of the US automotive glass replacement market.

It would operate 375 retail outlets and a network of 6,000 independent subcontractors in 42 states.

No cash had been exchanged in the deal, which would become final once it had been approved by regulatory authorities in the US and SA, probably within 90 days.

Lubner said the new company would be capitalised by its joint owners to the tune of about £1.45bn, with the first step being the rationalisation of the merged operations.

Windsheilds America was one of four competitors US Auto Glass had approached with a view to a merger. “They were more profitable than us, but we had more value in the longer term because we had more stores.”

Belron’s earnings were expected to be substantially higher than projected in its current five-year plan because of the merger, but 1996/97 financial year earnings were unlikely to be affected because immediate rationalisation benefits would be absorbed by restructuring costs.

US Auto Glass has 105 branches and a network of 5,000 independent subcontractors, while Windsheilds America has 270 branches and 2,500 subcontractors.
Plate Glass for big US merger

BY CHARLOTTE MATHEWS

Johannesburg—Plate Glass & Shatterprufe Industries (PGSI), a company in the SA Breweries group, will merge its subsidiary Windshields America with US Auto Glass.

Windshields America is number three in America's automotive glass replacement industry, US Auto Glass is number four.

Together the companies will form the largest automotive glass replacement company in the United States, with annual sales of R1.5 billion and about 15 percent of the market. Sales could reach R2 billion by the end of the century.

This is the largest American deal involving a South African company since Sappi bought SD Warren two years ago.

Windshields America is held by PGSI's offshore arm, Belron International. Belron will own 51 percent of the combined company and have four of the seven directors on the board.

The new company's name is being negotiated. It will have 375 retail outlets and 6,000 independent sub-contractors in 42 states.

PGSI's executive chairman Ronnie Lubner said enormous benefits would result from rationalisation and the group's buying power. Automotive glass replacement was an industry that was heavily affected by scale, he said.

The market was mostly the major insurance companies, car hire firms, fleet owners and body shops that wanted nationwide service.

US Auto Glass had an extensive network of sub-contractors. Merging the two groups would allow profit, rather than commission, to be earned from more branches.

There were also opportunities to rationalise overheads and about 20 or 30 branches would have to be closed. Lubner confirmed that staff would be retrenched but he could not say how many.

He said the deal was subject to the approval of the United States monopolies and mergers commission. He did not believe there would be a problem because the combined company would have a small share of the market.

No cash has been exchanged for the merger. The new company will have capital of about R145 million. Lubner said if more capital was needed, the company could be listed in New York or Belron could be listed in London or New York.
The 500 000th ton of klinker cement

IAN SHIFFMAN
Shipping Reporter

A primitive conveyer-belt system was installed. However, loading was painfully slow and quantities were being blown away.

Creystones of Durban put together an efficient loading system which boosted loading rates from 3,000 tons a day to 8,000 tons, significant by international standards.

Louis Du Toit of Spoornet said it was one of the most innovative projects yet tackled. Spoornet was also required to assist as 900 trucks were required for each shipload.

Portnet assisted with the provision and installation of certain facilities, and besides the docking and undocking of each ship, each vessel had to be warped up and down the quay, loading each hold individually.

In a further boost to get the product on the export market, Safmarine supplied the first two ships at a special price.

THE 500 000th ton of klinker cement was exported from Cape Town's harbour this week, making it the largest bulk commodity currently exported through Cape Town.

The half-million tons was loaded in 14 ships over 2½ years, earning the country R60 million in foreign exchange.

The scope for export of the product was realised by PPC Cement when they found spare capacity to produce klinker for export.

It was not easy to break into the export market, according to Razaak Hassum, PPC's director, logistics. A high-quality product was required for export and fierce competition from other foreign suppliers was encountered.

However, the De Hoek factory managed to succeed in securing the contract, which initially faced loading problems in Cape Town harbour.
PPC goes to the Border

Robyn Chalmers

PPC CEMENT yesterday established a presence in the Border region as part of its ongoing strategy to set up distribution centres around SA in the run-up to the cement cartel being disbanded in September.

PPC coastal cement MD Graham Fabian said yesterday it was important to establish a presence in the area, given that it had an estimated cement market of about 80 000 tons a year.

PPC Cement's Port Elizabeth factory, which produced 260 000 tons for the Eastern Cape market last year, was the only cement factory in the region and was well-situated to supply this market, he said.

Fabian said the recent discovery of limestone deposits in the Port Elizabeth area would enable PPC Cement to ensure availability of cement despite the expected growth in demand this year.
Firmer margins boost Italtile’s earnings

BY LENIELYN JONES

Johannesburg — Firmer margins and tight control of overheads helped Italtile, the ceramic tiles specialist retailer, to lift attributable earnings 26.2 percent to R6.6 million for the six months to December.

While turnover rose 17.4 percent to R122 million, operating margins were 13 percent, taking operating profit 32.6 percent higher to R10 million.

Profit after tax but before outside shareholders’ interest rose 23.6 percent to R6.5 million which meant earnings of 36c (29c) a share. A dividend of 6c (5c) a share was declared.

The balance sheet shows no interest-bearing debt. Financial director Peter Swatton said Italtile traded on a cash basis and it made sense to draw down debt and fund expansion with the cash.

Swatton said the company had not increased its selling prices since its last financial year and the improved turnover was a result of increased volumes being sold.

“While there has been a real increase in the consumption of ceramic tiles over the past two years or so, it would also be fair to say that we have taken some market share from our competitors.”

He said that there was good recognition of, and consumer loyalty to, the Italtile brand names — Italtile and CTM.

There had also been a noticeable increase in building activity and ceramic tiles had become the cladding of choice for floors and walls.

The company also announced that it would be expanding its operations this year with additional outlets coming on line.

Swatton said the company had recently opened a new CTM store in Tyger Valley in the Western Cape and had plans for new stores in Pinetown, Toka, Port Elizabeth and Midrand.

Swatton said he believed the future for Italtile lay in the development of more small showrooms which would be supplied by the larger warehouse-type stores.
Italtile results pave the way for expansion (1986)

Jacqueline Zaina

CERAMIC tile and sanitaryware retailer Italtile raised attributable earnings 26.2% to R6.6m in the six months to December following higher volume sales and firmer margins based on improved buying at its national CTM and Italtile outlets.

Earnings a share were 24.1% up at 36c, and dividends came to 6c (5c) a share. The group pushed turnover up 17.4% to R123.3m, while operating profit surged 32.6% to R10m. A tax bill of R3.3m (R3.3m) left taxed profit at just over R6.6m (R5.3m).

CE John Couzas attributed profit growth to better margins and continued tight control of overheads. The group had not increased selling prices from the last financial year and improved turnover was a result of growth in volume sales.

Italtile had seen the benefit of improved working capital and had settled all interest-bearing debt — R6.2m at the end of the first half in 1984 — leaving it ungeared, he said.

Couzas said he expected trading conditions to remain positive in the second half, with earnings growth likely to be maintained.

Italtile intends to expand operations this year and additional outlets are expected to become operational toward the end of the year.

The share closed unchanged at R8 on the JSE yesterday, having maintained its January 10 annual high, but there were no sellers.
Anglo-Alpha builds on stronger product demand

Robyn Chalmers

CEMENT group Anglo-Alpha produced a 39,2% hike in attributable income to R233,5m for the year to December, following stronger demand for its products.

Sales revenue rose to R1,5bn from R1,2bn for the 1994 financial year while operating profit jumped 22% to R310m from R254m previously.

Investment income fell 1,7% to R29m due mainly to lower interest income which was partly offset by increased dividend income from investments.

A lower effective tax rate cut the tax charge to R90,8m from R92,6m. Share earnings rose 39,2% to 773,2c each on an historical cost basis, and 53,3% to 573,1c a share on a current cost basis. A final dividend of 180c was declared, boosting the total dividend for the year to 560c from 205c.

MD Johan Pretorius said that due to the uncertainty surrounding the future level of secondary tax on companies, the group had proposed that the final dividend should be declared before the end of April.

Pretorius said the recovery experienced last year should gain momentum this year, and the group expected a further moderate increase in sales volumes.

But he added that earnings growth would be slightly above the expected inflation rate. Economists expect inflation this year to average 7,5%.

The group's operating margin fell to 21,3% (21,7%), but by higher selling and administration costs, stemming from the implementation of customer service systems in preparation for the close of the cement cartel this September.

Pretorius said there were also additional fixed costs as a result of Anglo-Alpha's entry into the ready-mixed concrete markets in Durban and Cape Town.

But he said the group's return on net assets exceeded its target of 18% for the first time since 1982 at 21,7% (17,9%).

"This was achieved as a result of the group's improved profitability arising from the better utilisation of production capacity."

Anglo-Alpha also began an expansion scheme to prepare for the dissolution of the cement cartel. A new lime kiln was being built at the Ouplaas factory and additional cement capacity of 350 000 tons a year was being brought on stream at the Ulico plant.

He said a decision on a major cement expansion was expected before the end of the year. The group was currently considering a number of options.
Durban.—The strength of the rand, lower demand in Western Europe and an oversupply in Asia were listed as negative factors by Masonite Africa, but the Durban-based building materials manufacturer was predicting a satisfactory year.

Alan Wilson, the chairman and managing director of the company, was reluctant to factor in the RDP as a positive influence. "If the RDP happens that will be fine. Last year we were told there would be a take off and it did not happen," he said.

"We don't believe we are headed for a bad year but we can't quite get a handle on things at this early stage," said Wilson.

Masonite exports about 25 percent of production volume to 70 countries. Wilson said that weaker international demand was due to a decline in the United States housing market.

This had resulted in traditional exporters to that country, such as Brazil, seeking alternative outlets and had increased competition for Masonite Africa in Europe and Asia.
NEW NAME Alpha's managing director, Johan Pretorius (in the cab), and his staff celebrate the change of name from Anglo Alpha to Alphine, in a move that brings together the group's core business of cement, stone aggregates and ready mix under the new name.

Anglo Alpha combines its core business

Johannesburg — Anglo Alpha has changed its name to Alpha and brought together its core business of cement, stone aggregates and ready mix under the Alpha name. The group's other industrial interests will also trade under the name. The new image is part of a strategy to return the group's share of the cement market.

The managing director, Johan Pretorius, said the company's products — under their previous brand names of Anglo Alpha Cement, Hippo Quarries and Pioneer Ready Mix Concrete — all had strong market shares. However, market research had highlighted that there was little perception by the consumer of their association with one another. The move had been made to position the group as the leading supplier in the building and construction materials industry.

"The end product of cement is concrete. By offering all the basic components together with technical back-up and service, we believe we will be offering customers more added value," he said.

Alpha has assets of more than R2 billion and annual sales of more than R1,5 billion.
Leader in cement field

SPURRED on by the dismantling of the cement distribution cartel, Anglo-Alpha has changed its name to Alpha and brought together its core business of cement, stone aggregates and ready mix under the new name.

Alpha Group MD Johan Pretorius said the move positioned the group as the leading supplier in the building and construction materials industry, facilitating the building of a single strong brand.

This was deemed necessary in a more competitive environment.
Bogged-down RDP dampens cement sales

Robyn Chalmers

CEMENT sales failed to live up to industry expectations last year, rising only 6,67% to 8,4-million tons year on year, and projections for the current year are less than optimistic.

Figures from the SA Cement Producers' Association showed cement sales for December last year fell 0,11% to 510 274 tons. This was despite December traditionally being the best month for sales, with retailers and builders tending to boost stock levels in the run-up to the builders' holidays.

Producers, anticipating strong sales as a result of the RDP, were largely caught off-guard by the slow-down and cement production levels rose 14,76% to 9-million tons for last year.

The association's sales manager, Robin Murray, said yesterday that the low level of activity in the RDP last year was the main reason for the lower than expected sales. The association and most producers predicted a 10% hike in sales during last year.

"There were other factors which affected sales, including the rainy weather conditions in November and December and the fall-off of major contracts such as Alusaf and Columbus Stainless Steel."

"We are not terribly optimistic about this year either, with most predictions on sales coming in at 6% to 7% There are few indications that the major contracts which wound down last year will be replaced, and although the RDP has picked up slightly, we doubt it will take off this year," said Murray.

One analyst said that while public authorities had failed to live up to the development expectations of social infrastructure such as clinics, schools and housing, there could be a slight improvement this year.

The analyst said fixed investment — both private and public — could be expected to play a role in boosting economic growth this year as a result of the RDP and also due to increased investment in export orientated businesses.

"Cement sales are closely linked to gross domestic fixed investment in SA, and the industry will benefit significantly once the expected investment in infrastructure panned out, but this will probably only happen towards the end of the year," he said.

Another analyst said the cement industry was in flux, with the main producers — Alpha, Pretoria Portland Cement and Blue Circle — gearing up for the demise of the cartel in September.
Cement producers cut forecasts

Robyn Chalmers

SA's cement producers have downgraded their sales forecasts for 1996 after deciding government and private sector infrastructure investment would probably pick up only towards the end of the year.

Recent figures showed sales failed to live up to expectations last year, rising 6,67% to 8,4-million tons against the predicted 10% hike which was based largely on the back of the RDP.

Pretoria Portland Cement estimated sales would rise between 6% and 8% this year. Alpha believed a 4% increase in sales volumes was on target, while Blue Circle Cement was more optimistic, with demand rising 8% to 10%.

Alpha chairman Peter Byland said in the annual report released at the weekend that the economic recovery experienced last year was expected to continue into 1996 with an expected 4% growth in GDP.

"We are forecasting a 4% increase on average in sales volumes which, together with the benefits of (Alpha's) productivity improvement plans, should result in further improvement in net profit at a rate slightly in excess of inflation," he said.

Byland said the group was considering various expansion alternatives including the establishment of a new cement factory at Saldanha Bay, a new kiln at its Dudfield factory, or a greenfields factory in Mpumalanga.

Blue Circle Cement MD Peter Strauss said he expected cement output to reach 9-million tons this year, and the 8% to 10% rise in the level of demand would depend on progress made on the RDP.

"We believe the industry is well placed to support the objectives of the RDP. No major bottlenecks in production and the system of distribution are expected during 1996. (when the cartel is to be phased out)," Strauss said.

Blue Circle was looking into the feasibility of building a new factory south of East London to boost capacity, which could kick off by the middle of the year.

"We are also increasing our investment in the Pietersburg and Nelspruit areas, enabling us to provide better support to rural projects in Northern Province and Mpumalanga."

The No 4 kiln at Blue Circle's Lobelenburg plant had been recommisioned, bringing a further 300,000 tons of production capacity on stream, Strauss said. The capacity of the number five kiln would be boosted by 180,000 tons this year.
Alpha group expects net profit to rise this year (93)

By Charlotte Mathews

Johannesburg — Alpha, the cement and lime group formerly known as Anglo-Alpha, expects net profit to improve at a rate slightly above inflation in the financial year ending in December, said the chairman, Peter Byland, in the group’s annual report.

This profit should stem from an expected 4 percent growth in sales volumes and the group’s productivity improvement plans.

Alpha has prepared for the market ahead of the disbanding of the cement cartel. It has strengthened its distribution capability, increased its investment in ready-mixed concrete and sales outlets, and added information systems that will enhance service to its cement customers.

Between this year and 1996 the group expects to spend R1 billion on capital projects. About half is for expansion and diversification, the rest is to replace plant and equipment.

As previously reported, various expansion options are being considered, including the establishment of a new cement factory at Saldanha Bay on the West Coast. If this is viable, the group will evaluate exporting cement to South Africa’s neighbours. At present, exports are irregular because transport costs are the largest element in determining the delivered price of cement. A regular export business depends on having a cement production facility near a major harbour.

Other expansion options for the group include a new kiln at its Duiisburg factory or a greenfields factory in Mpumalanga.

Byland said Alpha was investigating trade and investment opportunities in the rest of Africa, but these opportunities were being hampered by South Africa’s “restrictive foreign-exchange control policy”.

“I would therefore, once again, appeal to the authorities for a greater degree of flexibility in the application of exchange control regulations.”
Rains hammer brick sales 30% in Gauteng

Heavy rains since November have knocked clay-brick sales by about 30 percent in Gauteng and the Northern Province and set back many construction programmes. Nic Louw, the executive director of the national Clay Brick Association, said this week.

He said that the heavy rains had had a negative effect on the demand from the construction industry, whose operations had been hard-hit. It had also hampered the production of small to medium manufacturers of clay bricks.

Many of these small operators had experienced major production setbacks and financial loss because of the rains. It would take at least six to eight weeks to get back on schedule, said Louw.

He said that the outlook for the industry was bullish for this year, while getting off to a slow start countrywide due partly to changes in the builders' holidays over the December period, particularly as the Reconstruction and Development Programme (RDP) was expected finally to get off the ground.

The industry countrywide had sufficient stockpiles to meet any immediate increased demand because many of the larger operators had stepped up capacity last year in anticipation of the RDP.

Charles Fritchard, the president of the Western Province Masonry Manufacturers' Association, said total demand in the Western Cape in January was down about 7 percent on a year-on-year basis, partly because builders had returned relatively late from annual holidays.

Sales had picked up in February. Though manufacturers in the Cape Town area had a combined stockpile of about 60 million bricks, some were already struggling to meet demand for certain high-turnover products, and delays of around two weeks were already evident.

Mike Ingram of Corobrick in the Western Cape said that its factories countrywide had increased capacity by about 30 percent since April in over-optimistic anticipation of the RDP getting off the ground.

"Consequently, we are sitting on record stock levels but we are confident that the promise of the RDP will translate into a tangible improvement this year, particularly in the area of schools, clinics, prisons and other government-driven infrastructure projects, and we will be in a position to respond quickly to the expected increase in demand," he said.

More than 20 infrastructure projects were out to tender in the Western Cape, which should provide a welcome boost to the local industry.
Crack in Ceramic Industries profit

Johannesburg — A sharp rise in imported tiles and a higher tax rate depleted Ceramic Industries' earnings for the six months to January 31, with attributable earnings falling 13.7 percent.

The company said the higher level of imports in the "pressed tiles" market had reduced sales at Samcaties, which ultimately reduced turnover by 6.6 to R61.36 million from R65.72 million during the same period in 1994.

While income before tax was 34.8 percent higher at R9.630 million (R7.142 million), tax jumped to R3.75 million from R328,000 in 1994 as the company moved on to the full tax rate.

Consequently, attributable earnings were lower at R5.881 million compared to R6.814 million previously, while earnings per share dropped to 32.7c from 37.3c.

The board has declared an interim dividend of six cents a share, unchanged from the dividend declared in 1994.

Operating income was 29.6 percent higher at R8.24 million compared to R6.357 million in 1994.

Now that Lonrho PLC founder Roland "Tiny" Rowland has sold out his 5.9 percent stake in Lonrho, Dieter Bock, the German executive who ousted Rowland agreed to resell the shares to Anglo American Corp of South Africa.

Anglo American, a mining and financial conglomerate, called its purchase "an important long-term investment", according to a statement from chairman Julian Ogilvie-Thompson.

South African Forestry Company has announced the launch of a R28 million project to reclaim low grade timber from its Southern Cape plantations.

The project provided for the creation of an R18 million Small Timber Project subsidiary, which would reclaim large volumes of stagnant and low grade timber, and a R10 million upgrade of its George mills to process some of the smaller logs.

CEO Dr Tienie van Vuuren said more than 12,000ha of Safcol's plantation area in the Southern Cape was presently taken up by low grade timber. The timber volume was less than the norm and consisted mainly of crooked trees — Sapa-Reuters
Ceramic hurt by taxes and competition

Johannesburg — Ceramic Industries, the manufacturer of ceramic tiles and sanitaryware, reported a fall in earnings to 32.7c a share in the six months to January compared with 37.9c in the same period a year ago owing to competition from imported tiles and a higher tax rate.

Turnover dropped 7 percent to R61.4 million as more imported tiles entered the market and the expected stimulus to the building industry from the reconstruction and development programme was delayed.

However, the group boosted operating income by 28 percent to R8.2 million owing to tight cost control and improved productivity, said Battista Errera, the chief executive officer.

These gains were lost by a sharp increase in the tax rate to 38 percent from 5 percent previously as the company moved on to a full tax rate, which resulted in attributable earnings dropping 15 percent to R5.9 million. An unchanged interim dividend of 6c a share was declared.

Errera said the company's performance was expected to improve in the next six months.

The integration of the workforce around the new technology installed at Beta Sanitaryware had taken longer than expected, but the benefits would become evident next year, he said.
**Life after the Cartel**

(193) fm 15/3/96

"You couldn't find a better managed company," says an analyst. "They are quite capable of fighting their corner and even increasing market share."

The key to Alpha's current success is exemplary cost management. Pre-interest margin was held above 20% last year despite an increase in costs and the acquisition of a majority shareholding in an Eastern Cape cement company.

The rock solid balance sheet shows profitability rising and gearing steadily declining. Debt, including debentures, totals about R140m, leaving plenty of room for manoeuvre.

Capex for 1996-1998 is estimated at R1bn. About half is for expansion and replacement projects, including a new cement factory, possibly in the Western Cape. The balance is for replacement of plant and equipment and "quality-of-worklife" improvements. Recommissioning of two wet-process kilns at Ulco is under way and should increase cement capacity by 350 000 t/year.

A single-interest company is vulnerable to product cycles, especially when that product is a commodity.

Last year, it pushed its investment in fertiliser and explosives group Omnia Holdings to 36.2% "Omnia is counter-cyclical to the building industry and the proposed merger of its fertiliser assets with Sasol's will improve its growth potential," says Alpha MD Johan Pretorius.

The share price has slipped 129c to R135 from its 12-month high of R154 in February as doubts about the near-term future of construction filter through to the market, but it is still 29% up from its low last March. Analysts predict it will perform in line with the JSE Industrial index in the next year.

On a p/e of 17.5, the share looks fairly priced. But strong fundamentals indicate a buy.

*Margaret-Anne Halse*
Here again, however, it is obvious orders will have to improve if growth is to continue beyond this year.

Adding to concerns here is that during this same period, and aided by SA's new-founded political acceptability, LTA (like many others) has been actively seeking additional business opportunities elsewhere in Africa.

Davies notes that non-SA work secured in the past year included the Mohale and Montani access roads in Lesotho, the North/South pipeline in Botswana and the plant construction contract at Mal's Sadiola Hill gold mine.

With total orders at December 31静态 at R2,1bn, indications are that the value of local work has declined.

Unfortunately, LTA does not disclose divisional data, nor does it give any information regarding geographical spread, making it impossible to analyse further than broad indicated trends.

Structurally, the group remains as strong as a year ago. Net cash on hand rose to R108m (1994: R90m) but as this was matched, proportionately, by the increase in total shareholders' funds, the ratio of net cash to equity remained very liquid 46%.

The additional cash came mainly from a further tightening of working capital, which, over the past two years alone, has released R78.5m — virtually matching the R81m by which net cash resources have increased. This underscores the attention paid to asset management as a means of enhancing performance during sluggish work volumes.

There were no significant changes in profitability ratios. The trading margin, at 3%, was slightly better than 1994's 2.7% but this merely recovered the ground lost that year compared with 1993. Returns on total assets (gross) and equity (net) were hardly changed.

After a sluggish start to 1995, the share has had a good run over the past six months, jumping from R18 last August to the current high of R25.75.

The 12-month gain of 56% from the R16.50 at the time of the PM's review of the 1994 annual report far outstrips growth rates in earnings and dividends. The share is more expensive in relative terms than this time last year, which

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NO LIFTOFF YET

If you spare the subject a moment's thought, imagining the world without elevators (lifts, in English) becomes an imponderable. Where would we be (closer to the ground) and what would be the shape of our great cities (a lot flatter)? It becomes a self-defeating exercise, of course — like contemplating civilisation without the wheel.

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LTA

STATE ORDER BOOK

With an uninterrupted eight-year record of earnings growth, LTA has clearly shown it's ability to function effectively in a variety of economic conditions.

The broad spread of activities has obviously helped keep earnings on the boil. So has a continuing commitment to cost-cutting and efficiency improvements.

But, as future performance will be

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ACTIVITIES

Building and construction

CONTROL

Annc (68.4%)

CHAIRMAN

K Davies MD C V Campbell

CAPITAL STRUCTURE

28.2m ords Market capitalisation R726m

SHARE PRICE

Price 2.575c Yields 2.2%

on dividend, 6.3% on earnings, p e ratio, 15.9, cover, 2.8 12-month high, 2.575c, low 1.650c Trading volume last quarter, 204,893 shares

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Year to December 31

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* Year to March 31

† Nine months to Dec 31 (annualised)

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measured off what is already a high base, and assuming there must be a limit to how much blood one can squeeze out of a stone, continuation of the earnings uptrend may depend increasingly on a more general improvement in economic activity and its effect on infrastructural and fixed investment spending.

Two points stand out. First, despite an acceleration in earnings growth (excluding non-trading items) to 14% in 1995 from 1994's 9%, overall performance was less satisfactory in that there were misfires on two of the five cylinders. The Building and Process Engineering divisions were both below budget, mainly because of a shortage of work.

Second, for the second consecutive year, the order book remains static, even in nominal terms. Neither chairman Hilton Davies nor MD Colin Campbell seem unduly bothered, and forecast that there will be sufficient work to extend the growth record for a ninth year.
MARLIN at 85c and debt-free is one of the few stocks to offer value on the currently troubled JSE; Pyramid Marhold is even better value at 40c. It should be half the Marlin price.

Marlin has just taken control of Minaco, which at 25c is also a buy and shareholders should decline the minority offer of 22c.

In the late 1980s granite shares could do no wrong in an environment of strong demand for an exported product assisted by a declining rand.

The wheels began to fall off when the 1991 Gulf War depressed demand. This caused problems for many producers, not least Marlin, which carried on quarrying ahead of an anticipated restoration of orders that never materialised. Stock and debt dumped Granite counters lost their popularity such that only three JSE-listed firms even bother to conduct research into them now; portunity can be missed.

This month, Marlin re-deemed what director Mario Marcenaro describes as a mistake made four years ago. Marlin had entered a partnership with Cyril Heever (who was murdered last year) whereby it owned 50% of private company CMH Investments CMH Holdings 47.5% of Afman, itself the owner of 31.4% of granite producer Minaco. The rationale was for some link between Minaco and Minac, but the structuring was ridiculous. The current deal involves Marlin’s purchasing Afman’s Minaco holding for R3.6 million (22c), of which R2 million will be in preference shares issued by subsidiary Granitex Marlin will also buy another 9.5% in Minaco for an Afman director, and sell its 50% of CMH in return for R250 000 cash and another 4 million Minaco shares, to give it 51% of Minaco. The net cost to Marlin will be R4.43 million with a net cash outlay of R2.43 million.

So far, so good. But the management contract of Minaco still rests with Afman, and Minaco has to buy it. The price is R5.15 million — much more than the value of Minaco itself. Mr Marcenaro explains that the contract earns more than R2 million a year, so it is effectively being bought on a price of 2.5 times earnings.

The management contract system was typical of the way in which Mr Heever structured his companies.

Since Mr Marcenaro became involved at Marlin, the policy has been to operate free of debt. Only last August, a rights issue was held at 51c a share to raise R60 million and wipe out all the debt other than on new equipment.

What cash remains is earmarked for other expenditure and to effect this deal, Marlin seeks another R16 million in order to follow its proportion of Minaco’s R12-

- million offer, meet an offer to minorities and to have some change left for expansion. Minaco’s money will pay for the management contract and allow it to buy the 59% of Prunie Granite currently held by an Afman director. Minaco too will operate debt-free.

The deal brings Marlin a bigger critical mass and the widest African product range, and Minaco sets a new high for the Marlin markets. Turnover of the two could approach R170 million this year.

South Africa’s share of the growing global granite industry has slipped in recent years, due largely to the advance of China. Mr Marcenaro says the country has to compete on price, reliability of supply and quality. Customers look at price first and we compete against countries such as India, China, Zimbabwe and Brazil, all of which have had a declining currency whereas until recently the rand had been stable for two years. They have been able to offer discounts whereas we have struggled. Also, an Indian quarryman earns R30 a month and a Zimbabwean $60, whereas local rates are about $300 a month.

"However, South Africa is a reliable supplier and I believe it could regain some of the market share lost in the past five years. Even an incremental gain of 5% or so on South Africa’s 9% market share is huge percentage increase in terms of tons In Italy producers say that they cultivate the quarry by doing things carefully and soundly like handing clayware, rather than just blasting it away. We have to work at improving our productivity and controlling costs. We need better engineering and improved quality control, then we can make money in a competitive market.

"He does not expect stone prices to increase by more than $2 to $3 a ton on average this year, but believes that marketing opportunities will arise where some fashionable products are in short supply. Rain during the last two months has interrupted production, particularly at Rustenburg and Belview and the market is hungry for stone. Cash is tight in the industry but Marlin is the only unengaged granite producer and operating income is no longer consumed by financing costs. Mr Marcenaro, who represents the interests of Marlin’s foreign shareholders, says an investment in Marlin is for the long-term. It could earn around 5c for 1995 and more than 10c in 1996, putting it on a low forward price-earnings ratio competitive Kelgran ranks much higher in spite of high borrowings. (Kelgran issued a cautionary this week.)

The offshore shareholders will follow their rights in Marlin’s rights offer and hope to reap returns hereon.
Blue Circle price freeze on RDP projects

ROBYN CHALMERS

Blue Circle Cement had decided to freeze cement prices at last year's levels on all delayed RDP housing projects in which it was involved, a move which would affect about 12 500 housing units, marketing director Peter Foure said yesterday.

Representatives of major competitors Pretoria Portland Cement (PPC) and Alpha said they were still considering their position, although PPC said talks were under way with housing representatives.

Foure said how the decision would affect the group's margins would depend on what percentage of the estimated 12 500 units got under way this year.

Blue Circle's decision to freeze prices on delayed housing projects came in the wake of the Budget announcement that the housing allocation would be cut to R1.5bn (R4bn), although this sum would be swollen by rollovers from previous years.

Foure said the group believed it had a duty to help boost the RDP and the freeze had been targeted specifically at one of the areas of greatest need — namely, the lowest end of the housing market.

PPC Cement MD Clive Tasker said the group was in negotiations with the various provincial housing boards and local authorities to find ways of boosting the RDP.

"We have not ruled out a price freeze on delayed RDP projects and will ensure that our cement is always competitively priced," he said.

However, Tasker said the RDP would need more than lower cement prices to really get it off the ground, and PPC had engaged the RDP in a holistic sense by boosting the capacity of emerging builders through a range of training schemes.

Alpha MD Johan Pretorius said the group was committed to maintaining the industry-wide agreement forged in October 1994, which was not to raise cement prices above the rate of inflation until the turn of the century.
Blue Circle moves into Namibia

Blue Circle Cement has bought a 50% stake in African Portland Cement for an undisclosed amount in a strategic expansion by the company into the Namibian market.

Blue Circle Cement MD Peter Strauss said the company had bought the 50% shareholding from African Portland Industrial Holdings in Namibia, which would continue to hold the remaining shares.

Strauss said that Blue Circle and African Portland Industrial Holdings had committed R80m this year to finance the modernisation and expansion of African Portland Cement's plant at Ojiwarongo.

The modernisation and expansion of that plant was expected to increase its output to about 200 000 tons a year by early next year.

In terms of the deal with African Portland Industrial Holdings, Blue Circle had agreed to provide technical and managerial support for African Portland Cement. The management and day-to-day control of the company would remain in local hands.

Strauss said that the expansion into Namibia was not only to explore opportunities in the country — with confidence in its market growth potential — but was also part of Blue Circle's commitment to RDP objectives, which encompassed a new era of regional co-operation and development.
'PIECEMEAL' DEVELOPMENT

Saldanha cement factory revives fears

ENVIRONMENTALISTS FEAR THAT their predictions about industrial development at Saldanha are beginning to come true, Environment Writer MELANIE GOSLING reports.

A MAJOR cement factory is to be built at Saldanha next to the controversial steel mill — the first of the downstream industrial developments which environmentalists opposed to the steel project predicted.

The cement plant proposal by Alpha Ltd will include limestone and clay quarries west and northwest of Saldanha with a conveyor linking the quarries to the factory.

Professor Bryan Davies of UCT's Freshwater Research Unit fears this could be the start of a "flood" into the region of heavy industry that will not be sustainable in the long term.

He also slammed "piecemeal" development in the sensitive environment near Langebaan Lagoon and criticized the lack of an overall strategic plan for the region.

"We predicted downstream development would come out of the woodwork soon after the steel mill was established and this is the first satellite industry coming into the open. It is of deep concern that this is the start of an industrial development node for which there has been no strategic planning. We should be looking at the big picture," Davies said.

He said his opposition to heavy industry in the region was based on scientific and ethical grounds.

"To place an industrial node next to a declared international Ramsar site and close to the Berg River estuary — a potential Ramsar site — makes no sense of South Africa's commitment to the Ramsar Convention. It also seriously compromises any future sustainable eco-tourism development in the area, as well as its biological diversity and ecosystem health."

Davies has questioned the ability of the and West Coast region to support heavy industry and the human population that will inevitably grow around it.

He said any further extraction of the water from the Berg River would degrade one of the most important wetland and floodplain eco-systems in South Africa.

"I'm not against job creation, but it must be sustainable. It's no use increasing jobs if in 10 years time the population will be choking on cement dust and suffering from illness."

"The sustainability of the human population that will be attracted to this development node is highly questionable. As an ecologist I'm extremely worried about the impact on the Langebaan Lagoon and the Berg River," Davies said.

He said unless future development in South Africa was underpinned by environmental considerations, the country was heading for trouble.

• Alpha Ltd has commissioned an environmental impact assessment of the project. The environmental consultants would not disclose more information until a media briefing later this week.
IN FAMILY HANDS

Despite a rights issue, this company continues to exhibit financial difficulties. Ketter raised R7.1m in March last year, enough on the face of it to resolve its liquidity problems. Unfortunately, it wasn't

ACTIVITIES: Granite mining and exporting
CONTROL: Vandorpa international (Netherlands)
CHAIRMAN: J Kaszirer MD OGPorat
CAPITAL STRUCTURE: 53.1m ords Market capitalisation R29.2m
SHARE MARKET: Price 55c. Yield n/a. on dividend, 13.8% on earnings, p/e ratio, 7.2. 12-month high, 70c, low, 45c. Trading volume last quarter, 554 000 shares

Year to September 30

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</tr>
<tr>
<td>Operating profit (Rm)</td>
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</tr>
<tr>
<td>Earnings (c)</td>
<td>7.3</td>
<td>7.6</td>
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*Re-stated without explanation. 1994 report claimed R17.6m. Only two years figures given as radical change in business after 1993 mutinies caused panic.

Substantial investments in new equipment drained the inolves. At year-end Ketter is no better founded financially than a year earlier. Shareholders' equity has risen R10.5m to R33.9m, but long-term liabilities are up at R7.9m (1994 R7.1m), though the overdraft has improved R1.2m to R4.7m.

That is more than balanced by a generous decline in creditors to R4.6m and a notable increase in debtors to R9.8m, better than double last year's position.

On the other hand, the income statement reflects the improvement in demand and prices. Turnover nearly doubled to R26.7m and operating income rose to R3.7m despite a doubling in finance charges to R2.4m. Attributable, in the absence of tax, was up 54%.

Despite this — and as though confirming the underlying difficulties — the dividend was passed.

All this serves to underline the problems facing the granite industry.

Ketter Granite

Cents

82

72

57

43

Ketter Granite

1985

SOURCE: T NEFF

1996

significant rationalisation is necessary if it is to survive.

Marlin has already restructured—rather cleverly, in fact, and in a manner which emphasises the old role of family entrepreneurs rather than corporates which imagine their imprint is an adequate substitution for committed individual skill and flair.

The SA granite business is now characterised by companies focused on too narrow a range, accompanied by too much in-fighting and too little co-operation. They concentrate too much on Rustenburg Grey — which is why Ketter's African Red gives it a good edge.

The world industry is resurgent after a spell in hospital and SA producers are reasonably competitive. However, for as long as they find it difficult to exchange information for fear of losing what they perceive as an edge in a special area, for so long will they be at a disadvantage when it comes to dealing with the Europeans, the industry's ultimate arbiters.

Despite this apparent gloom, rationalisation is taking place. Marlin has recently taken over Minaco in (a deal of extraordinary complexity) and has rights issues down the line to protect the balance sheets. Locked in, as it is, to Italian family connections, it may well turn out to be best placed of all to make the most of the industry's cycles.

Kelgram, controlled by Gencor and ostensibly the SA industry leader, is known to be in play and the most logical of moves would be to allow its energetic management team an opportunity to turn their commitment to advantage.

Ketter is interesting in one other aspect. It is controlled by the Kaszirer family, prominent Belgian diamond dealers.

This is the same family which, previously in the first rank of holders of CSO sights, was barred by De Beers after alleged evidence of the family's collusion with the Russians to circumvent important aspects of the De Beers/Russian rough diamond sales agreement. This means nothing in the context of Ketter, other than to suggest the family will know a thing or two about how to defend its own interests.

For some time, the FM has suggested that investors should re-examine the nature of the granite industry and the involvement of major mining companies. The accumulating evidence is that this is not a business suited to corporate control or stock exchange listings, but one which is better placed — as it has been for centuries in Italy — in the hands of entrepreneurial families.
Tuesday 19 March 1996

They are currently preparing for the

1. As the Minister for Trade and Industry,

2. The Minister of the Environment,

3. The Minister for National Development,

4. The Minister for Finance,

5. The Minister for Education and

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Plans for cement plant at Saldanha

Study under way to assess impact on environment

JOHN YELD
Environment Reporter

A MAJOR cement plant, linked to limestone and clay quarries by an eight-kilometre long overland conveyor belt, is being investigated on a site close to Saldanha Bay adjoining the new steel plant.

The proposed plant is on property zoned agricultural, but designated for heavy industry in terms of the area’s structure plan. At one point the property is 800m from the bay.

The cement company Alpha Ltd has commissioned an environmental impact assessment of the proposed plant.

The study is being co-ordinated by independent environmental consultant Mark Wood.

The proposal comes at a time when the West Coast Peninsula transitional council is still working on a revision of the Saldanha-Vredenburg-Langebaan structure plan – a move urged by the Steyn Board of Inquiry which investigated the Saldanha Steel Project last year.

One of its key recommendations was that the structure plan should be reviewed as soon as possible and that the possibility of heavy industry developing close to the Saldanha Bay shoreline or in areas which would be detrimental to tourism and the mariculture industry should be reconsidered.

The influential Wildlife Society has said it is not prepared to cooperate with the cement plant assessment until there is clarity from the government on what it intends doing about the Steyn board’s recommendations.

“The cement factory is inex-tricably linked to the Saldanha Steel project,” said the society’s Western Cape conservation ecologist Marlene Laros.

The society wanted the conditions of approval for the rezoning of the Saldanha Steel site clarified and it also wanted to know whether the Saldanha Steel project considered itself committed to implementing these conditions in a meaningful way since its move two kilometres inland.

“We again re-state our concern that a strategic environmental assessment of the Saldanha area has not been completed, and that recommendations for a review of the structure plan follow such an assessment route,” Ms Laros said.

The cement company is proposing a cement plant on the site next to the steel plant and close to the ore-loading terminal, limestone and clay quarries parallel to the coast just to the west of the Saldanha Bay town, and a conveyor belt linking the quarries - most from Prospect Hill northeast of Dunville - to the plant.

The plant would supply about 700 000 tons a year of cement and clinker to local and international markets, transported by road, rail and sea.

The housing for the conveyor belt, which will be enclosed to reduce dust, could be up to 2.5m high, but options include a partially sunken or an elevated structure in places.

A recommendation, based on a completed feasibility study and the environmental assessment, will be put to the cement company’s board at the end of this year for a decision.

“We have committed ourselves to conducting our business in an environmentally-friendly manner and a final decision will not be taken until the results of the assessment have been fully examined,” said group managing director Johan Pretorius.

In an addendum to its report, released in October, the Steyn board said there was a need to review the structure plan for the Saldanha-Vredenburg area in respect of its designating certain areas as being suitable for heavy industry.

For further information about the environmental impact assessment, contact Mark Woods, (011) 958 1320.
New cement standards 'will help industry'

By Audrey D'Angelo

Cape Town — New South African cement standards would help the local market and lift exports, Peter Fourie, the marketing director of Blue Circle Cement, said yesterday. He said Blue Circle had bought a 50 percent stake in African Portland Cement Holdings for R18 million and had pledged R60 million to upgrade its plant near Windhoek.

The company intended to use the Namibian operation as a springboard to export markets. Upgrading the Windhoek factory would ensure compliance with the new SA Bureau of Standards requirements, which were modelled on those in Europe.

"These (standards) are acceptable not only in all major export markets but to international consortia working on big development projects in Africa," Fourie said.
**ACTIVITIES** Manufactures and distributes hardboard, insulation and door-paneling, owns and develops plantations

**CONTROL** Masonite Corp (USA) 66.7%

**CHAIRMAN & MD** A Wilson

**SHARE STRUCTURE** 8.32m ords Market capitalisation R185.2m

**SHARE MARKET** Price 2.100c Yields 2.4% on dividend, 9% on earnings, p/e ratio 11.1, cover 42, 12-month high 2.150c, low 1.250c Trading volume last quarter: 33,293 shares

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<td>Turnover (Rm)</td>
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<td>Pre-int margin (%)</td>
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Earnings since it came out of its trough in the late-Eighties

The share price almost doubled to R21.50 during the year to end-December, 1995. And though trading conditions were tough, operating margins widened on a 25% rise in turnover, EPS jumped by 32.6%.

![Graph of Masonite Rand](image)

Two main factors contributed to difficulties during the year: first, the pace of local housing development slowed, and, second, international competition reduced export commodity sales.

In the 1996 year, management aims to take advantage of an improving local housing market and to reduce its exposure to cyclical commodity products by cutting operating costs and increasing its range of value-added products.

Masonite's profitability continues to be driven by the SA market, but exports now account for 18% of sales in rand terms and the same is forecast for 1996.

**82 COMPANIES**

MD Alan Wilson says new pre-finished products are being developed for export to Europe and the US. He hopes higher margins on value-added products will increase profitability of exporting goods. "Europe, our strongest overseas market, is in recession but we benefit from the established markets of our parent company, Masonite USA."

Wilson says the operations must be globally competitive. Suppliers from South America and southeast Asia are stepping up manufacture of wood-based products. Plant upgrades, which in financial 1995 cost about R13m, will continue at a slightly higher rate this year.

The company's stock level was high at year-end, off 1996's low base. Wilson says it is now running at a month's supply. But sales of hardboard were slow in the first quarter. He says the pace of sales will result in a disappointing first half, compared to year-ago results.

Construction of low-cost housing is speeding up and management is satisfied with sales of mineral fibre products, used in ceilings. Wilson hopes growth in financial 1996's turnover will be similar to that seen in 1995. Expansion of Masonite's value-added activities should improve margins.

The share is just off its annual high, having climbed steadily through the year. The market clearly has faith in Masonite's prospects. With no direct competitors in the building and construction sector, comparisons are difficult. But even if short-term growth isn't exceptional, there is medium-term value in the counter. *Michelle Joubert*
FIRST MORTAR SALVO

With the 25-year-old cement cartel in its death throes, the industry's big three manufacturers appear to have already placed themselves on a war footing.

The cartel, due to be abolished on September 30, consists of Anglo-Alpha, Blue Circle and Pretoria Portland Cement (PPC).

The reconstituted Anglo-Alpha — Alpha Ltd — last month fired the first shot by announcing its re-entry into the Western Cape market, which controls about 36% of the industry, is to build a R745m cement plant — a move seen as a direct challenge to PPC's regional monopoly.

National cement sales are projected to grow from 8.4 Mt/year to about 9.6 Mt/year by 1998, and Alpha obviously intends getting into the Western Cape market — projected to reach 1.2 Mt/year by 1998.

But with PPC already forced to export about 35% of its Western Cape production, the wisdom of building a new, 600 000 t/year capacity clinker (burnt limestone) plant is being questioned by PPC group MD John Gomersall.

PPC's two plants at Riebeeck West and Piketberg — with a total capacity of 1.3 Mt/year — are under-utilised in the 1 Mt/year regional market. Gomersall fails to see the rationale for building yet another plant.

"When the 200 000 t/year slag from the Saldanha Steel plant is added to this figure, the exportable surplus increases even further. With projected surplus capacity therefore still available beyond 2000, the Alpha announcement contains a strong speculative element at this stage."

Alpha's investment is still subject to the results of an environmental assessment and to the zoning decision of the Western Cape regional government.

Alpha Cape commercial manager Quentin Dollman says his group plans to sell about 430 000 t/year into the Western Cape market within five years.

A further 30 000 t/year of cement, as well as 240 000 t/year of clinker product, will be exported via Saldanha Bay into adjacent African markets. Alpha's Swiss holding company will help in finding export markets for surplus product.

Dollman adds that the new plant's location at Saldanha will make its clinker exports competitive.

But he doubts if there will be a regional price war, notwithstanding the fact that the Saldanha project will be the group's "only viable possibility to re-enter the Western Cape market.

"He is bullish about the market outlook, despite the surplus situation.

"The region's 5% a year building and construction growth rate will be boosted once Cape Town's Olympic bid is finalised. And new hotel and leisure developments should further underpin cement demand," he says.

As yet no firm agreement has been reached with Iscor regarding its projected 230 000 t/year Corex slag output, which will become available once Saldanha Steel is in operation. But provisional talks have taken place and Alpha is "interested" in taking up about 130 000 t/year of slag for cement manufacture. Slag could constitute up to 30% of the blended cement product.

The 600 000 t/year clinker plant, to be built adjacent to Saldanha Steel on a 190 ha site, will use about 500 000 t/year of limestone, which will be quarried from sites close to Saldanha Bay.

The only remaining uncertainty seems to be environmental concerns regarding the impact of the proposed plant on the scenic bay and its surroundings."
Hydraform moves into India

BRICK manufacturer Hydraform has signed a R400-million licensing agreement with India's Global Capital Limited – a subsidiary of Apollo Tyres which is listed on India's stock exchange.

In terms of the deal, Global Capital will manufacture and sell 10,000 to 20,000 Hydraform machines in India, with technical assistance from Hydraform Global Capital also having an exclusive right to patent the concept throughout south Asia.

"This is only the beginning and we hope, together with Global Capital, to go worldwide with Hydraform," says Jochen Kofahl, managing director of the Hydraform Group.

Hydraform designs, manufactures and distributes machines for making cement-stabilised soil building blocks. The Hydraform process, which can produce 180 bricks an hour, was developed seven years ago by Hydraform.

Unusually, these blocks interlock because of their dimensional accuracy and can be dry-stacked without the need for mortar.

Mr Kofahl says bricks produced by Hydraform undercut the South African market by 20% and the Indian market by 70%.

The building blocks are ideal for building low-cost houses, says Mr Kofahl.
The Business Practices Committee is expected to announce this week an investigation into the sale of defective cement by independent firms, which could pose a threat to the RDP.

This would coincide with a new cement standard by the SA Bureau of Standards (SABS) which would comply with European standards, and cover masonry cement for the first time.

Industry sources said at the weekend there were concerns about the mushrooming of small blending operations. Thus followed a number of incidents reported recently in Gauteng and KwaZulu-Natal, where the use of blended Portland cement led to cracked houses and threatened bond boycotts.

An industry source said it was important to ascertain the extent of the problem, but early indications were that there were about 10 to 15 small blending operations nationwide which could affect thousands of houses.

It was believed the operations were widespread in Gauteng, and had extended to Mpumalanga, Northern Province and KwaZulu-Natal.

It seemed that the operators had placed themselves close to major RDP projects, also tending to target small builders and consumers in townships.

SABS civil engineering and packaging director Iain Bence said there had been little control over the practice of extending cement, and the new cement standard would, he hoped, address this issue.

Portland Cement Institute executive director Graham Greeve said he believed several operations were using incorrect proportions of waste material as extenders.

This had weakened the product and had led to unsound buildings in certain cases, he said.
Johannesburg — The Marlin corporation, the restructured granite producer, expects to achieve "a significant improvement" in profit in this financial year.

In the 12 months to December 31 last year, Marlin earned 2.2c (2.6c) a share before exceptional items and 0.2c (0.6c) after exceptional items.

At the halfway stage, the company reported earnings of 2.6c a share, indicating that a loss was incurred in the second six months.

The principal fly in the ointment was the beneficiation and contract fixing division Marble Pentelic, which suffered a R2.4 million loss.

The directors claim to have "identified measures necessary" and are implementing solutions to improve this operation.

South African quarry operations produced R5.2 million profit on a divisional turnover of R60 million, nearly half the group's total turnover, while the North American operations suffered a small loss on a divisional turnover of R21.2 million.

Marlin's restructuring, which commenced late last year, is progressing well, the directors said.

Five new quarries had been opened and costs absorbed. The benefits would start to become apparent this year.

Marlin's North American operations were doing well and "significant profits" were expected to accrue from this source.

Rain had affected quarry production severely at the beginning of this year, "but has caused a shortage of material which is expected to keep market conditions strong.

With its increased range of materials, the directors expected Marlin's granite and quarry operations to perform well.

The rand's depreciation against the dollar also contributed to the bullish outlook.
Grinaker to steer Consol production line

Nicola Jenvey

DURBAN — Grinaker Projects & Properties has won a R165m contract to project manage the installation of a new production line for glass bottle manufacturer Consol, at its Bellville plant in Cape Town.

Project director Stuart Walls said the contract, won against eight competing companies, was "unusual and challenging."

In addition to project managing the construction of both the facility and a new 10 000m² warehouse, Grinaker would also be co-ordinating the installation of process equipment for the new production line. This included the installation of a furnace and bottle-making equipment in Bellville 4, the plant's new fourth production line.

Walls said an additional challenge was the on-site co-ordination required to keep the existing operations at Bellville working smoothly during construction.

Work has already started, with Grinaker's Cape civil engineering branch undertaking the earthworks and concrete structures.
"Defective cement' in firing line

Robyn Chalmers

THE Business Practices Committee would undertake a general investigation into the producers of portland-type cements and blends, chairman Louise Tager said yesterday.

The investigation follows concern that certain independent operations, which were being set up close to RDP projects and other developments, were selling defective cement that could jeopardise the projects.

Industry sources believed the operations were widespread in Gauteng and had extended to Mpumalanga, Northern Province and KwaZulu-Natal. A number of incidents were recently reported in Gauteng and KwaZulu-Natal, where the use of blended portland cement led to cracked houses and threats of boycotts.

Tager said the investigation would be undertaken on cements and cement blends which did not carry the SA Bureau of Standards (SABS) mark.

"The purpose of the investigation is to ensure that in the interests of safety and health, such products are fit for the purpose for which they are being used, including long-term durability."

Tager invited comment on the investigation, saying they could be submitted to the committee within 30 days from today. The investigation will coincide with a new cement standard being considered by the SABS.

SABS civil engineering and packaging director Ian Bennie said the bureau had recently conducted a number of tests on some of the blended cement and had been concerned about the quality. The main problem appeared to be that independent firms were using ordinary portland cement and blending it with incorrect proportions of waste materials as extenders which weakened the product.
Domestic growth boosts
PGSI income to R289.6m

Amanda Vermeulen

Plate Glass and Shatterprufe Industries (PGSI) boosted attributable income 58% to R289.6m for the year to March, fuelled by strong local demand.

Diluted share earnings increased 16% to 74c and a 33c (28c) dividend was declared.

PGSI offered a scrip alternative to the final dividend.

CEO Ronnie Lubner said the performance had been driven by strong domestic growth, with local demand preventing PGSI fully meeting export market requirements.

Lubner said that a rand's fall would fuel inflation and hurt business confidence, but would help Belron's performance. Earnings and dividends in the current year were likely to rise in real terms.

Turnover rose 20% to R4.5bn, of which R2.4bn was derived offshore.

Belron's difficulties, tough domestic automotive glass conditions, and problems facing PG Bison and PG Industries in Zimbabwe, cut into margins, leaving operating profit up 12% to R425.7m.

Financing costs jumped to R44.1m (R31.1m), with Bison's US deal lifting borrowings to R607.7m (R281.4m). Gearing at 52% (24%) was still below its self-imposed ceiling, and would fall this year provided there were no further acquisitions.

The tax rate fell to 21% from 27%, partly through utilisation of offshore assessed tax losses and SETC savings following the issue of scrip rather than cash dividends.

Income after tax was 17% higher at R306.3m. Capex rose to R560.3m (R183.2m).

Lubner said Belron's strategy of increasing penetration in targeted markets would continue. But the benefits of the US merger would begin to flow next year due to rationalisation costs.

The Glass SA division had been helped by firm international glass prices underpinning domestic building glass margins, but automotive glass prices remained under pressure. New capacity would meet offshore demand.

Production disruptions and a soft furniture market knocked PG Bison, but efforts to lift its competitiveness would pay off shortly.

The 45%-owned Zimbabwean operation was hurt by commissioning problems with related costs capitalised.
Depressed lime market and reduced demand hits PPC

By John Spira

Johannesburg — Pretoria Portland Cement (PFC), the cement and lime group, boosted attributable earnings by 9 percent to R97 million in the six months to March in the face of a depressed lime market and lower cement demand.

The interim dividend is 65c a share, 5c up on last year's interim. John Comensall, the managing director, said PPC Cement experienced a 1.5 percent decline in domestic cement volumes during the half year, mainly because of the effect of heavy rainfall on building and construction activity.

However, demand in the affected areas had recovered and was now in line with long-term forecasts.

Comensall said a drop in clinker exports combined with a decline in domestic volumes had reduced overall sales volumes by 3.9 percent. As a result, stock and debtors rose from R397 million to R332 million.

Comensall expected cement sales volumes in the second half of the financial year to exceed those of the same period last year.

He said sales volumes in PPC Lime had declined 7 percent due to a slowdown in demand and operational problems experienced by major customers. There had also been no increase in selling prices.

PPC had completed the most difficult phases of the break-up of the cement and lime carrels and believed the group's medium-term outlook was positive. Comensall said he expected attributable earnings for the year to rise at a rate similar to that of the first half.

Group operating profit was down 5 percent at R151.1 million but increases in interest and investment income resulted in pretax profit declining by only 3 percent to R142 million.

The effective tax rate came down from 39.4 to 32 percent, with the result that earnings rose 6 percent a share to R2.26.

Turnover was 22 percent higher at R688.4 million, but the directors said the figure was not comparable with the previous year because of the inclusion of delivery charges in invoices.
Building suppliers' shares plunge after slow growth

Robyn Chalmers

BUILDING material suppliers' shares, including Pepkor's Cashbuild and Imperial's Boumat, have plunged since April in anticipation of lower growth prospects for the building industry.

The fall is in line with the general drop in the building and construction index, which has fallen 31% to 8,663 since a year high of 9,964 at the end of January.

Other counters, including Pretoria Portland Cement and Anglo Alpha, have also moved sharply downwards over the past few months as expectations of an improvement in sales have failed to materialise.

The latest casualty in the building materials sector was Boumat, which last week reported earnings of R11,9m for the year to March against R22,6m for the previous year.

The counter closed yesterday 20c down at R14,70 from a high of R19 last month.

Chairman Bill Lynch said a view was taken last year that building material manufacturers would be unable to meet the demand from building projects initiated under the RDP.

"However, delivery under the RDP has been extremely slow and demand for building materials slumped and was well below expectations," he said.

Other suppliers have also been caught short, with brick sales lower than expected last year with industry volumes ranging about 6%

Cement sales of 8.5-million tons last year reflected an 8% increase in sales against the expected 10% rise.

The share price of Everite, the building materials supplier owned by Group Five, has levelled off recently to close unchanged at R29.50 yesterday from a year high of R10 in February.

It announced reduced share earnings of 8.8c (12.5c) in the six months to December.

Group Five executive chairman Theunis Kotze said Everite's expected sales volumes from the middle of last year had failed to materialise.

Building materials retailers had started destocking towards the end of last year, he said.

Cashbuild, whose share price has dropped from a 12-month high of R11.25 last May to close yesterday at R3.75, posted a 95% slump in attributable earnings at R552,000 for the year to February, mainly as a result of slow progress on the low-cost housing front.

Expectations for the current year are no better.

The Building Industries Federation of SA (Bifsa) has halved its growth estimates this year to 8% from 10% in the wake of the rand's collapse and the culture of high interest rates.

Bifsa executive director Ian Robinson does not, however, expect the low-cost housing sector to be significantly affected by the expected lower growth as the housing framework was now in place and housing delivery was starting to happen.

Building material suppliers expect that their main source of income this year is likely to come from low-cost housing projects, as well as government's focus on social infrastructure such as schools and clinics.
Homenet cements its ties with foreign firms

Lukanyo Mnyanda

REAL estate group Homenet has tied up with British property group Homelink and a Cape Town-based German business consultancy group, to take advantage of growing foreign interest in SA’s property market.

Homenet said Britain and Germany were generating the largest number of foreign-led property sales in the SA market, especially Cape Town holiday homes, and it wanted to provide buyers with first hand knowledge of local conditions.

Homelink was one of Britain’s largest real estate groups with 650 offices specialising in both domestic and international property referrals.

Homelink chairman Peter Pringle would cement the ties between the two groups when he addressed Homenet’s annual convention at the Wild Coast Sun next month.

Homenet said its penetration of the German market would be spearheaded by a media campaign and exposure at Germany’s largest property expo.

The Cape Town consultancy was also promoting commercial and industrial property investment opportunities to German multinational companies.

Homenet executive chairman Victor Webster said the group was making inroads into global markets through its journal, National Homefinder, which was distributed in Australasia, Europe, the Far East and North and South America.

Meanwhile, Seeff Residential said it was experiencing its strongest period of foreign buying “in many years”, with this year’s sales totalling about R50m.

It had sold two executive homes on the Atlantic seaboard to Germans last week, and Taiwanese buyers snatched up three northern area properties.

The Seeff agents who negotiated these deals for the seaboard homes said the buyers intended to settle in SA.

Seeff’s Hout Bay branch had concluded multi-million rand sales to foreign buyers in Llandudno. Manager Clive Hingston said the area was developing “a fairly large German community”.

The branch had achieved Llandudno’s highest prices, R3.2m and R3.1m.
No complaints lodged against cement merger

Lukanyo Mnyanda

THE Competition Board had so far received no formal complaint about the proposed merger of cement companies Alpha and Blue Circle but would continue its investigation, chairman Pierre Brooks said yesterday.

Government — which in 1994 ordered the scrapping of the industry’s long-running cartel — had also not made its views on the matter known, Brooks said. Interested parties still had about two weeks to make submissions.

Brooks said he did not expect the investigation to take long as the board had investigated the industry prior to recommending the cartel be scrapped and was “familiar with the issues”. It would hand its findings to Trade and Industry Minister Alec Erwin “within a month or two,” he said.

The proposed merger — which would give the merged company roughly 55% of the R2bn a year market — has received a favourable response from the industry. Several sources said it would cut costs and enhance international competitiveness.

Building Industries Federation of SA executive director Ian Robinson — who also expressed initial support — said he would discuss the merger with Alpha and Blue Circle this week before making a submission to the board.

“I view the proposed merger as non-threatening and I expect my submission to be positive,” Robinson said.

The board would also discuss the proposed merger with industry leader Pretoria Portland Cement but its views would not have a decisive influence on the final decision. “We’ll look at what the pro- and anti-competitive effects of the deal would be, and we want to hear what the different parties have to say on the matter.”
Black Group and British Partner

Black Group announced today that it has signed an agreement with the Black Group and British Partner. The agreement will see the Black Group and British Partner invest in a new development project in the East End of London. The project will be located on the site of the former Black Group and British Partner headquarters and will consist of a混合用途的开发项目

The Board

The Board met earlier this week to discuss the future of the company. The Board agreed that the company needs to take immediate action to improve its financial position. The Board has decided to sell assets and to cut costs in order to improve the company's cash flow. The Board has also decided to appoint a new chief executive officer to lead the company. The new chief executive officer will be responsible for implementing the board's new strategy.

By Jonathan Barber

Builders to Support Cement Market

Builders have said that they will support the cement market in the near future. The builders have indicated that they will increase their purchases of cement in order to meet the demand for construction projects. The builders have also said that they will work with the cement manufacturers to ensure that the quality of the cement is maintained.

By Jonathan Barber

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Cement industry plans new plants

By Jonathan Rosenthal

Johannesburg — The South African cement industry is planning to invest in several additional plants countrywide. The move comes despite flat growth in demand and the September dismantling of the cement producers’ cartel agreement, which is likely to put margins under pressure.

New plants on the cards include a 700 000 ton Alpha plant at Saldanha bay, a 600 000 ton Pretoria Portland Cement plant in Port Elizabeth and a 200 000 ton Blue Circle plant in Port Elizabeth.

Estimates put the industry’s total capacity at about 12 million tons a year. Last year, total cement consumption was about 8.4 million tons, 4.5 percent higher than the previous year.

Portland’s share of the market is estimated to be 45 percent. Blue Circle is believed to have 20 percent and Alpha 35 percent of the market.

Much of the proposed investment was strategic and aimed at penetrating Portland’s virtual monopoly in the Western and Eastern Cape. It was unlikely to yield high returns, one analyst said.

Alpha’s plans to expand into the Western Cape were a case in point. Though the Saldanha plant would create a glut by almost doubling the province’s supply, Alpha had no real choice but to challenge Portland head-on. By leaving it in control of the Western Cape market, Alpha ran the risk of allowing Portland to use higher margins in the Cape to put pressure on Gauteng prices, said the analyst.

Marco Gemina, a director of Alpha cement, said he expected the Western Cape market to grow by about 6 percent this year, while demand in the rest of the country remained relatively stable.

Alpha also has the option of exporting southwards into Africa and to the Indian Ocean islands to soften the blow of an R800 million investment likely to flood the provincial market. Similarly, Blue Circle’s proposals for an Eastern Cape plant are probably an attempt to chip away at Portland’s dominant position. Although kiln size is a significant factor in production costs, the high cost of transporting cement often tilts the balance in favour of smaller, less efficient kilns which are closer to their markets.

To break the Portland stronghold, Blue Circle and Alpha have to bear the risk of new plants. The two companies are engaged in merger talks, a proposal under scrutiny by the Competition Board. They would command about 35 percent of the market.

The merger would be unlikely to translate into significant cost savings in the short term in areas other than marketing and distribution.

Despite the appearances of an imminent blood-letting, there are few expectations that any of the producers would risk a serious contest for market share. The high capital intensity of cement manufacture makes a price war potentially devastating for all parties, something that analysts suggest is unlikely to happen.
Bitumen demand boosted by projects for new roads

Reinie Booyzen

DEMAND for bitumen — a by-product of crude oil refining used to tar road surfaces — is showing signs of recovery after years of decline, latest figures from Central Statistical Services show.

But the latest bitumen demand figure — a strong barometer of road-building and repairs — remained unhealthy, executives involved in the road-building and repair industry said.

The latest figures for the year-to-date showed that about 109 900 tons of bitumen were used from January to May, an increase of about 2% against the previous comparable period.

Market analysts said most of the growth, however, was due to the newly-built road sector. They said demand for bitumen to repair existing roads remained slack, although this could change over the next year or so.

Among the major new-building projects topping up the SA bitumen demand this year are the N2 in KwaZulu-Natal and the Pietersburg toll road in the Northern Province.

Road industry executives said SA’s road network had been badly neglected in the early 1990s.

Now that the rains were back, the issue was fast becoming critical, and road industry executives said they sensed a change of sentiment in government. One good sign was a recent proposal to Parliament by Maharaj to add an extra 8c a litre to the fuel price over the next two years to help pay for road maintenance.

The public reaction to the minister’s proposal has been remarkably muted, reinforcing our belief that there is general acceptance of the need for increased spending on road repairs,” said Orton.

He said the need for adequate roads was gaining political recognition as being fundamental to the development of the economy.

One of the major holdings was that the authorities in many provinces had yet to get their delivery structures up and running.

The Eastern Cape, Free State and Northern Cape provinces appeared to be among the least organised in this respect.

Orton said that if the politicians moved swiftly, the major bitumen suppliers — bitumen is a by-product of oil refining — could see demand rise by about 10% next year, according to Colas CE Paul Norton.
Tongaat plans to cut work force by 1,100

Nicola Jney

DURBAN — Tongaat-Hulett plans to trim its 22,000-strong work force by 5% this year as it enters the final phase of a long-running rationalisation drive.

MD Cedric Savage said yesterday the losses would stem from outsourcing non-core activities, and natural attrition.

Savage believed Tongaat, whose operations include aluminium, sugar and bricks, would optimise its labour requirements with the plans.

The group had a work force of 50,000 before the long-running cutbacks. The moves were vital to sharpening its competitive edge.

"The programme will produce a finely tuned internationally competitive group with a high proportion of youth in its management and skills within its work force," Savage said.

Early retirement encouraged four years ago had accelerated the natural attrition programme and the group’s affirmative action drive, he said.

The group had also rationalised its building materials division, including Corobrik, to match current sluggish demand.

Corobrik MD Harry Voorma said plans were under way to close its Maritzburg factory as outdated technology had rendered the plant inefficient.

The division was involved in “sensitive” negotiations with unions and the factory’s closure date still had to be decided. It would result in about 100 jobs being lost.

The group’s restructuring helped underpin a 41% rise in attributable income to R403,6m for the year to March, on sales just 5% higher at R4,1bn.

Tongaat is now engaged in a heavy expenditure drive. It is involved in a R2,5bn expansion at Hulett Aluminium, and is spending R720m on a starch and glucose factory at Klip River.

The group closed up 25c at R53 on the JSE yesterday, against a R63 year high in January.
Gefco puts its faith in bricks

By JEREMY WOODS

(198) 28/7/94

UNDER its blue asbestos roof, Gefco, the once high-flying asbestos producer, is being transformed into a building stock capable of producing over 16-million cement bricks a month.

Gefco's move into bricks and cement is part of a plan to reduce its dependence on the declining world asbestos market. "We are trying to steer the company away from its dependence on asbestos sales and into potential growth areas like bricks," says Gefco chairman Pat Hart.

Gefco bought its Vereeniging brickworks, one of the largest producers in Gauteng, last year and has been modernising the plant and reorganising the business in anticipation of an increase in RDP spending and increased demand for bricks. "RDP spending has been slow to come through in the economy, but as volumes at the brickworks increase, the brick business has the potential to match asbestos earnings." Meanwhile, Gefco's asbestos production is benefiting from the depreciation of the rand as sales are priced in dollars. "We will stay with asbestos as long as it makes a return. But the company is looking to diversify into local growth earnings."

To help achieve this, Gefco has about R22-million cash in the balance sheet, and a net asset value a share of close to R2, compared to a share price of 60c, with a historic dividend yield of 18%. Its market capitalisation is close to R21-million.

It also has "medium-sized" coal reserves it has prospected near Inge's colliery in Hendrina and these will be sold off rather than be developed by Gefco. Several buyers are showing interest, says Hart, but as yet no deal has been struck.

Gefco reports its interim results next month, which will benefit from the rand's depreciation, leading some analysts to believe the dividend will at least be maintained.
Buildmax is a buy for aggressive investors

By John Spira

Johannesburg — Buildmax, the building materials company making its JSE debut today, is considered a buy for investors with aggressive risk profiles.

Mark Ingham, an analyst at Franklin Pollak, said yesterday that Buildmax’s earnings a share would probably rise 22 percent next year and 30 percent the year after.

The company’s 23.4c a share earnings forecast for next year places the share on a forward multiple of 8.5. “As such the listing price of R2 is fairly pitched,” said Ingham.

The average multiple for the JSE’s building and construction sector is 13.1.

Ingham said Buildmax’s rating would be far above the average if the management could deliver a high-quality earnings stream over time.

Buildmax comprises three 50-year-old family businesses, each with dominant market positions.

In the year to March 31, the group achieved sales of R74 million and an operating profit of R5.5 million.

It earned a pro forma attributable profit of R4 million, giving earnings of 19.2c a share.

Next year, the company expects sales of R88.2 million, operating profit of R7.5 million, taxed attributable profit of R4.9 million, earning a share of 23.4c and a dividend of 7.8c a share.

Ingham said the cash raised from the listing would enhance growth in the next two years.

He also said the company would deliver superior returns if it husbanded its resources properly.

“Potential investors should judge Buildmax’s prospects on the basis of organic growth rather than on any RDP promise.”

“Should mass housing materialise, Buildmax will be ideally placed to gain incremental sales growth through demand for its range of products,” he said.

The listing of 21 million shares at R2 a share values Buildmax at R42 million.
Corobrik in R500m expansion

Nicola Jenvey

DURBAN — Tongaat-Hulett building materials division Corobrik planned to invest R500m over the next decade to expand capacity 50% to 1.5-billion bricks annually, executive chairman Errol Rutherford said yesterday.

Rutherford, who will retire in April next year after 31 years of service, said Corobrik had used the seven-year building decline to phase out older factories including Maritzburg, Bloemfontein and Briddene, where clay reserves had expired, outdated technology was used or where production was labour-intensive.

In the current year Corobrik would restructure management to remove partitions between Corobrik, Brick 'n' Tile and the Avoca administrative head office.

The division aimed to reduce administration to 12% of sales (19%), effectively cutting overheads by R28m.

Corobrik MD inland division Peter Du Toreu said capacity would be expanded on existing sites, allowing factories to benefit from economies of scale, modern production techniques and lower unit costs.

Corobrik expected product demand to grow consistently as the effects of the reconstruction and development programme were felt by the industry.

The short lead-times involved with expansions minimised project risks and allowed Corobrik to take advantage of any upswings.

Rutherford said sales volumes for the first quarter to June had increased 22% as the division benefited from increased public and private sector building. The division should contribute R548m (R430m) to group profit for the year to March.

Harry Voorma has been appointed MD manufacturing and sales Tongaat director JB Magwaza has been appointed building materials division non-executive chairman. Du Toreu would succeed Rutherford as executive chairman next year.
By Jan Beverley

Loving Planet
Investing in SA

BASF Weighs

Building a Presence

The future is not a certain event. It is a journey filled with opportunities and challenges. The decision to invest in South Africa is a testament to our commitment to growth and sustainable development. We are excited to be part of the dynamic and growing economy of South Africa, and we are committed to contributing to its development in a meaningful way.

Our investment in South Africa is a reflection of our long-standing commitment to innovation and excellence. We are confident that our expertise and experience will enable us to contribute significantly to the country's growth and development. We look forward to working closely with our partners and stakeholders to realize our vision for a better future.

By Jan Beverley

Building a Presence on ISE
Industry cartel soon to be disbanded

Big cement groups begin merger talks

Robyn Chalmers

CEMENT groups Alpha and Blue Circle are discussing a merger, just three months before the sector’s long-running cartel is to be disbanded.

The groups said yesterday the merged operation would command 55% of the R2bn-a-year market, giving it the upper hand over industry leader Pretoria Portland Cement (PPC).

The deal is subject to Competition Board clearance and the board has already launched a formal investigation.

Board chairman Pierre Brooks was unavailable last night, but industry sources said the board was unlikely to let the merger go through unimpeded.

The board recommended in September 1994 that the 25-year long cartel between the three cement companies be disbanded, leading the trade and industry department to give the producers two years to split the ring.

Alpha group MD Johan Pretorius said the talks had been initiated as a result of synergies that existed between the two organisations, particularly on distribution — the major obstacle for the players after the cartel goes.

“We believe it is a workable merger, and will lead to a highly competitive situation with two equally strong cement companies,” he said.

“We have said all along that we do not wish to start a price war and this will remain true should the merger go through. However, we will obviously attempt to defend our market share,” Blue Circle, which is owned by Murray & Roberts, said the merger would boost capacity and competition in the market.

Group financial director Derrick Theck said only Blue Circle’s cement business was involved.

The three groups have been battling for market share since the 1994 announcement and launched feasibility studies into new plants — at an estimated cost of R750m each.

Alpha — whose sales were R1.5bn in the year to December — is looking at Saldanha Bay, Nambwa, Western Cape and Mpumalanga, while PPC — with sales of R1.2bn for the year to September 1995 — is looking at the Eastern Province. Blue Circle is looking in the Eastern Cape.

PPC and Alpha have launched heavy marketing campaigns, while Blue Circle has maintained a lower profile.

Most of the companies’ factories are in western Gauteng, leading to increased transport costs.

Under the cartel, cement was distributed by Cement Distributors of SA, which is jointly owned by the three groups. This company will be dissolved in September.
Blue Circle, Alpha in merger negotiations to tackle larger rival PCG

ANY OFFENCES
Ball is on the roll for cement merger plans

By DON ROBERTSON

The proposed merger between cement producers Alpha and Blue Circle could get Competition Board approval within eight weeks, only a month before the 25-year old distribution cartel desbands.

John Pretorius, managing director of Alpha, says the Competition Board will publish details of the planned merger in Friday's Government Gazette.

A month will be allowed for submissions by interested parties to the Competition Board, and after further consideration recommendations will be made to the Minister of Trade and Industry.

The merger will also have to be agreed to by the boards of the two groups.

If the merger is approved, the combined Alpha/Blue Circle operation will have a 55% share of the R2-billion a year cement market and will presumably benefit from joint distribution facilities.

Under the existing cartel, cement was distributed through Cement Distributors of SA, which is owned by the three producers - Alpha, Blue Circle and PPC. This company stopped operating in December last year.

Pricing was then done independently, although a delivery quota system will remain in place until September.

John Gomersall, managing director of PPC, says approval of the merger has many hurdles to overcome, but we are, "not overly concerned" at the prospect of a joint company of this size becoming our competitor.

Mr Pretorius says talks were initiated after the synergies of the two powerful companies were assessed.

Mr Pretorius says approval of the merger is unlikely to result in a price war, although the necessary actions will be taken to protect market share.

Mr Gomersall confirmed PPC's commitment in September 1994, that it would keep cement price increases below inflation for three years to assist the RDP.
Proposed cement merger given positive response

Lukanyo Mnayanda

INVESTORS in Alpha and Blue Circle responded favourably on Friday to the companies' proposed merger of their cement operations. Alpha shares jumped 25c in a busy JSE trade, closing at R107.50 and breaking off its R105 year low, while Murray and Roberts — owner of Blue Circle—gained 20c to close at R17.95.

Industry leader Pretoria Portland Cement (PFC) shares were unchanged at R75.25.

Alpha group MD Johan Pretorius said the proposed merger would not dent the companies' individual feasibility studies into new plants.

Pretorius said the two companies had not discussed the possibility of bringing in new shareholders for the merged company, should it get the go-ahead from the Competition Board.

Industry sources said the merger, which would give the venture 55% of the market, would be good for the industry as it would cut costs and enhance international competitiveness.

They said PFC's presence in the market, with 45% of sales, would ensure local competition was not cramped.

Competition Board chairman Pierre Brooks confirmed the board had launched an investigation into the deal. He declined further comment.

The trade and industry department, which in 1994 ordered industries to scrap their cartel, also refused to comment.

Building Industries Federation of SA executive director Ian Robinson said the proposal would virtually restore the industry's cartel.

However, Robinson said he had never opposed the cartel and hoped the Competition Board would approve the merger. "There is a lot to be gained from rationalisation and there will still be competition. I hope the board will view it in a positive light."
Brooks ponders cement merger

By Roy Cokayne

Pretoria — Pierre Brooks, the chairman of the Competition Board, said yesterday that the crucial factor the board would have to consider in its formal investigation into the proposed merger between cement producers Blue Circle and Alpha, was the extent it would diminish or enhance competition.

Blue Circle is a subsidiary of Murray & Roberts Holdings.

If concluded, the merger will take place virtually on the eve of the withdrawal of the exemption granted to the cement industry in 1998, which allowed price collusion, collusive market sharing and collusion on the conditions of supply.

The parties concerned were given until September this year to dismantle the cartel.

In its 1999 annual report, the board, on withdrawing the exemption, said the agreements creating the cartel made it a monopoly throughout South Africa.

"This situation could no longer be condoned in the absence of clear, substantial overriding public interest benefits. The re-assessment showed that the principle beneficiaries of the cement cartel were the three members thereof," it said.

Brooks confirmed yesterday that formal notification of the investigation into the proposed merger would be published in the Government Gazette on Friday.

He said interested parties would have a month to respond or submit comments to the board on the proposed merger.

Brooks said it was premature for him to comment on the proposed merger. The board would have to wait and see what came out during the month-long period.

Interested parties had in which to make submissions to the board.

He said the board would particularly "like to hear from the building industry".

The proposed merger, which was announced in a joint cautionary notice by the two companies last week, would secure a 35 percent share in South Africa's estimated R2 billion-a-year cement market.

Estimates show that Pretoria Portland Cement hold the bulk of the market, with about 44 percent. Alpha holds about 25 percent and Blue Circle more than 20 percent.

Blue Circle and Alpha said the merged company would benefit from the potential synergies of the transaction and a stronger competitive position in the deregulated cement markets would result.
PPC not threatened by Alpha,
Blue Circle proposed merger

Nicola Jenvey (1996)

DURBAN — Cement company Pretoria Portland Cement (PPC) was not threatened by the proposed merger between competitors Alpha and Blue Circle and was unlikely to lodge an official complaint with the Competition Board, Kwazulu-Natal GM Dave Liddell said yesterday.

He said the industry's long-running cartel — which was to be disbanded in September — dictated that PPC supplied 45% of market requirements with another 35% from Alpha and 20% from Blue Circle. PPC was "confident" of realising an increased market share once cartel restrictions were removed.

Liddell believed the only advantages to the Alpha-Blue Circle proposal were increased capacity and a rationalisation of the distribution and marketing functions for the two groups.

PPC already had spare capacity available for growing its market share.

While speculations that the merger would build a new plant would take another six years to fruition, Alpha's sales in the year to December stood at R1.5bn compared to PPC's R1.2bn for the year to September 1995.

The three groups had been battling for market share since 1994 and had launched individual feasibility studies into new plants.

Alpha was looking at Saldanha Bay, Nambua, Western Cape and Mpumalanga and Blue Circle at the Eastern Cape, while PPC was considering the Eastern Cape, Gauteng and the Northern Province.

Under the cartel, cement producers had not been allowed to brand individual products.

Anticipating the new trading environment, PPC had launched a new purpose retail cement brand which removed the need for retailers and consumers to distinguish between products for differing applications.
Cement institute changes its name

Robyn Chalmers

THE Portland Cement Institute, the cement industry's technical and education arm for the past 58 years, has changed its name and some of its functions to slot into a post-cartel environment.

This comes as latest figures from the SA Cement Producers' Association showed total cement sales for the five months to end May were slightly lower at 3.75-million tons than last year's comparable figure of 3.78-million tons.

Analysts said yesterday the marginal fall in cement sales could be attributed largely to heavy rains in the first few months of the year which had depressed building activity.

Portland Cement Institute executive director Graham Greve said the organisation would change its name to the Cement and Concrete Institute.

The institute would continue to provide technical, advisory and educational services but would in future concentrate more on marketing -- particularly the promotion of concrete.

"Our marketing role will promote the use of concrete as a competitive, viable generic building material. This is largely the result of the break-up of the cement cartel, which will take place officially in September," he said.

Greve said the introduction of new manufacturing specifications for the cement industry would bring long-awaited protection benefits for the consumer.

The new specifications, scheduled for implementation this month, would lead to greater international acceptance for cement produced locally.

SA's cement specifications were based previously on the British standard, but Greve said producers and consumers had become aware of weaknesses in the specification and testing methods.

The major producers had voluntarily switched to manufacturing to the European standard about two years ago, while continuing to meet existing SA Bureau of Standards specifications.

"The European standard, which will apply soon to all local producers and blenders, will impose more stringent quality criteria on producers.

"The new standards might pose a threat to some low capital intensive blenders," some of whom had been producing inferior cement blends due to inappropriate proportions of blending materials.
RISING RAND HEDGE VALUE

PLATE GLASS & SHATTERPRUFE

The first of the industrial companies in the SA Breweries stable to report, Plate Glass (PGS) has returned a year of moderately good results bolstered by a strong indication of better to come.

Financial 1996's 16% improvement in

- **ACTIVITIES**: Makes, distributes and installs flat and automotive glass, makes, processes and distributes timber, board and alumimum products
- **CONTROL**: SA Breweries 50.3%
- **CHAIRMAN**: R Lubner
- **CAPITAL STRUCTURE**: 39.3m ords Market capitalisation R58bn
- **SHARE MARKET**: Price 14.70c Yields 2.3% on dividend, 5.1% on earnings p/e ratio, 19.7, cover, 2.2 12-month high, 17.00c, low, 12.90c Trading volume last quarter, 741 000 shares

Year to March 31 '93 '94 '95 '96
ST debt (Rm) 264 110 11 85
LT debt (Rm) 64 111 41 533
Debt equity ratio 0.52 0.24 0.23 0.52
Shareholders' equity 226 0.32 0.37 0.38
int & leasing cover 7.0 10.1 9.1 8.7
Return on cap (%) 15.8 19.6 19.3 17.5
Turnover (Rm) 2 775 3 237 3 772 4 526
Pre-adv profit (Rm) 270 359 389 432
Pre-net margin (%) 9.6 10.3 10.3 9.4
Earnings (c) 329 461 346 745
Ow dividend (c) 159 230 290 333
Divisible NAV (c) 1 273 1 750 2 074 2 192
* Substantially increased number of shares in issue

An element of PGS's portfolio which didn't do well over financial 1996 is PG Bison. It had a difficult year, with turnover rising 10% (to just over R1bn) and trading profit hit hard.

Operations are being squeezed at every level, it seems: domestic furniture demand slumped as consumer durable spending switched to electrical appliances and electronics; prices came under severe pressure from imports, margins on timber fell and average chemical costs increased sharply.

PGS's balance sheet now reflects net borrowings of R483m (gross R608m) — a gearing on total shareholders' funds of 52%. The comparison is harsh in financial 1995, net debt was R172m, gearing only 24% Lubner says this "remains within the self-imposed limit of 60%.

This almost implies that PGS's directors believe debt funding of as much as 60% of shareholders' funds is acceptable — however, many investors will prefer a more conservative approach and Lubner recognises this by conceding that "a meaningful reduction in gearing is anticipated in the current year unless major acquisitions are made.

It is also fair to note that PGS's foray into international markets was well timed. The cost of attempting to reproduce the company's foreign development from a standing start today — and from the unsteady base of a currency in difficulty — would be prohibitive. The foreign expansion gives PGS a decidedly rand hedge flavour.

With so much now dependent on external trading, a favourable factor is that the decline in the rand will produce immediate benefits for the bottom line. Earning any vast increases in issued capital, the FM estimates the company should produce EPS of about R3.5c — up about 25% That will put it on a forward p/e of 15.8 times, good value in these uncertain economic times — David Gleason.
Restructuring could cost PGSI up to $30m

Edward West

THE merger of Plate Glass and Shatterproof Industries (PGSI)’s US operations with that of Chicago-based Globe Glass could result in restructuring costs of $20m-$30m in the year to March 1997, PGSI financial director Mike Read said yesterday.

The merger, announced in January, created the largest automotive replacement glass group in the US, with a "highly fragmented" 15% market share spread across 42 states.

The deal was done through Windshields America, a subsidiary of PGSI’s offshore arm Belron.

Belron contributed R$6m in attributable profit to PGSI’s earnings of R$89.6m in the year to March.

PGSI operated 1,267 outlets and factories in 18 countries.

Read said once the restructuring was completed — a process involving the closure of some branches and the retrenchment of some personnel and management — the merged operation was expected show a real increase in profitability only in the 1998 financial year.

Globe Glass, through its trading company US Autoglass, had 105 branches and a network of 5,000 independent subcontractors.

Windshields America had 270 branches and a network of 2,500 subcontractors.

Read believed the contribution to group profits from the merger would be substantial.

Principal, Belron’s aim this year was to "settle down" the US merger and get its other operations, notably the French and German operations, into profitability.

PGSI was expected to increase profits in real terms this year.

In the year to March, PGSI lifted fully diluted earnings 17% to R$89.6m, fuelled by strong local demand.

In the company’s annual report, chairman and CEO Rennie Hulme said that PGSI intended to reduce its gearing — which was 52% at the last year-end — unless major acquisitions were made.
Better yields boost Kudu

David McKay

KUDU Granite lifted attributable earnings to R8.3m (1995: R5.5m) in the year to June after benefiting from higher yields from more scientific mining techniques.

The group said yesterday turnover increased to R116m (R106.4m) as the divisions in the group continued to make positive contributions. It was confident this trend would continue, improving profitability.

Earnings a share was 19.9c (13.7c) A final dividend of 3.5c a share would be paid in a capitalization share award to improve gearing Total dividend for the year increased to 6.5c (3.9c)

OK delays decision to retrench pending talks with Saccawu

Jacqueline Zaina

OK STORES would delay the decision on retrenching 198 employees, pending negotiations with the SA Clothing, Catering and Allied Workers Union (Saccawu), national chairman of the shop stewards’ council Alfred Makena said yesterday.

The union which had declared a dispute with the retailer earlier this week, claiming the company had negotiated in bad faith, had been notified in writing that the proposed retrenchments would be delayed until September 6, to allow the groups time to reconvene to discuss alternatives.

Makena said the union would discuss possible industrial action in relation to the dispute as it still believed the company had violated a recently signed job security agreement This had stipulated no job cuts should result from the OK’s restructuring. He said a national strike remained an option.

However, the union had agreed upon in the job security agreement were implemented. Among the initiatives likely to lead to a solution were worker flexibility and retraining.

The union had agreed that employees would work according to the retailer’s operational requirements rather than adhering strictly to job descriptions, to provide a solution to previous store closures and downsizing drives.

A decision by the retailer to extend trading hours to include Saturdays until 6pm and Sundays until 1pm would also alleviate the pressure on staff numbers, said Makena.

The union would be holding a national shop stewards’ council in Cape Town from August 9 to 12.

OK representatives were unavailable for comment yesterday afternoon.

PPC ready for challenges of free market

SA’s Pretoria Portland Cement (PPC) was well-positioned to compete in a deregulated cement market after 25 years of operating in a cartel, it said on Tuesday.

Addressing an investment analysts’ presentation, PPC said that since 1992 it had been preparing itself for the eventual scrapping of the cartel.

“With our spread of operations, sales depots, sales and distribution systems our spare capacity and ability to compete, we have the advantage to take on the challenges of a free market,” said Clive Tasker, cement division MD.

Under the cartel all distribution was done by Cement Distributors of SA (CDSA) — a business jointly owned by the country’s three major players, PPC, Alpha Ltd and Blue Circle, a unit of Murray & Roberts Holdings (M&R).

PPC had now taken charge of its own distribution, no longer having to subsidize loss-making distribution operations through CDSA, said Graham Fabian, coastal cement operations MD.

PPC was focused also on establishing relationships with customers through building brands which had not existed under the cartel system.

“Two years ago, as producers of cement, we did not have a relationship with customers It was all dealt with through the CDSA. This has changed fundamentally,” Tasker said.

PPC’s management said it was not concerned about the proposed merger of the cement operations of its competitors Alpha and Blue Circle.

It doubted whether the Competition Board would allow a consolidation of interests so soon after the break-up of the cartel. A merged group would have an estimated 55% share of the R2bn-a-year SA cement market, leapfrogging present market leader PPC.

Tasker forecast SA cement demand growing between 3% and 6% next year, with accelerated growth expected prior to the 1999 elections as government tried to deliver on election promises — Reuter
Kelgran’s income doubles to R20.4m

David McKay

GRANITE producer Kelgran doubled attributable income to R20.4m from the 1995 annualised figure of R9.8m for the year to June, benefiting from the refocusing of core business and shedding of its unprofitable operations.

As the previous reporting period was a 16-month period, financial and other results had been annualised in order to allow meaningful comparisons with the current reporting period, the company said.

Results in the review period excluded contributions from the company’s stevedoring activities which had been sold for R14.25m in July. The contributions had been incorporated into the previous financial year’s results.

MD Henry Laas said yesterday demand for granite remained strong, pushing turnover up to R269.5m (R288m).

Interest paid dropped to R4.9m (R7.2m), and combined with a marginal R60 000 increase in tax to R564 000, resulted in earnings after exceptional items increasing to 29.1c (13.9c). A final dividend of 9c (7.5c) was declared with total payout coming in at 16.5c (12.4c) a share.

Laas said Kelgran had decided in 1994 to focus on its core mining activities while adding value to its granite business.

This included the sale of its stevedoring business, the relocation of its Caesar tile factory to Newcastle and doubling production at its African Red quarries.

The company bolstered its granite business by buying Keetje Granite last month.

This made it less reliant on its Rustenburg operation, Laas said.

The 66.6% stake in Kelgran taken by Malaysian company Myscal Berhad from previous owners Gencor would allow it to have access to the construction market in the Far East.

A weak rand-dollar exchange rate would help the bottom line.

The outlook was also helped by growth in granite demand over the next two to three years, Laas said.

Capex was R1.6m (R17.6m), while a further R18.9m would be spent in the current year.
Preotona — Preotona Portland Cement is to build a R100 million plant at Saldanha Steel over two years after the award of a 15-year contract for materials handling and supply to Saldanha Steel.

In terms of the contract, PPC would finance and build the saddles, railway topplers and incoming materials-handling facilities that Saldanha Steel had intended for the site.

The first phase of the facility would come on stream towards the end of next year and the second phase by mid-1998.

PPC would supply lime and burnt dolomite; buy slag, coal fines and furnace-dust granules, and construct and manage a materials-handling facility, which would handle 1.5 million tons of materials a year.

The facility, which would employ about 40 people, would effectively handle all Saldanha Steel’s raw materials with the exception of iron ore. The metallurgical lime and burnt dolomite would be supplied from PPC’s Lime Acres factory in the Northern Cape.

PPC would in turn buy the 237 000 tons of granulated Corex slag generated by iron-making, which would be ground and then supplied from Saldanha at a competitive price to customers in the pre-mixed concrete, construction and concrete product manufacturing industries.

The slag would also be used to produce blended cements for the Western Cape market while coal fines and granules produced from the furnace dust at Saldanha Steel would be used by PPC in its Western Cape cement factories.

Tom Ferreira, the Saldanha Steel communications manager, said the value of PPC’s supplies to his company and the slag that was sold to PPC by Saldanha Steel would be about R50 million “both ways.”

John Comersall, the group managing director of PPC, said the plan was an extension of his company’s role as the main lime supplier to the South African steel industry.

He declined to put a value on the deal because of the variable tonnage in the long term.

Comersall said that members of PPC’s management team had previously worked in the steel industry and “were able to understand the customer’s needs”.

The operation would be established and managed by PPC Lime.

He said the investment would generate a good return but the benefits would not feature on the bottom line until 1999.
Cement and concrete producer’s operating costs rise

Cartel’s demise hurts Alpha

By Jonathan Rosenthal

Johannesburg — The imminent disbanding of the cement cartel in September has drawn first blood in the reduced margins and increased operating costs reported by cement and concrete producer Alpha for the six months to June 30.

"Increased costs associated with the termination of the cement cartel resulted in the operating margin declining from 21.1 percent last year to 14.8 percent," Johan Pretorius, the group managing director, said.

The three major cement manufacturers — PPC, Alpha and Blue Circle — have for the past few years sold cement partly through a central facility according to market sharing agreements.

In September, the companies will have to market and distribute cement in an open market.

Alpha managed to post a 9.9 percent rise in profit attributable to ordinary shareholders to R82 million, an increase from R74 million for the comparable period last year, despite heavy rains, reduced activity in the construction sector and the absence of significant RDP spending.

The rise in attributable profit is largely due to a reduced effective tax rate of 8 percent as a result of accelerated depreciation on capital expenditure on mines, which cushioned the blow of a 20 percent decline in profit before taxation to R723 million from last year’s R156 million.

Taking a bite out of attributable profit was a R7.3 million loss in Omuna Holdings, a fertiliser company, which left earnings a share at 273c, an increase from last year’s 249c.

Pretorius said Omuna’s results were not unusual due to the cyclical nature of its business and he predicted record profit for the full year.

The dividend remained unchanged at 80c.

Sales increased by 10 percent to R789 million but the cost of sales showed an increase of 18 percent to R553 million, cutting gross profit margins to 29.9 percent from 34 percent in 1995.

Pretorius attributed the increased operating costs to abnormal plant downtime; an significant increase in the delivered price of coal and transport costs previously borne by the cement industry’s central marketing facility, which ceased operations at the end of last year.

The stone and pre-mixed concrete division reported a 10 percent decline in sales and increased operating costs arising from the division entering the Natal and Cape pre-mixed markets, which dropped operating profit by 31 percent to R13.8 million.

"This position will improve as target sales volumes are achieved along the coast," Pretorius said.

Pretorius said that "the profit forecast contained in the 1995 chairman’s statement of achieving an increase for the year as whole slightly above inflation will now be difficult to achieve."
CONSOLIDATION ON AN INVESTMENT SPREE
room. Two other new quarries are being looked at.

Production in 1986 reached 300 000 tons (1985 224 000) Laas does not use the weather as an excuse but it undoubtedly led to a 50% loss of quarrying time in the first three months of the year.

Monumental slab production of 29 000m² was little changed on last year and tile production lower because the Casket tile factory was closed and production transferred to the Barracuda tile factory in Newcastle. Waste is being processed into paving material.

Sales volumes climbed 11.5% to 349 000 tons in the year to June, a showroom was opened at Midrand, and an architect has been engaged to promote the use of granite in construction. South Africa itself is the largest single market for Kelgran’s granite with 50 000 tons although Kelgran exports to more than 30 countries.

Since 1985, a 50 000-ton market has been established in Eastern Europe, and the East excluding Japan has grown by two thirds. Laas says Kelgran opted to enter Eastern Europe and supplied it in preference to some traditional destinations, whose markets will now be rebuilt.

Kelgran has two-man marketing offices in Beijing, Shanghai, Tokyo, Singapore and Monaco. As long as the cost of the offices is below the 5% of sales a commission agent would charge, they are cost effective. Laas says they operate on less than 3%. There is no office in the US, which took 9 000 tons direct this year, for several reasons the US is a big producer and beneficiator itself, and much of Kelgran’s sales into Europe reaches the US after further processing.

Kelgran has established a foothold in China through a 32% share in two small factories in China to which it exports finished slabs for further processing.

On prospects, Laas expects another two to three years of growth in granite demand, currently 15% year on year. Thereafter, the cycle will turn down, but not as severely as the last recession primarily because of new markets in Eastern Europe.

Kelgran’s biggest problem is meeting demand. It has totally sold all production until December. Expansion through acquisition looks certain. Yap says Mycom is looking elsewhere in Africa and beyond.

Prices of granite have generally firmed in dollar terms, more so in rand. Kelgran adjusts local prices to match those achieved from export.

The Kelgran share price is 450c, having climbed since the Mycom offer of 300c to the minority expired last month.

Other than reservations about its having overpaid for Ketler, the analysts I spoke to believe Kelgran a good prospect at the current price. Buy it.
A granite will to cut a profit profile marks Kelgran out

KELGRAN, the world's leading exporter of granite blocks, is coming in from the cold under current management. In the year to June 1996 Kelgran lifted attributable income to R35-million, earnings a share by 57% to 28,1c and paid 16,5c in dividend.

Kelgran started life many years ago under entrepreneur Fred Keeley, who listed the company in 1981. Initially, it met much success, but a few years later, during harder times, Keeley sold out to Gencor, which installed new and probably inexperienced management under Henry Laas. Kelgran became very much an unwanted sibling amid the huge international strides made by Gencor and it sold control of Kelgran to Malaysian international group Mycom Berhad with effect from 31 May 1996. Two years later, Laas is happy to report not only good results but that the management now has two years' experience.

Kelgran's previous reporting period was for the 12 months to June 1995 so comparative figures have been annualised. Turnover of R290-million for the year to June 1996 looks almost unchanged, but Laas says almost R60-million of low-margin turnover went with the sale of Kelgran's stevedoring operation on 1 July 1995. The interest cost of stevedoring was about equal to its profit contribution.

The sale helped to reduce gearing at Kelgran from 76% last year to 35% by June 1996. The acquisition of small granite producer Ketter will cost R35-million and bring borrowings of R20-million aboard. This will lift gearing to 55%, but Kelgran hopes to be back below 30% by year-end. "I too could have zero gearing in my balance sheet if I held a rights issue," says Laas, "but you have to look at returns on equity and assets." His table shows Kelgran's returns to be well above the sector's other participants, considering Kelgran's conservative accounting principles.

Ketter, for instance, capitalises development costs. It showed profit of 7c a share in its last nine-month reporting period, but when Kelgran applies its accounting standards to the same results, it becomes a loss of 34,5c a share.

"Was the equivalent of R35-million too much for this loss-maker?" Laas says it bought an additional 800m3 of African Red production which is not new supply but an existing market share, plus some assets and earthmoving equipment, which has become costly to import with the rand's turn. "And if we had not bought it, somebody else would have," notes Laas defiantly.

He says growth in demand for African Red is the highest in the world for any type of granite. He has developed the market for it and has consolidated our position as the biggest supplier. It also commands the highest profit margin of our range and we have none in stock."

The closest competitor is Indian stone Imperial Red, but supply has been interrupted by an Indian government decree that granite must be beneficiated before export. Imperial is perhaps 25% more expensive and guarantees of supply and quality is dubious. For construction use, African Red must be specified for any volume."

Mycom has 64.3% of Kelgran, which is chaired by Dato' Yap Yew Seong. Mycom has invested R193-million in Kelgran and is prepared to put more in.
Anglovaal's Consol beats decline in the economy

PACKAGING and rubber manufacturer Consol increased earnings 17% to R229.5m in the year to June, overcoming a substantially weaker performance induced by the decline in the economy in the second half.

The Anglovaal subsidiary's earnings a share rose 17% to 387c. Dividends a share rose to 102c (36c), with dividend cover kept at 3.5 times.

Group MD Piet Nestling said yesterday he did not expect the economy to improve at a meaningfully higher level than in the last six months of the year under review. However, the group could realise earnings growth from cost and efficiency improvements.

Group turnover rose 11% to R3.22bn, with packaging sales up 16% to R1.5bn and sales from the group's rubber interests up 8% to R1.23bn. Operating profit rose 15% to R369.3m.

Reflecting the slump in activity in the second half, paper packaging turnover grew only 8% compared with 25% growth in the first half. Similarly, glass packaging sales grew 3% compared with 18% in the first half.

Consol

Continued from Page 1

pared with 18% in the first half.

Net financing costs increased 52% to R87.2m. Debt to equity climbed to 48% from 37%. Net borrowings stood at R529m at year-end, a figure which was expected to decrease by about R150m by the end of this financial year.

The glass division's capital expenditure would continue at a relatively high rate, resulting in a further increase in financing costs.

The plastics division started making operating profits from November, but a loss was reported for the full year due to high restructuring and retrenchment costs.

Tyre manufacturer Tycon reported a decline in virtually all sectors, except sales into the new vehicle market.

The paper packaging division reported a meaningful improvement in profit. However, the paper and board packaging industry experienced its largest increase recorded in the cost of its principle raw materials.
Low investment in infrastructure affects cement industry's sales

Robyn Chalmers

CEMENT sales rose marginally to 5.45-million tons in the first seven months of the year, against 5.4-million tons for the same period last year, SA Cement Producers Association (Sacapa) figures show.

Analysts said yesterday the seven-month statistics indicated that even the more modest annual growth figures of between 4% and 5% expected by local cement companies appeared overstated.

One analyst said there were a number of reasons behind the lower-than-expected sales, notably the low level of public and private sector investment in infrastructure, but this should pick up over the next year.

"We are starting to see increased delivery on the low-cost housing front, but it is coming off a low base and has not yet gained enough momentum to boost the sale of cement or other building materials," another analyst said.

Other factors which may have affected cement sales in the previous year during April, May and June include the wind down of major contracts such as Alusaf and Columbus Stainless Steel, which had yet to be replaced, and heavy weather conditions earlier in the year.

The Sacapa figures show cement sales started comparatively well, with sales rising to more than 678 800 tons in January from 563 400 tons in the same month last year, and to 1.4-million tons (1.8-million tons) in February. Sales were virtually static in March at 2.1-million tons and grew only marginally over the same
Squatters in Simondium get facilities, hope for a home...

ESAFIN DE KOCK
Staff Reporter

SQUATTERS in Simondium are to receive water and toilets - thanks to farmers in the area who agreed, during a meeting of the Simondium Task Group, to provide the facilities.

The task group was formed to find housing for the area's homeless.

African National Congress MP Ben Turok said it was decided to provide the two squatter communities in the area with water and toilets.

This decision was taken thanks to agreement from the Winelands District Council, one of the groups represented on the task group.

Professor Turok said other decisions taken included calling a meeting of all national, provincial, local and community authorities to sort out border problems in an effort to find suitable, permanent housing.

The group also decided to write to three different ministers calling for their co-operation in terms of the allocation of land to develop housing for the farm workers and the homeless of Simondium.

The only objection to moves so far have come from some of the farmers, said Professor Turok, who felt the process was moving too quickly.

They wanted a professionally conducted survey on housing needs and possibilities, and envisaged an “agri-village” for the retired people instead of a development for the use of all homeless people in the area.

“We can’t agree with them. Our object is to provide housing for all the workers and homeless people who live in the area,” said Professor Turok. He said the group registered their objection as well as the objections by landowners who felt a housing development would spoil the area.

“The meeting decided to carry on with the programme and we’ve asked minister Derek Hanekom - Minister of Land Affairs - to give us the Meerlust land for the development or to provide an alternative. The main thing here is the will of the government. If the government is determined, we’ll find a way to provide for the housing needs in this area.”
NPC to decide this week on new R21m cement silo

By Stuart Rutherford

Durban — Natal Portland Cement (NPC), KwaZulu Natal's only producer of cement, will decide this week on whether to go ahead with a 14 000-ton storage silo in Durban at a cost of R21 million.

Raimund Weber, the managing director of NPC, said the project has been approved by the Durban metro council and it would go before the board on Wednesday.

Weber said the silo would take about 14 months to construct and would enable them to mill continually and store any excesses.

The company is already investing R30 million in two 50-ton crushing rollers and associated equipment such as cement transport systems and a state-of-the-art separator.

The additional roller press will increase output by about 20 percent to more than 1 million tons a year when it starts in January, and will provide a significant boost to the company, which presently has 12 percent of South African market.

"The roller press will help meet the growing demand for cement in KwaZulu Natal as well as offset periodic shortages."

An additional R14 million has been budgeted this year for the acquisition of four 35-ton silos which will be hired out to customers working at construction sites and will be continually refilled by NPC.
Move will create the largest independent construction company in Africa

Group Five to swallow Everite

By Marc Hasenfuss
CAPETOWN — Group Five, the R2.5 billion a year construction company, will absorb Everite, its building products manufacturing subsidiary, in a restructuring aimed at supporting a growth programme for the next five years.

The move, which will create the largest independent construction company in Africa, was not entirely unexpected. A construction industry analyst said: “Recently the views of certain analysts were canvassed about a simpler corporate structure at Group Five, so we knew something was happening.”

Group Five owns 52.1 percent of Everite Holdings, which in turn holds 57.4 percent of the Everite Group. The new arrangement will result in a share swap of one Group Five share for two Everite shares.

Both Everite companies will be deleted, while Group Five’s issued shares will increase from 41.6 million to 73.6 million. Group Five’s largest minority shareholders, Old Mutual and Fedlife, have approved the restructuring proposal.

The additional 31.8 million shares will be classified as N shares, which rank equally with ordinary shares but carry fewer voting rights.

Group Five’s management will thus retain the voting control of the group in a consortium with Group Five Holdings and SM Goldstein, a 45 percent-owned subsidiary that is also listed on the JSE.

The combined company will have six main operating divisions — building, civils, engineering, roads and earthworks, and properties and manufacturing. Infrastructural concessions is expected to become a seventh division shortly.

Theuns Kotzee, the chief executive officer of Group Five, said Everite had substantial assets but made a low return on them, while Group Five had a small capital base on which it made good returns.

One analyst expected Group Five’s earnings to rise 25 percent in the year to June 30, with Everite’s earnings falling to 10c a share from 35c a share last year.

Kotzee said the group’s combined capital took the company to another level of operation. He said Group Five’s total resources at the 1990 year-end were R16 million, but that strong growth took them to R122 million by last year.

“If we had restructured last year, our resources would have leapt near to R400 million. This rates us up to a different plane by giving us far greater firepower for such activities as acquisitions and capital development,” he said.

Kotzee said Group Five had taken a long-term view with the restructuring. “There will be many intangible benefits.”

“We have consistently had the top price-to-earnings ratio of the listed construction companies this year. We hope the restructuring is seen as another step in cementing this perception of the company,” he said.

He said the restructuring created more shares and potentially more tradability.
Masonite suffers as demand falls

By Stuart Rutherford

Durban — Depressed local demand for hardwood products saw Masonite's earnings after tax drop 39 percent to R4.6 million for the six months to June 30, from R7.8 million in the same period last year.

The Durban-based building materials company's earnings a share fell from 115c to 70c and a dividend of 12c was declared (20c).

The slump in results came despite a slight increase in turnover to R94.4 million from R93.3 million last year, and an earnings boost of R2.2 million, the result of decentralisation incentives.

Alan Wilson, the chairman of Masonite, said the company's domestic sales were 8 percent lower than last year, owing to an inventory reduction by stockists and a slowdown in sales to the furniture manufacturing sector.

"I think a lot of credit cards that were issued have soaked up the system's available credit capacity, and furniture relies on people's ability to buy on long purchase," he said.

He said the export market, which accounted for about 35 percent of Masonite's business, had also suffered from lower levels of activity, a 20 percent drop in world prices and oversupply.

"The overvalued rand during the early part of the year made it difficult to sell the Estcourt plant's capacity, resulting in forced production cutbacks totalling 15 days."

Wilson said he was confident, however, that with the depreciation of the rand and the recovery of the cyclical local furniture markets, Masonite would significantly improve its performance in the second half of the year.

"We are not going to exceed last year's increases in earnings (of 33 percent), but we won't be far off it," he said.

\[\text{See Business Watch}\]
Masonite earnings fall as demand lags

Nicola Jenvey

DURBAN — Construction group Masonite Africa saw post-tax earnings slashed 40% to R4.8m in the six months ended June due to depressed local demand for hardboard products and reduced sales to furniture manufacturers.

Net earnings dropped to 70c from 115c previously and a 12c (26c) interim dividend was declared. Turnover rose to R94.4m from R89.3m despite an 8% drop in sales volumes over the corresponding period.

Chairman and MD Alan Wilson said this was due to the agreement with FZ Zimbabwe whereby Masonite marketed its product in SA. The arrangement had come on stream during the first quarter.

Operating income also dropped (49% to R6.5m) and a R290 000 net interest expense (R160 000 income) was incurred by the group, leaving the pre-taxation earnings at R8.2m (R12.3m). However, this was boosted by a R2.2m decentralisation allowance which Masonite received for locating the plant at Estcourt. The tax bill fell to R1.4m compared to R1.6m for the corresponding period.

Wilson said export markets had suffered from lower activity and oversupply, leading to downward pressure on prices. The overvalued rand in the early part of the year had also made it difficult to sell the Estcourt plant’s capacity, effectively forcing a 15-day production cutback.

The group had not recovered fixed costs at the plant during this time.

Looking to the full year, Wilson believed most of the local markets were recovering and — boosted by the lower rand value to assist exports — sales were expected to be stronger.
Constructive Force

Dumpling Pounds Everest's Height

Disappointing results hold back Group Five's performance
Material cost hikes concern for industry

Robyn Chalmers
(9:30)

The cost of living has soared so are all the items that go into the production of goods. The problem is not just limited to the housing industry but also to the manufacturing sector. The cost of transport, fuel, and materials has increased significantly. With the global economy in flux, the problem seems to be spreading worldwide. The government has introduced price controls, but the problem remains unresolved. It is crucial for businesses to find ways to cope with these increased costs.
Cementing Relations

The latest project to rouse the ire of the environmental lobby in the Western Cape is Anglo Alpha's proposed R745m cement factory at Saldanha Bay.

Actions by the lobby have beleaguered industrial development in billion-rand projects — including Iscor's Saldanha Steel. In the case of Saldanha Steel, the environmentalists' actions forced Iscor to re-site the plant nearly 2 km from the original plan — which resulted in costly delays. Also affected is the proposed Iran-SA oil storage facility for 15m barrels of crude oil.

In the latest campaign against the cement plant, the "greens" have called for an environmental survey looking at 13 specialist studies.

But a new development in the saga may yet save the day.

Though initially opposed to the greens lobby, the village of Vredenburg now says the matter can be negotiated. Town clerk John de Klerk says "Until recently, we had no time for them — they were stopping desperately needed development and job creation in this area." But, he says, the town has now realised the need to come to terms with the environmentalists for the sake of progress in the community.

This has led to the establishment of a committee of experts to evaluate all developments in what is accepted as an environmentally sensitive area. De Klerk now finds that this committee is working so well that he is prepared to advocate the model for the rest of the country.

"I think that every province should have an eco-evaluation committee in this way. Important industrial development need not be hampered by ecological considerations. Nor will progress be impeded."

Vredenburg may just be the catalyst Anglo Alpha needs.
though, the magic of the past year cannot be reproduced in 1997. These are not stocks for fortune seekers but they do promise ample reward for those with patience. David Gleason

**CONSOL**

**SPENDING MOUNTS UP**

Faced with soft markets and another three years of substantial capital expenditure, Consol is braced for the load. The annual report depicts a group holding its own so far.

- **ACTIVITIES**: Manufactures and markets glass, plastics and paper packaging and tableware, manufactures, markets and distributes new and retreaded tyres and industrial rubber stock.
- **CONTROL**: Anglovold Industries 63.1%
- **CHAIRMAN**: J C Robbertze MD PJ Neethling.
- **CAPITAL STRUCTURE**: 64.4m ords Market capitalisation R2.8bn.
- **SHARE MARKET**: Price 4.350c Yields 2.3% on dividend, 8.3% on earnings p e ratio, 12.0, cover, 3.6 12-month high, 5.350c, low, 3.700c Trading volume last quarter, 570 466 shares.

<table>
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<th>Year to June</th>
<th>'93</th>
<th>'94</th>
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<th>'96</th>
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<td>2 977</td>
<td>3 220</td>
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<td>Dividends (c)</td>
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A good first half in 1996 outperformed the slowdown in the second half to deliver full-year growth in turnover of 11%, with operating profit up 15% and margins returned to 1994's 11.7% (11.4%).

The biggest short-term drain on resources has been the capex programme — though the long-term benefits of moving to world-class manufacturing equipment and standards should more than justify the expense.

Capex for 1996 totalled R286m. In 1997, it is budgeted at R480m — R180m for a new furnace and production lines at the Bellville plant. For the following two years, cash spend will drop to R300m, to be funded from cash flow and debt.

Group MD Piet Neethling says much of the 1996 capex also went to the glass division. As the SA glass packaging industry cannot get the economies of scale available to the many times larger European industry, it's competitive edge must be derived from modern technology.

The installation of an SAP R3 information technology system, which will replace a number of older systems, was also begun in the first half of this year.

A drawback of such major capital expenditure is the disruptive effect on normal operations, where productivity has fallen. But where refurbishment is complete, benefits should start flowing.

Negative cash flow improved to R133m from last year's R170m, though it was below the forecast R100m. Neethling says capex costs rose because of the weaker rand.

However, the capex programme is expected to peak in the current financial year. Cash flow will be about R140m negative and net borrowing will reach about R670m, but in 1998 cash flow should turn negative (about R40m-R50m) and debt will decrease.

The increase in net borrowings pushed gearing to 43%, which is high but not unmanageable. Neethling stresses that the development programme was carefully planned and is on time and within cost limits. Provided the markets hold up, the group should be back to producing strong positive cash flows by 2000.

Another improbability in the equation is the reappearance of Goodyear on the scene. It is considering a move back into the local company, though Neethling says the options are still wide open.

One possibility is the US company's acquisition of a controlling shareholding and the separate listing of the glass and tyre divisions. "The likelihood is more than zero," says Neethling. It would also inject a hefty chunk of cash into the balance sheet. A key issue for the Americans is the rationalisation of product lines from about 300 to 100 and a restructuring of the import-export balance. Neethling says that management wants to do this, anyway, to "take the cost down in the plant."

The rand's weakening by about 25% is also starting to stem the uncontrolled inflow of imported tyres. The market appears to favour the negotiations with Goodyear. The share price has risen steadily since the talks were announced — its appreciation helped by the 17% increase in headline EPS.

Analysts believe the glass/rubber combination hurts the share's rating. "The p e is a mix of both sectors, which makes it fuzzy," says one. "If the two businesses were split, it would be possible to value both more accurately."

Consol's p e of 12 has lagged that of packaging companies Nampak (19.8) and Kohler (14.2).

Consol is seen as undervalued. One analyst says headline EPS of 357c could easily be repeated next year and unbundling — should it occur — could unlock more value. Margaret-Anne Hall.

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**SOUND FINANCIALS**

1995 SOURCE: LENT 1995
THE proposed merger between Alpha and Murray & Roberts Holdings' Blue Circle had a major setback on Friday when the deal was blocked by the Competition Board.

The board said it would recommend to Trade and Industry Minister Alec Erwin that he not allow the merger to go ahead. The board's action is the first in some time that has blocked a deal in its entirety. Previously, it preferred to attach conditions to a deal rather than throw it out completely.

Analysts see the move as a precursor to a tougher competition policy stance by the government, which is currently drafting new competition legislation. If Erwin decides to follow the board's recommendation it will be a second major blow to the cement industry.

The 25-year-old cement cartel, which includes Blue Circle, Anglo Alpha and their major rival Pretoria Portland Cement, disbanded on September 30 following a Competition Board recommendation in September 1994.

The two companies were hoping their merger would be ratified by the board beforehand. They announced in June that they wanted to merge their cement businesses into a new group which would have 38% of the R2-billion-a-year market.

The board said on Friday that "after careful consideration of all the relevant facts and arguments it was decided to recommend to the minister that the merger should not be allowed."

The board concluded that with little prospect of new rivals entering the market as well as the negligible threat of imports, there were insufficient market pressures after the merger to ensure that these efficiencies would filter through to benefit end users of cement.

Alpha managing director Johan Pretorius said on Friday he was surprised and disappointed by the board's recommendation. "We do not agree with it, but it is not the end of the world. For years we have been preparing for the cartel to break up and without the deal we will carry on as we had prepared to do."

However, he said Alpha still intended to fight the decision. The full recommendation would reach the minister only towards the end of next week, after which the companies would be allowed to give a final presentation on the matter.

Blue Circle chief executive Carl Grim said it was at this stage only a recommendation and the minister would have to make the final decision. "We are still firmly of the view that the two equally sized cement companies will provide a more efficient industry and a competitive environment which will be better for the consumer."

According to the board, it was not convinced that the merger would be in the interests of the public. The two companies had not satisfied it that on balance the potential public interest benefits outweighed the anti-competitive effects of the merger.

Under the cartel agreement, cement was distributed through Cement Distributors of SA, owned by the three producers. After the company stopped operating in December last year, pricing was done independently but a delivery quota system remained in place.

'Merger talks between Alpha and Blue Circle centered largely around distribution synergies as distribution was expected to be a major problem when the cartel disbanded. The companies said the merger would increase competition by allowing them to increase efficiencies.'

At a press conference on Friday, Erwin said new competition policy would be tabled at the National Economic, Development and Labour Council in mid-October.

His said his department would attempt at the meeting to achieve consensus on policy, so that Nedlac negotiations could be completed by the end of January and legislation tabled in Parliament during the first part of the 1997 session.

Erwin said the government was under a "tremendous amount of pressure" to get competition policy legislation passed as soon as possible.

Little information has to date emerged on whether Erwin will include tougher anti-trust measures as part of the package.
Appeal to minister to overturn board's ruling on cement merger
Erwin foresees dispute on competition policy

Greta Steyn

TRADE and Industry Minister Alec Erwin signalled on Friday that he expected major disagreements with business on competition policy.

Erwin was speaking at a briefing arranged by the National Economic Development and Labour Council (Nedlac). The briefing was held after a session between government, labour and business on industrial policy.

Erwin said government would attempt to reach consensus in Nedlac on competition policy principles. “We may not be able to reach full consensus but we will try.”

He also spelled out a timetable for changing competition legislation and acknowledged that government had been dragging its heels on the issue.

In mid-October a policy discussion document would be put on the table for negotiations in Nedlac. Legal experts would also be drafting legislative changes, to be completed by January.

Continued on Page 2

**Competition**

Continued from Page 1

and new legislation would be tabled in Parliament early next year. Public hearings would be held by the trade and industry portfolio committee.

Trade and industry business convener Stefan Naudé said that once discussions began to focus on detail rather than process and broad direction, disagreements would emerge. Not only competition policy, but other aspects of trade and industry strategy — such as the social plan to cushion workers from restructuring — would be resisted.

The business sector also had problems with aspects of the trade and industry department’s plans for industrial clusters.

Labour signalled that it had shifted its stance on productivity. Convener Herbert Musiwe said: “We have always associated productivity with ugly things, with the result that the debate has been polarised, but labour is beginning to shift its mindset.”

Workshops were being planned for next month to sensitise workers to what productivity was, how it could be improved and how it could help enhance SA’s competitive advantage.

Problems with capacity in Nedlac, especially on the labour side, were also addressed. Erwin said it was not a case of “government lecturing to labour”, but unions had to improve capacity to make a contribution to policy making.
Erwin awaits merger submissions

Robyn Chalmers

TRADE and Industry Minister Alec Erwin would make a decision on the proposed merger between Alpha and Blue Circle only after receiving written submissions from the companies, a spokesman said yesterday.

The spokesman said Erwin had not adopted any position on the proposed merger and would look closely at the proposal before doing so. The Competition Board has recommended the merger be blocked, saying end users are unlikely to benefit, but Alpha and Blue Circle said they would ask government to overrule the board.

The share price of Pretoria Portland Cement (PPC) — Alpha's main rival — rose strongly yesterday on news of the blocked merger, gaining R1 to close at R70. The share prices of Alpha and Murray Roberts — Blue Circle's holding company — also rose yesterday to close 50c higher at R92.50 and 35c higher at R16.85 respectively.

However, analysts said the higher share prices of Alpha and M&R were unlikely to be a direct result of the board's recommendation as the benefits of a merger would be long term.

PPC and Alpha have both weathered a steady drop in their share prices since January, largely as a result of the high costs associated with phasing out the 25-year-old cement cartel.

Alpha's share price fell from an eight-year high of R154 in February to a 12-month low of R89.75 last month. PPC's share price followed a similar trend, falling from a 12-month high of R108 in January this year to a one-year low of R66.25 towards the end of August.

Analysts said yesterday that lower-than-expected demand for cement had dampened the outlook for the three cement companies this year.

The cartel was officially dissolved at the beginning of this month, forcing cement companies to market and distribute cement in an open market. Alpha was the first to show the effects of the cement cartel breaking up, reporting a decline in the operating margin to 14.8% from 21.1% for the six months ended June due to higher operating costs.

Group MD Johan Pretorius said Alpha had to pay hefty transport costs previously borne by the cement industry's central marketing distribution facility, Cement Distributors SA, which stopped operating in December last year.

Analysts said other factors which could have affected confidence in the sector were the absence of any significant RDP spending, which led to a dip in demand for cement products.
Saldanha cement project faces the axe

Alpha warns it may kill R800m plant

By Jonathan Rosezfeld

Johannesburg — Alpha, the cement and building supplies group, has significantly raised the stakes in its bid to rescue its planned merger with Blue Circle from a Competition Board veto by threatening to drop its plans to build a R800 million cement plant in Saldanha.

Rowan Dent, Alpha's director of corporate communications, said the board’s finding that the merger should be blocked “had cast the Saldanha plant in a different light”.

“In a merged situation, the Saldanha plant was almost definitely going to go ahead, but now we may have to change the configuration of our entry into that market,” he said.

Alpha and Blue Circle will make a joint submission in support of the merger to Alec Erwin, the trade and industry minister, in the next two weeks.

Dent said the companies would argue that a merger would increase competition in the market and would be in the interests of the consumer, despite the Competition Board’s findings to the contrary.

“Competition between two strong companies would be better than the fragmented competition of two smaller companies against PPC, the other major player, which currently has 45 percent of the market.

“We also believe that it would be in the interests of the consumer to break PPC's monopoly in the Western Cape.”

The proposed plant, which would have a capacity of 700,000 tons of cement a year, would challenge the dominant position held

by PPC in the Western Cape, Dent said.

PPC is the biggest cement producer in the country.

The merged group would have a market share of 55 percent and would probably gain control of Natal Portland Cement, a joint venture between all three producers.

If Alpha and Blue Circle merge, the new company would have the financial muscle to fund the project and the region would be opened to greater competition.

Dent said there were potential synergies between Alpha and Blue Circle in the areas of distribution and limestone reserves. The merged group would also be in a position to challenge PPC in the Eastern Cape through the construction of a plant in East London.

He said a merged company would be in a strong position because economies of scale dictated the building of larger, more efficient kilns, which would lower production costs.

Studies conducted by Alpha have found that it could achieve capital savings of R200 million by building a single 1.8 million ton-a-year kiln, rather than two kilns of half the size, which would probably happen if the merger does not go ahead.

“We don’t understand the Competition Board’s reluctance to have only two producers when Coke and Pepsi have demonstrated what competition you can get from two major players,” Dent said.

He said Alpha was continuing with an environmental impact assessment on the Saldanha plant and it would take a final decision towards the end of the year or early next year.
Merger will cement top position

COMP
Tensions on township building centres

By Jonathan Rosenhal

Johannesburg — Dan Mofokeng, the Gauteng MEC for housing, met with building materials merchants yesterday to head off tensions over government plans to establish township building material distribution centres.

Mofokeng unveiled the plan that would combine advice services with initiatives to ensure the cheap supply of building materials.

The national government had already allocated R150 million to support the establishment of these centres. The Gauteng government would provide additional funds for 16 centres in the next year.

Mofokeng said building materials cost more in townships than in traditionally white areas.

This had put a brake on government's plans to encourage people to build their own homes.

Mofokeng said the government wanted to shorten the supply chain and ensure that materials were delivered in bulk to township hardware stores. This move could result in wholesale merchants and retailers being bypassed.

He said government planned to set up these centres in existing retailers in the townships.

Building supplies merchants contested the plan, arguing that the existing supply chain was adequate but that lack of credit and high costs pushed up the costs of supplying to emerging contractors and township hardware stores.

Instead of an overhaul of the existing chain, they argued that government resources would be better spent on providing credit guarantees and support to black builders and retailers.

Establishing new supply centres would only duplicate existing infrastructure and threaten the existence of small, black hardware stores in the townships.

The marketing manager of a retail chain argued that the government should rather allow market forces to govern the supply of materials and prices, which would fall in the townships as demand increased.
He says the positive impact of the IDC report includes the formation of a Nama- cam raw materials committee and the fact that cluster participants are now listening to one another’s problems.

Addy Panzer: “We are all being brought into the real world, especially as we have to face up to the fact that local vehicle manufacturers are importing increasing volumes of completed components. The challenge is to prove we can compete not only on quality and delivery but also on price”.

NOT SET IN STONE

The Competition Board’s decision to reject a merger between cement producers Alpha and Blue Circle has been met with disappointment among major users, who believe it would have fostered competition and kept prices on a leash.

But market leader PPC (Pretoria Portland Cement) MD John Gomersall says the decision was to be expected “I would have been surprised had the board agreed to the merger, considering the way it deregulated the industry and abolished the cement cartel. This will disband at the end of this month.”

The board felt the government-sponsored protection enjoyed by the cartel was the main reason for the industry’s healthy margins and solid returns on shareholders’ funds.

Though a merger would have created a rival potentially bigger than PPC — which now has 43% of the SA market — Gomersall adds “It would have been business as usual had the Competition Board allowed the merger, and it’s still business as usual now that it hasn’t.”

Building Industries Federation of SA (Bifsaa) president Stephen Jones says more than half its 5,600 members favoured the merger Jones — who does business in the Western Cape, where PPC is the only supplier — says “The merger would have been a better option. Competition from another supplier would possibly have forced prices down.”

SA Federation of Civil Engineering Contractors executive director Nick Velleite also says there were benefits in a merger “Large isn’t necessarily ugly. If there are good business reasons, and the product has to be competitive internationally, I’d say yes. If it makes the industry more viable because of economies of scale, it’s in everyone’s favour. I would have been against the merger only if it meant creating another cartel.”

Alpha finance and administration director Trevor Wagner says rejection of the merger, if it stands, will add substantially to costs — both for the suitors and their customers.

“Before talk of merger we were planning to increase production by 1,2m t/year and Blue Circle was considering increasing its production by 600 000 t/year. Had we merged we could have built one plant to produce 1,8m t/year at either our Dudefield factory or at Blue Circle’s Lichtenberg factory, which is 20 km away.”

We could have saved more than R200m — or 30% — had we built one big unit instead of two. A bigger kiln is more efficient in terms of energy and fixed costs.”

Blue Circle chairman Carl Grin adds that all is not lost, and Trade & Industry Minister Alec Irwin may see matters differently. Grin says “The Competition Board made a recommendation to the Minister, who will allow us to state our case. From the executive summary, it seems the board may have misinterpreted some of the points we made and we’ll correct that with the Minister.”

The board, in rejecting the merger, says it’s “not satisfied that, on balance, the potential public interest benefits outweigh the anticompetitive effects of the merger.” It’s also concerned that, had the merger been allowed, the new company would have dominated the inland market (68%, according to PPC) and its position in KwaZulu-Natal would have been entrenched. This despite the fact that there are already de facto monopolies elsewhere in SA.

The only producer in the province — Natal Portland Cement, owned by Alpha, PPC and Blue Circle — would have been controlled by the new entity. "But, says Grin, "we told the board we were flexible about dealing with Natal Portland Cement. It never gave us an opportunity to demonstrate our flexibility, which concerns us.”

FINANCIAL MAIL • SEPTEMBER 20 • 1996
PPC accuses Alpha of misrepresentation

**Robyn Chalmers**

A ROW has broken out between cement industry rivals Pretoria Portland Cement (PPC) and Alpha in the build-up to government’s decision on Alpha’s proposed merger with Blue Circle.

PPC yesterday accused Alpha of misrepresenting PPC’s position in the market “in its efforts to persuade government to overturn the Competition Board’s ruling and allow it to merge with Blue Circle”.

PPC group MD John Gomersall said it would be business as usual whether or not the merger went ahead. However, it was misleading of Alpha to portray PPC as a “giant” and to suggest Alpha would not build a cement plant in Saldanha because the Competition Board had vetoed the merger.

“They allege that we have a 45% market share, but the cement industry’s official sales statistics for 1996 show that PPC had 26% market share compared with Alpha’s share of 30% and Blue Circle’s 18%.

“The combined share of Alpha and Blue Circle was therefore 48%, with the balance of the market held by Natal Portland Cement (14%) and Slagment (2%).”

He said Alpha had claimed that PPC had a monopoly in the Western Cape, but while PPC was the sole manufacturer in the region there was no reason why Alpha could not import cement from other regions in SA or from offshore, Gomersall said.

Alpha corporate communications director Rowan Dent said PPC’s figures excluded their share of Natal Portland Cement sales. For years the market shares of Alpha, Blue Circle and PPC had been quoted as 36%, 20% and 45% respectively, which PPC had never disputed.

Dent said “To say that Alpha on its own is of similar size to PPC is factually incorrect.”

He said Alpha had never stated it would drop its plans to build a cement plant in Saldanha.
Ceramic Industries shines as operating profit jumps

CERAMIC Industries held down costs to produce an operating profit of R18.3m for the year ended July, 1996 — 30.5% up on the previous year, the group reported yesterday.

Turnover was marginally higher at R134.46m (R130.464m) and attributable income likewise at R14.682m (R14.259m). A final dividend of 9c a share was declared, bringing the total dividend on the 10c due to taxation which the company is now paying at the full rate 60/9/96.
Cement Industry, Unlikely to Meet Growth Forecast
Group Five looks offshore to make good the lack of SA work

Robyn Chalmers

CONSTRUCTION and building materials business Group Five had been forced to look offshore to counter declining private sector work in SA.

Chairman Stanley Goldstein said in the group's 1996 annual report that the organisation operated in an environment where the level of private fixed investment was an index of growth.

"This had been disappointing and is set to decline because of investors' perceptions," he said. "Because of this we are devoting energy to identify opportunities, local and offshore, in order to ensure our continuing growth, which we code name 'Growth 2000'."

CEO Theo van Kotze said at the recent release of the group's results for the year to June that an international partner was being sought in a region where fixed investment spending was growing fast. He hoped the group would find such a partner in the next year or two.

Kotze said in the annual report that profits grew above the trend in the construction industry during the review period, partly as a result of the group's focus on the goals set out in the Growth 2000 strategy.

"I said last year that we were realising a third of our potential and despite more difficult conditions than expected, we have made material advances," he said.

Group Five's attributable income rose to R35,65m (R26m) on higher turnover of R1,7bn from R1,4bn for the previous year. This was despite a sharp drop in Everite's profits to R1,8m from R21,5m. A total dividend of 20c was declared against 14c for the previous year, while dividend cover dipped to 4,2 from 4,4 in 1995 which in turn fell from 7,5 in 1994.

The share was trading at 980c on the JSE on Monday, against a R12,75c year high in March and a 326,5c net asset value at the June year end.

Kotze said a key part of the strategy was the autonomous management of its divisions — building, civils, engineering, manufacturing, roads, property and the proposed infrastructural concessions. As a result of this strategy, the building division had broadened its services and extended alliances with smaller, emerging builders, while the civils division was developing special skills in labour intensive rural projects.

Everite's poor performance was mainly due to SA's lower trade barriers coupled with the dumping of goods. In addition, a programme of closing and selling businesses had led to considerable losses, but it should be finalised in the current financial year.
SA cement cartel finally cracks up

Johannesburg—The cement cartel, under which South Africa's three cement manufacturers, PPC, Alpha and Blue Circle, jointly marketed and distributed cement, drew to an end at midnight last night. This comes after 20 years of officially sanctioned protection.

The Competition Board revoked the cement industry's exemption, which allowed producers to operate under a market-sharing agreement, about two years ago. Since then, the three protagonists have already lined up or acquired trucking companies for distribution, launched new branded products and dusted off their marketing manuals.

In the past year, the three have been pushing for market share in a highly competitive environment.

The only difference between today and yesterday is that the three will no longer be able to sit down and discuss the market with each other. Marco Gormuna, the director of Alpha Cement, said yesterday.

Piet Strauss, the managing director of Blue Circle Cement, said the demise of the cartel could usher in a period of increased competition, innovation and attention to the needs of customers.

See Opinion & Analysis,
CEMENT COMPETITION

This merger is not set in stone

By Jonathan Rosenthal

A Competition Board ruling last month found that the merger would not necessarily be in the interests of the consumer and recommended that the merger be vetoed.

Alpha and Blue Circle will make a joint submission to Erwin, calling on him to allow the merger to proceed.

The future of Slagment and NPC remains uncertain in a post-cartel environment with no clear indications of how the two companies will compete against their shareholders. PPC is concerned that if a merger goes ahead, its position as a minority shareholder in the two companies would be untenable.

In a merged scenario, with both Slagment and NPC in the hands of the new group, PPC would overnight find itself facing competition in the inland market with a 67 percent share of that market. Discounting its sales to Slagment and NPC, PPC’s national market share last year was about 36 percent, said the 45 percent attributed to it by its competitors.

While not explicitly opposed to the merger, PPC last week hit out at arguments that it is “the industry Goliath” which would dominate the post-cartel market unless a merger was allowed. It has also contested the argument that greater economies of scale would lower producer prices.

Alpha claimed that building a single 1.6 million-ton-a-year kiln would cost R200 million less than building two smaller kilns if the merger was blocked. PPC has claimed that in a market as small as South Africa’s, economies of scale effect marginal differences on producer prices.

Clearly high in the mind of Erwin is the fact that cement is not an easily transported commodity, reducing the possibility of imports providing a competitive safety net if domestic prices beat an upward path out of proportion to world prices.

Despite this, domestic producers insist that South Africa’s cement prices are among the world’s lowest. Imports could theoretically challenge coastal markets were it not for competitive pricing, the industry says.

But high barriers to entry and the difficulty of distributing cement without an existing network militates against any short-term market entrants. Cement lore is filled with stories of importers who brought in shiploads, only to get caught out by the vagaries of a floating rand or difficulties of running a bagging operation from the docks.

More importantly, steel, plastic and other building materials pose an alternative to cement that forces producers to maintain competitive pricing, the industry contends.

Notably absent has been any public criticism of the merger by the consumers in whose interests the Competition Board has ruled. Only the Building Industries Federation of South Africa has made its opinion known, and that was to endorse the merger.

Ian Robinson, the executive director of the federation, told the Competition Board that he believed the merger would benefit consumers. But within his own organisation were murmurings of discontent and unease at the merger, sources have said.

While interested parties had the opportunity to make representations to the Competition Board, its rather terse public statements have not hinted at the content of these submissions.

Many within the industry believe that Erwin’s decision is likely to be as motivated by the political considerations of an ANC industrial policy that favours greater competition as the ultimate effects on the industry.

Many also believe that despite the posturing and rhetoric, the significance of the merger has been overplayed. With or without the merger, none of the producers is likely to enter into a price war. The high volume and low value of cement makes proximity to markets the primary competitive factor. It seems safe to assume that, merger or not, consumers should expect no great upheavals.
Concrete makers are all set but still wait for RDP funds

JAMES LAMONT

Johannesburg — A dramatic leap in demand for concrete building materials after the 1994 elections has trailed off this year, Anton Matthews, the president of the Concrete Manufacturers’ Association, said yesterday.

He said new investment and business confidence had lifted demand after the elections, but growth had since stagnated because expected funds for the RDP had not come through.

He said the industry, which produces masonry, paving, roof tiles, precast slabs and lining blocks, was well positioned for the needs of the RDP and was adapting production to the low-cost housing market. "It’s not the industry or pricing that is the problem, it is how the government moves its money into the sector," Matthews said. "If the money is released there is a good future for the industry."

Patrick Kelly, the association’s director, said that despite the surge in demand the industry was still producing at only 35 percent capacity.

The association represents about 25 producers. Industry turnover last year was R1.6 billion of which the association’s members accounted for R700 million.

Matthews said to maintain the quality of concrete products in the industry, which was attracting many new entrants because the entry cost was low, the association would have to broaden its membership and offer technical assistance.
New monitor for building costs

Robyn Chalmers

A survey of building materials used in the low-cost housing market shows that prices have risen 5.1% on an annualised basis this year, well below the inflation rate of about 6.9%.

Building Materials Suppliers of SA (BMSSA) chairman George Thomas said yesterday the exercise had been undertaken to counter perceptions that building material prices were soaring. The monitor would now be published on a regular basis.

The Building Industries Federation of SA (Bifisa) has said building material prices rose 11.8% on average in 1995 against an overall inflation rate of 8.7%. These figures have been refuted by the BMSSA.

Bifisa executive director Ian Roberson said with materials representing between 50% and 55% of contractors' input prices, BMSSA members should stick to their commitment of price discipline made in the housing accord.

Thomas said the monitor's findings had already been informally discussed with government, and would be submitted to Housing Minister Sankie Mhembu-Mabuanye, who has warned against any profiteering on the part of suppliers.

The monitor showed that the average building material cost of a 42.25m² house in the low-cost housing market varied from R17 206 to a high of R20 516.

The variations were mainly due to price differences between regions and were based on a survey of blocks and bricks, prefab or site trusses and premix or site mix concrete.
Alpha assessment is still on target

Mark Wood, an independent environmental specialist co-ordinating the assessment, said a number of workshops and open days on the proposed development had been held to discuss issues with concerned stakeholders.

Alpha group MD Johan Pretorius said a final decision on whether to go ahead with the factory and lime quarry would not be taken until the results of the impact assessment had been fully assessed.

"We have committed ourselves to conducting our business in an environmentally sustainable manner," he said.

Major factors contributing to Alpha's investigation of the viability of the project included the existence of significant limestone reserves at Saldanha. They are the only remaining viable reserves for a 600 000 ton a year capacity plant in the Western Cape.

The coastal location would also enable Alpha to export to international markets via an international port of export.

Although 70% of SA cement is produced at four large inland factories, none has been exported by ocean from these factories for the past 15 years.

Robyn Chalmers

The environmental impact assessment for the proposed Alpha Cement factory and lime quarry in Saldanha Bay remains on target for completion by the end of the year, the organisation said at the weekend.

There had been objections to the project, largely from environmentalists Alpha has already said it could view its investment in a different light following the Competition Board's recommendation against its proposed merger with Blue Circle.

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Although 70% of SA cement is produced at four large inland factories, none has been exported by ocean from these factories for the past 15 years.
Cement producers tone down growth forecast for this year

Robyn Chalmers

THE SA Cement Producers' Association has downgraded its growth forecast in total cement sales for this year to 2%-3%, against 6% growth last year.

The reduced forecast comes as Trade and Industry Minister Alec Erwin is expected to make a final decision this week on the proposed merger between Alpha and Blue Circle cement producers. Both companies say the merger is vital if a powerful competitor is to be created for SA's current major producer, Pretoria Portland Cement.

The association's 1995 annual review, released yesterday, said a significant increase in the growth rate of the building and construction industry was expected early this year.

Since then, a number of factors had reduced the level of optimism, including devaluation in the rand's value, an increase in interest rates and a dramatic increase in fuel prices. However, it was still believed that the industry was in a growth phase.

With the possibility of the Olympic Games being held in Cape Town in 2004 and the tourism industry growing, accelerated facility development could begin to have an impact on the cement industry towards the end of this year or the beginning of next.

The building and construction industry was expected to benefit from government's economic growth strategy along with the uptick in low-cost housing delivery. However, real growth in the industry was unlikely to be above the 2% level.

The review showed domestic demand for cement last year reached a total of 8,539 million tons, a 6,6% increase on the previous year, exported cement dropped 32,5% to 76620 tons and total cement sales rose 6% to 8,47% million tons.
Blue Circle to decide on new East Cape kiln

Robyn Chalmers
26/10/96

BLUE Circle Cement is to decide in May whether to invest between R750m and R1.2bn in a new kiln in the Eastern Cape to boost its capacity.

CE Carl Grim said an environmental impact assessment was under way to assess the feasibility of building a new kiln near East London — where some opposition was being met from environmental groups. The alternative was to add capacity at its Lichtenburg location.

"We are running out of capacity, but the decision will largely depend on demand. If the market is flat, we may well decide to postpone the decision," he said.

Grim said the proposed Alpha and Blue Circle merger would also affect the nature of Blue Circle's investment.

Grim said a combined group could invest in a bigger kiln of up to R1.2bn in East London due to capital and operating efficiencies, which a single entity would be hard-pressed to do.

The Competition Board recently recommended the merger should not be allowed, but the companies said they would appeal to Trade and Industry Minister Alec Erwin. They have yet to have a hearing.

Grim said Blue Circle had implemented a range of steps to position the company for a competitive market environment, including a number of acquisitions.

The company had been transformed into a market-oriented and administratively independent business, he said in this year's annual report of Murray & Roberts — Blue Circle Cement's holding company.

Blue Circle had secured its position in Northern Province and Mpumalanga by acquiring the remaining 60% of Petromix. It had also bought 49.9% of African Portland Cement in Nambha and embarked on a programme to upgrade its cement manufacturing capability.

Grim said a further 185,000 tons had been added to Blue Circle's cement capacity following completion of the uprating of the Lichtenburg No 5 kiln.

The need to refocus the company as a market-oriented organisation followed the disbanding of the cement cartel at the end of September.

Cement supplies had been distributed through Cement Distributors SA, a company owned jointly by Alpha, Pretoria Portland Cement (PPC) and Blue Circle which served the bulk of SA's inland regions.

Grim said M&R's materials operating group, under which Blue Circle falls, had a difficult year to end-June, with general activity levels reflecting the negative gross domestic fixed investment and building and construction growth statistics.

Division turnover climbed to R2.24bn (R1.698bn) with operating earnings before interest and tax rising to R244m (R233m).

The group had, he said, planned capital programmes of R640m for the next three years.
Campagnier, MazeyRetiresEarly fromSappi
**FACING MARKET WEAKNESS**

After the events of 1996, no-one would blame CEO Graham Hardy for keeping his fingers crossed that his first year in office would not prove typical of his tenure at the helm of M&R.

- **ACTIVITIES:** Contracting, building materials, transport and engineering
- **CONTROL:** Sankorp 32.9%
- **CHAIRMAN:** D C Brink, CEO G D Hardy
- **CAPITAL STRUCTURE:** 346m ords Market capitalisation R5 846.2m
- **SHARE MARKET:** Price 1 690c: Yields 2.9% on dividend, 6.4% on earnings, p/e ratio 15.5, cover: 2.2 12-month high, 2 850c, low, 1 375c Trading volume last quarter, 15m shares

<table>
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The annual report leaves the impression that profits were under siege on most fronts. The event that received the most publicity — though, arguably, not the most important in terms of the disappointing group results — was the dispute that erupted between Siemens AG and M&R's 71% subsidiary, Union Carnage & Wagon (UCW) over the supply of rapid transit tram sets to Taiwan.

It resulted in the cancellation of the contract between these two companies, and the R160m provision that M&R raised in its 1996 financial statements to cover potential losses.

Though this was a severe blow, the financial effects were largely offset by a non-operating surplus of R127.4m earned on the disposal of noncore activities. After the R7.7m deficit in 1995, the turn here exceeded R135m, leaving the combined effect of these two extraordinary items as a R25m drain on pre-tax profit (4% of the 1995 figure). Damage to EPS should have been limited to less than 5c or about a quarter of the actual decline of 17c.

These effects were less damaging than the R42m (18%) increase in the net depreciation charge arising from a much larger fixed asset base and the R62m (52%) leap in finance costs as net borrowings doubled to R905m.

Both these, in turn, were less important than the amount "missing" from profit because of thinner trading margins. Calculated before the UCW situation and non-operating capital profits, the 1996 margin shrank from 7.9% to 6.8%. On a turnover base of R107bn, that represented a profit shortfall of R18m.

From this it is apparent that the overwhelming factor behind M&R's failure to achieve its forecast real improvement in earnings was the continued decline in the building and construction component of gross domestic fixed investment.

This, in turn, meant the group was unable to benefit from additional capacity installed in anticipation of an RDP-based bonanza instead it has had to contend with a business environment that has remained intensely competitive.

It also adds perspective to the latest (and continuing) restructuring and refocusing programmes.

Clearly, what management hopes to achieve by telescoping the group into fewer, more broadly based divisions is enhanced profitability through more effective overhead recoveries and, possibly, improved cross-pollination of expertise within these larger business units, but without diminishing its capacity to respond when the building and construction cycle turns positive — as it must do at some stage.

However, the report suggests it would be unwise to view this restructuring progress as a quick fix.

Chairman Dave Brink sees the group in 1997 "producing earnings and dividends which will be more enthusiastically received by shareholders."

But Hardy cautions that despite the significant increase expected in pre-interest profit, bottom-line earnings will depend on the extent and timing of disposals of noncore activities. This is an obvious reference to the fact that almost a quarter of last year's pre-tax profit was non-operating income.

Still, management's continuing optimism despite last year's setbacks has probably helped support the investment rating of the share.

Though the price halved between January and August before settling at around R7, the market has merely downgraded M&R to parity with the industrial holding sector (on earnings multiples). Last year it achieved a premium rating when an 18% EPS advance was taken as a sign that the group was breaking out of a three-year earnings plateau.

That assumption proved premature but, clearly, there is still a wide body of investor opinion that shares management's view that the group will perform once more normal conditions return to the building and construction sector. Brian Thompson
Alpha gets big Northwest contract

Robyn Chalmers

CEMENT group Alpha has taken on a R417m contract to supply cement and ready-mixed concrete to the Northwest Builders Federation which is building the province's new schools project.

The project aims to establish more than 140 schools in the province during a period of five years with Alpha the sole supplier of cement and ready-mix concrete to federation members.

Federation president Dan Elliot said after a presentation to the federation, it was decided to form a partnership with Alpha as the major cement distributor in Northwest.

"The role Alpha has been playing, and especially its focus on empowering historically disadvantaged contractors, was an important deciding factor," he said.

Alpha group MD Johan Pretorius said the contract was fiercely bid for. He believed the firm's partnership approach to local communities and authorities might affect the decision.

Pretorius said the RDP building programme was likely to gain momentum next year and beyond. Alpha first set up a presence in the province with its Dudfield factory in 1966, later developing a wide distribution network of cement and ready-mix concrete depots.
Alpha wins R24m contract for RDP project

MAGGIE ROWLEY

Cape Town — Alpha has won a R24 million contract to supply cement and pre-mixed concrete to the North West Builders Federation for the construction of 140 schools and clinics in North West Province.

The R417 million, five year project is one of the largest reconstruction and development projects to get under way to date and should start rolling by early January, according to John Pretorius, the group managing director of Alpha.

He said yesterday that the contract made Alpha the sole supplier of cement and pre-mixed concrete to the project.

Alpha would supply material for the project from its cement plant in the Lichtenburg area and from concrete depots in the province, which would have the advantage of reducing on site piling, Pretorius said.

He said North West Province was leading the way with its RDP building programme but Alpha expected other provinces to follow suit and the RDP to gather momentum next year.

Danny Elliott, the head of the North West Builders’ Federation, which comprises 33 local organisations and represent more than 1,200 emerging and established contractors, said the programme represented phase four of the building project.

Construction tenders would go out next month with adjudication likely to be completed by early next year. Phase three, consisting of 74 projects, was nearing completion, Elliott said.
Tiles being dumped in SA

A probe had been launched into the alleged dumping of ceramic wall and floor tiles from Italy on the South African market, the Board on Trade and Trade said.

In a notice in the Government Gazette, the board said a petition to this end had been lodged by the SA Ceramic Tile Manufacturers' Association (Sactma), which said its members were unable to compete with the low prices of imported products. The board said Sactma had submitted sufficient evidence to justify an investigation. It called on interested parties to submit written information before November 25. - Sapa
Grand jury could dent Plate Glass

(1986)

ANN COTY

Johannesburg — Plate Glass & Shatterproof Industries' (PGSI) international division Belron is the subject of a grand jury investigation in the US, which could dent the company's financial position if the court rules against the South African company's US operation, South African Breweries (SAB), its ultimate controlling shareholder, said.

If any charges were filed against Belron's US operation and were "adversely determined, a material adverse effect on PGSI's results of operations or financial condition could ultimately result," according to a document published recently by SAB.

In the circular, which was sent to potential international investors ahead of SAB's recent $410 million share placement, SAB said that, from time to time, Belron had been "and continues to be subject to antitrust complaints and disputes, many originating with competitors and other private parties, but PGSI believes such matters have not been, and are not expected to be, material to PGSI's results of operations."

There is one qualification, however.

Windshields America, the Belron subsidiary that recently merged with Globe Glass to form one of the four largest automotive glass replacement and repair companies in the US, is one of the subjects of a federal grand jury investigation in the US. Globe Glass is also the subject of the investigation.

"The matters being investigated have not been formally set forth, but appear to involve allegations of 'anti-competitive conduct' on the part of the four big players in the market, SAB said.
Cartel break-up ‘will hit PPC’s bottom line’

Robyn Chalmers

PRETORIA Portland Cement (PPC) is expected to produce either static share earnings or a marginal increase to 800c (484.4c) for the year ended September as the break-up of the cartel hits the group’s bottom line.

Analysts’ expectations of static to slower earnings growth when the results are released on Thursday are reflected in PPC’s share price, which has lost R5.50 over the past month and closed 25c lower on Friday at R69.

Higher costs associated with the termination of the cartel include the acquisition of distribution businesses, increased distribution costs and marketing costs.

One analyst said PPC was likely to be less affected than rivals Alpha and Blue Circle as the organisation had between 36% and 40% of the market, allowing it to benefit from economies of scale.

“PPC has a virtual monopoly in the Western Cape which should help it weather the breakup. However, we expect that next year will be difficult for all cement groups.”

Another analyst said poor RDP progress and a slowdown in construction had affected cement sales and volumes were static.

The SA Cement Producers’ Association recently downgraded its growth forecast in total cement sales for this year to 2%-3% against 6% growth last year. PPC restructured during the year to September last year to position it for a post-cartel environment. The cement businesses were reorganised into regional business units and teams were put in place with responsibility for the performance of these units.

During that year, PPC increased share earnings 24% to 484.4c on a 22% rise in turnover to R1.2bn, while the dividend was raised 14% to 285c. Analysts said it was expected to produce a dividend of around 800c this year.

They said they expected further information to be released on PPC’s plans to build new cement plants. These could include an update on the R100m plant at Saldanha Steel, a possible R700m plant at Grassridge in the Eastern Cape and feasibility studies on new plants in Gauteng and the Northern Province.
PPC clinches 3% profit after difficult year

Robyn Chalmers

PRETORIA Portland Cement produced a 3% rise in after-tax profit to R200.3m for the year to September, following a difficult year of transition from cartel to free markets for the cement and lime businesses.

Net attributable profit increased 20% to R193.6m after a sharp drop in exceptional items a lower tax rate. Share earnings after exceptional items climbed 17% to 450.2c.

An unchanged final dividend of 205c was declared, bringing the total divided to 290c (285c), with share earnings before exceptional items remaining static at 464.8c.

Group MD John Gomersall said the results represented a solid performance despite the difficult transition.

"An improvement in the contribution of the lime division together with marginal growth in cement demand should lead to higher group earnings (in the current year)," he said.

Turnover increased 25% to R1,586m but this was not directly comparable with the previous year due to inclusion of delivery charges in cement sales, the consolidation of a further 45% of Airpax, and the start of the transport division's operations.

Operating profit before interest paid and tax declined 4% to R304.3m owing to a lower contribution from PPC Lime.

Exceptional items of R9.4m consisted mainly of closure costs of operations associated with the termination of the cement cartel. This provision was 82% lower than the R51.7m provided last year for post-retirement medical aid benefits.

The effective tax rate declined to 32.2% from 37.2% last year after the reduction of STC to 12.5%, which reduced the tax bill to R92m (1995 R56.4m).

Gomersall said the cement division maintained profits in a flat domestic market despite higher costs linked to establishment of sales and distribution infrastructure needed for the new business environment created by dissolution of the cartel.

Domestic cement sales volumes for cement increased 0.4% from the previous year while a reduction in exports to 243,000 tons from 323,000 tons was "mostly timing-related."

The lime division had a tough year in which sales volumes declined 13% and margins had been hit by the absence of a price increase at the end of the previous year, he said.

Gomersall said investments and other businesses had performed well, posting a 29% increase at the operating level.
**Building Materials Company's Operating Profit Drops**

Week cement market weighs

Next year cement demand, said Peter Connelly, chair of the Construction Materials Council, is expected to be lower than in previous years. "We're seeing a shift in the market," he said. "The demand for cement is declining due to the economic slowdown."
Plate Glass drops short of expectations

Edward West

PLATE Glass and Shatterprufe Industries (PGSI) fell short of forecasts for the six months to September, reporting a 3% fall in attributable profit to R124.8m despite a 57% rise in turnover to R3.3bn.

The group said the disappointing interim result was largely due to depressed conditions in the local board and glass market. Share earnings for the SA Breweries-owned group fell 28% to 31c. The interim dividend was held at 14c and an optional capitalisation share award was made.

Chairman Ronnie Lubner said earnings failed to meet expectations and PGSI would have difficulty matching the results of last year's second half. At the end of the past financial year the group forecast a real increase in earnings.

Lubner said offshore interests had

Continued on Page 2

Plate Glass

Continued from Page 1

flourished during the first half. The "merger of PGSI's Windshields America and US Auto to form Vister"—the largest automotive glass replacement network in America—was progressing smoothly and trading results were exceeding expectations. The US results contributed to the 57% increase in group sales to R3.3bn and a 43% increase in operating income to R2.7bn during the period under review.

However, PGSI had received only 40% of the US attributable income, with the balance accruing to minorities in both Vister and Belron.

Assisted by the rand's fall, local sales and attributable income now represented 66% and 59% of group totals respectively.
PCSL shares dip after disappointing interim results

Management reported a fall in the new unit sales for
America Post cards, as the company
continued to face challenges with the growth of its
international operations. The company's earnings per
share fell sharply, leading to a decrease in
profitability. The CEO expressed confidence in the
company's ability to overcome these difficulties in the
coming quarters.
Marlin set to buy big stake in Kudu

David McKay

MARLIN Granite is poised to buy a 75% stake in rival Kudu Granite in a deal which will create a combined entity with a market capitalisation of about R3bn, producing 45% of the country's 600,000-tonne-a-year local granite.

Industry sources said yesterday the transaction, which would probably involve rights issues to fund the deal and Kudu's debt of about R51m, was subject to a month-long due diligence test which will not replace Kudu's, which produces 42% of total sales, as SA's largest granite producer. But a combined Marlin-Kudu operation will control certain products, a development which has triggered speculation that competitive pricing in the grey granite market is imminent.

Marlin Holdings Ltd and Marlin Corporation Ltd yesterday said they had brokered a deal with Kudu owned by Deutscher Steinindustrie-Desstag subject to a number of conditions.

An important aspect of the deal is that Marlin Holdings will control a number of Kudu's strategic assets, such as its offshore distribution centres, analysts say. However, Kudu has hefty borrowings, including off-balance-sheet debts, which would have to be removed as part of the deal.

One source said Kudu would call a rights issue to reduce borrowings.

Continued on Page 2

Marlin

Continued from Page 1

Marlin has often stated its policy to minimise debt levels and has reduced debt in its portfolio from R33m in 1994 to a virtually debt-free situation.

For several weeks Kudu was linked with Kelgran, owned by Malaysian company Mycom SA, in a possible buy-out deal. However, talks were terminated last week.

Marlin financial director Ian Macmillan said further details on the acquisition of Kudu's stake by Marlin, including the price, would be made public later this week. He could not comment on Kudu's offshore assets.

The stake in Kudu would position Marlin to become SA's largest granite producer in terms of sales tonnage, Macmillan said. The deal paved the way for further expansion which would make Marlin dominant in the world granite industry.

Stockbroker Ivor Jones analyst John Leven said the deal fulfilled several duties. In the granite industry, the combined entity would have low gearing, established offshore distribution networks, product diversity and beneficiation capability.
worse — by the shift in consumer patterns to significantly smaller cars. While car numbers may be good, the quantum of glass they consume has fallen.

Another factor causing desuet is the revelation that Plate Glass's US companies are implicated in grand jury investigations. "You are quite wrong," says Lubner firmly, "to imply that we are in any kind of trouble. This (grand jury) investigation has been going on for years and embraces the whole industry. It is not confined by any manner to Belron or Vistar or its predecessors."

The probability is that the threat is indeed minimal but the shock was that news of it was revealed through a prospectus issued by SA Breweries, Plate Glass's parent, for consumption abroad only. When SA analysts and investors found out about it, uproar resulted. As the FM commented last week (Torque), the issue of local secrecy but international revelation requires explaining.

The balance sheet reflects gearing of 48.5%. This is too high for comfort.

For the record, the income statement shows attributable income virtually unchanged from last year but severely hit by the arrival of large minorities in Belron and Vistar post-merger.

Now on a p/e of nearly 19 in a sector whose average is closer to 14, Plate Glass is being seen as a likely prospect. I am inclined to think that it may be better to await firm evidence that the US merger is secure and local conditions are being better read before taking the plunge. David Gleason.

The Market is Unimpressed

The interim report is as enlightening as it is disappointing. By and large, the market didn't like the offering.

I'm not sure this is fair. Over the past year, this company's vast acquisition in the US has changed its profile so much that comparisons are almost meaningless. Another year must pass before new yardsticks can have real meaning.

Since foreign operations are now so important (50% at attributable level off much higher turnovers), it is worth noting that Belron International, the offshore subsidiary, now controls the largest motor glass replacement network in the US. This came about after its Windshields America merged with US Auto to form Vistar in which Belron holds a 51% equity stake.

If you listen to Plate Glass chairman Ronnie Lubner, the merger is going about as well as he expected — which means it is costly and fairly bloody.

Perhaps more important, though, in another sense is that Plate Glass's Southern African markets haven't done well.

More than one analyst points to the huge expenditure in upgrading the Springs float tank only to be disappointed irremediably by the RDP and —
Alpha Cement plans
to close down kilns

Johannesburg — Alpha Cement, South Africa's second-largest cement producer, would shed excess capacity on its less efficient kilns near the end of this year as long-term contracts with the Lesotho Highlands Water Project came to a close, the company said yesterday.

Trevor Wagner, the group financial director, said Alpha would close down two wet-process kilns at its Ulico plant in the Northern Cape on December 18.

About 100 jobs would be shed, but most were workers contracted for a specific period. Some employees would be redeployed in the operation's dry-process plant.

The group had recommissioned its older wet-process kilns at Ulico early this year to guarantee the supply of about 120,000 tons of cement a year to the Katse Dam project.

Wagner said that although the kilns were more energy, and labour-intensive than Ulico's larger dry-process kiln, the group had brought them into production as a back-up in case the dry-process kiln broke down.

"It has now been decided to mothball the plant but we will still be keeping it as insurance against a sudden surge in demand," he said.

The group's margins have also come under pressure, showing a drop to 14.8 percent for the six months to June 30 from 21.1 percent the previous year.

The group expected operating margins to increase once non-recurrent costs were stripped out. Exceptional costs related to abnormal plant downtime and the establishment of marketing and transport infrastructure
BEATING THE BUILDING DIP
Hived off as a manufacturing firm from Italtile in 1991, but still sharing the same controlling shareholder, the company has been significantly less successful relatively than its retail sibling. In absolute terms, though, it has handled the downturn of the building industry well.

A higher tax charge hit earnings in financial 1996, but most operating and financial ratios continued to improve. The trend continued from R772 000 to R7.3m, after being unusually low for a few years thanks to allowances on the R30m capex programme, completed last year. The company eliminated the last of its borrowings and held year-end cash of R4.4m. This is largely thanks to the switch in emphasis from credit to cash & carry, which minimises the impact of debtors, and concomitant need to finance them, on the balance sheet.

In terms of productivity, sales per employee rose last year from R673 000 to R784 000 and are more than double the R350 000 of 1993, operating profit per employee has risen even more dramatically, from R16 000 in 1993 to 1995’s R48 000 and R66 000 last year. Since 1993, the number of employees has dropped from 418 to 289.

The report does not break down sales or profits between the Italtile and CTM operations but both are “very profitable,” says chairman Gianni Ravazzotti. It seems CTM is now the bigger earner.

The number of outlets showed little change for some years. A corporate profile refers to eight Italtile centres, 15 CTM (cash & carry) operations and 11 franchised outlets – all in all, much the same as in 1994. But both chains plan further expansion and financial director Peter Swanton is especially optimistic for franchised CTM outlets in the smaller towns, saying these are more profitable than owned stores.

Edward L Bateman

ACTIVITIES: Holding company of Bateman and Batapro

C ROLE: Directors 42.6%

CHAIRMAN: W G L Bateman MD J P Herselman

CAPITAL STRUCTURE: 27.5m ords Market capitalisation R354m

SHARE MARKET: Price R290c Yields 2.9% on dividend; 1.9% on earnings, p/e ratio 52.6, cover 0.6 12-month high 800c, low 900c Trading volume last quarter 677 963 shares

Yield to June 30

\[\begin{array}{cccc}
\text{ST debt (Rm)} & 34.2 & 54.9 & 57.7 & 57.29 \\
\text{LT debt (Rm)} & 2.4 & 1.7 & 1.7 & 1.0 \\
\text{Debt equity ratio} & 0.62 & 0.64 & 0.61 & 0.22 \\
\text{Shareholders' interest} & 0.29 & 0.28 & 0.31 & 0.23 \\
\text{Int & interest cover} & 5.0 & 5.7 & 5.8 & 1.9 \\
\text{Return on cap (%)} & 7.9 & 8.1 & 8.2 & 3.0 \\
\text{Turnover (Rm)} & 668 & 1177 & 1460 & 1697 \\
\text{Pre-int profit (Rm)} & 20.8 & 42.5 & 43.4 & 29.0 \\
\text{Pre-int margin (%)} & 3.1 & 3.7 & 3.9 & 1.6 \\
\text{Earnings (c)} & 12.9 & 25.2 & 25.7 & 24.5 \\
\text{Dividends (c)} & 32.0 & 38.0 & 38.0 & 38.0 \\
\text{Tangible NAV (c)} & 396 & 452 & 463 & 705 \\
\end{array}\]

A departure is recorded in the annual report under the rather coy heading “Resignations/terminations,” while his reaction thereto is described by group expected to gain momentum.

He expects real growth in group turnover and operating profits with tax now at normal levels, EPS should follow suit.

The share has come off sharply from the March high of 750c and is now at a bare premium to NAV. Given the quality of the assets, with much of the plant being modern, and cash and near-cash holdings of R27.4m, this is a harsh verdict. Michael Coulson

ITAILILE

MARGINS STILL GROWING

Since the divestment of manufacturing activities into Ceramic Industries five years ago, Italtile’s retail side has done extremely well — all the more so given the vicissitudes of the building industry, its basic market. Steadily widening margins and improved financial ratios attest to management’s effectiveness.

- ACTIVITIES: Retail ceramic tiles, sanitary ware, bathroom accessories and related products through 23 owned and 11 franchised outlets

- CONTROL: Directors and associates 61.8%

- CHAIRMAN: G A M Ravazzotti CEO J Couls

- CAPITAL STRUCTURE: 18.3m ords Market capitalisation R159m

- SHARE MARKET: Price R870c Yields 1.6% on dividend, 8.6% on earnings, p/e ratio 11.3, cover 5.5 12-month high 965c, low 600c Trading volume last quarter 32 000 shares

Edward L Bateman

ACTIVITIES: Holding company of Bateman and Batapro

CONTROL: Directors 42.6%

CHAIRMAN: W G L Bateman MD J P Herselman

CAPITAL STRUCTURE: 27.5m ords Market capitalisation R354m

SHARE MARKET: Price R290c Yields 2.9% on dividend, 1.9% on earnings, p/e ratio 52.6, cover 0.6 12-month high 800c, low 900c Trading volume last quarter 677 963 shares

Year to June 30

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\end{array}\]

of four more CTM stores (that in Tokai being a tandem CTM/Italtile).

Ravazzotti says the future holds “great promise,” with franchise opportunities being of particular interest. He expects growth this year to at least match that of the past three years.

This implies EPS of at least 100c and, given the conservative dividend policy, distribution of maybe 19c or 20c. That would take the forward dividend yield to just over 2%, still not particularly attractive, but the forward p/e ratio would dip into single digits. Moreover, the group seems to be setting out on a new expansionary phase.

The share seldom trades in large volumes, but any parcels on offer could be worth picking up on a long-term view Michael Coulson
US law disrupts SA’s road resurfacing

Reinie Booyzen

ROAD resurfacing works throughout the Western Cape and Namibia could be seriously disrupted this summer — and several completed projects may have to be redone — as a result of bitumen quality problems being experienced by the region’s major crude oil refinery in Milnerton.

The 90 000 barrels-a-day refinery, owned by US multinational Caltex, has been unable to manufacture bitumen which meets the SA Bureau of Standards (SABS) quality specifications, largely due to a US law banning US companies throughout the world from purchasing Iranian crude oil.

Iranian crude has long formed the largest portion of SA’s total crude oil throughput, and the SABS’s bitumen specifications reflect the typical qualities which result from this type of crude “diet”.

Iranian crude is also considered a good vantage for bitumen purposes and Caltex, like the other SA refineries in Durban and Gauteng, has traditionally used a substantial amount.

However, last year the anti-Iranian US law forced the company to start using other non-Iranian grades, and foraged more widely on the world oil markets, purchasing oil from the North Sea, Argentina, Angola and alternative Middle East suppliers.

A Caltex spokesman said the most problematic specification was “ductility” — the bitumen’s cohesive strength or binding performance. “Our technicians are working on the problem, and trying to establish how we can modify our processes to manufacture a better specification,” the spokesman said.

The company had recently procured a cargo of Saudi Arabian crude oil which appeared to produce a quality of bitumen product similar to that of Iranian oil, but it was unlikely that Caltex would be able to get regular supplies of this grade at a competitive price. Other crudes were also being investigated.

Meanwhile, road construction sources said several major resurfacing jobs in the region may have to be redone to replace inferior bitumen.

“Some of the bitumen was marked as meeting the SABS specs, when it clearly did not,” the source said.

“Some companies are considering compensation claims totalling millions of dollars”
Tariff change good news for lamp makers

Edward West

THE prospects of SA’s only incandescent light manufacturer, Consolidated Lamp Manufacturers (CLM), have brightened considerably with the restoration of the import tariff to previously agreed levels.

This follows an error by the trade and industry department, which unexpectedly reduced the import tariff for incandescent lamps in January last year — to the level intended for 1999.

The import tariff, which was to be reduced to an average 20% ad valorem duty over five years in terms of SA’s General Agreement on Tariffs and Trade obligations, was restored to the previously agreed level in the third year of the programme by the publication of a notice in the government gazette on Friday.

CLM MD Rudi van Eck said the R100m-a-year turnover company, a subsidiary of a GEC Alisham and Reenert joint venture company GEC Alisham SA, had made “substantial losses” in the year to end-September, and an investigation had been launched to assess its future.

“We lost the benefit of the phased tariff reduction over the past two years and have lost market share due to this,” Van Eck said. One of the main features of the investigation into CLM’s future had been the tariff reduction, he said.

CLM embarked on a major capital expenditure programme in 1994 to upgrade and expand its lamp and glass manufacturing facilities at its factories in Port Elizabeth.

Installation of new plant equipment worth more than R30m was under way, expenditure which would boost production to 5 000 units an hour from 2 400 an hour previously.

“The company has been profitable in the past, and we hope it will be so in future,” Van Eck said.

Reenert lifted attributable income after abnormal items 7% to R203m in the year to September and the dividend for the year was held at 36c. The share has recently been trading just above its 12-month low of R14.78, reached on September 3, well down on January’s R26.50 annual high.
PPC Planning for Expansion Drive

Companies

By Robyn Chambers

PPC was developed to ensure that high levels of profitability and efficiency were maintained at the same time.

PPC was introduced as a sales and production control system.

The year ended September

The year ended September

The year ended September

The year ended September

The year ended September
Marlin rocks industry in Kudu buyout

ANDI SPICER
MINING AND RESOURCES EDITOR

Johannesburg — Marlin, the graniet producer, is poised to conclude its deal to buy debt-ridden rival producer Kudu with help from mining group Anglo American after the due diligence inquiry ends tomorrow, sources close to the negotiations said on Friday.

This will significantly increase Marlin’s presence both in the local and international granite industry. Marlin already has 18 percent of the local market, but with the acquisition of Kudu this will be boosted to 40 percent. This, combined with Marlin’s international network of distributors in Europe, will put the company in a commanding position.

Kudu’s parent company, Deutsche Steinindustrie’s (Destag) of Germany, owns 58 percent of Kudu, and it is this share which Marlin is buying. There has been some discontent among minority shareholders in Kudu, resulting in the necessity for Marlin to secure a block of ordinary shares held by management. This impediment to the deal seems to have been overcome, said analysts.

“To finance the buyout, Marlin could offer shares in Marlin and Kudu to Anglo American, but also in its international holding company IIE in Luxembourg. Anglo would then pass offshore interests,” a Johannesburg analyst said on Friday.

Marlin’s rise from financial problems a few years ago has been rapid, and it now has granite companies Minaco and Natural Stone in the fold. The acquisition of Kudu will consolidate its dominant position particularly in the grey granite business, in which South Africa is a major world player.

“This deal makes Marlin very powerful in the local South African granite business, and there are worries that the price war in the Rustenburg grey granite market will follow the takeover, which will not benefit the smaller producers,” the analyst commented.

The other significant player in the local granite industry, Kolgran, has about 43 percent of the market and was a previous bidder for Kudu earlier this year.
Industry 'must grow 5%' to justify factory

Future of cement plant in balance

STUART RUTHERFORD

Durban — Natal Portland Cement's (NPC) new R380 million cement factory hangs in the balance because of the slow growth of the cement market, the company said yesterday.

Ramund Weber, NPC's managing director, said the national cement market had grown between 1.5 and 2 percent this year, but a growth rate of at least 5 percent was necessary next year to justify the new factory.

NPC is KwaZulu Natal's only cement producer.

He said the board had postponed making a decision on the cement factory until March.

A feasibility study for the project is under way following tests earlier this year which showed that the company's mine in Simuma on KwaZulu Natal's south coast contained sufficient limestone and raw materials to support an 850,000-ton-a-year plant.

The addition of a new factory would double the company's capacity, which already had an estimated 12 percent of the national market, producing 500,000 tons of cement a year.

The new cement factory would employ between 150 and 200 people.

Weber said the project would probably be 50 percent funded by the company and 20 percent funded by PPC, Blue Circle and Alpha.

CT(BR) 11/12/96

its three equal shareholders.

These three companies have been posting for positions in the industry since the breakup of the cement cartel in October. The cartel enjoyed 20 years of official protection.

Natal Portland Cement said in August that it had completed a two-month diamond-drilling programme which had established limestone reserves of 200 million tons within the boundaries of Simuma. It said previously that a minimum of 158 million tons was needed to justify putting up a second factory.

Weber said he also expected the board to make a decision on where to site a proposed 14,000-ton storage silo at its Durban plant within four weeks. "I have no doubt that it will be approved, though," he said.

The silo will cost about R31 million and take 14 months to construct. It will enable the company to mill continuously and store any excesses.

The company is already investing R50 million in two 50-ton crushing rollers and associated equipment such as cement transport systems and a state-of-the-art separator in Durban.

The additional roller press will increase output by about 20 percent to more than 1 million tons a year. It is due to come on stream next month.
Anglo helps Marlin buy into Kudu

JABULANI SIKHAKHANE
BUSINESS EDITOR

Johannesburg — Marlin, the granite producer, said yesterday that it would buy 56.2 percent of Kudu Granite from Germany's Deutsche Steinindustrie (Destag) for R24 million, or 100c a share, with the help of Anglo American.

The purchase price is 65c a share or 59 percent lower than the price initially quoted for the deal.

The reduced price follows a due-diligence inquiry which revealed Kudu was unable to generate sufficient cashflow to fund its continuing business and was saddled with debt of R71 million.

The price was also reduced by stock adjustments and the write-down of Kudu's mineral rights.

Mario Marcenaro, a director of Marlin, said yesterday that Marlin would also acquire Destag's other assets, including 33.3 percent of Natural Stone Processors, a granite beneficiation plant in North West Province, and Destag's granite marketing and distribution operations in France and Italy.

Marlin will hold a rights issue to fund the acquisition and reduce Kudu's debt. The means it chooses to reduce Kudu's debt will depend on its other shareholders, particularly the MycomKeeley group, which owns between 20 and 30 percent of Kudu.

The first leg of the deal will be effected through IBE'S a RL, the Luxembourg-based controlling shareholder of the Marlin group, which will acquire the Destag assets and then sell these on to Marlin at the same price.

As a result of the complicated series of transactions, including a reduction of Destag's share capital, Anglo American, which owns 28 percent of Destag's equity, will become a 30 percent shareholder in IBE.

The Kudu acquisition will raise Marlin's share of the South African Rustenburg granite output to 41 percent, putting it almost on par with Keeley Granite, its main local competitor.
CLEARING THE DECKS

It looks very much as if Marlin’s bid to acquire control of Kudu Granite will succeed, but this further concentration of power could set the stage for another bout of marketing warfare.

Following last week’s announcement that agreement had been reached in principle for Anglo American to take a 30% stake in Marlin’s controlling shareholder Ill, a presentation and briefing has been called for Thursday Marlin financial director Ian Macmillan declines to make any comments ahead of this.

If the deal goes through it has to be a favourable development for Marlin, assuming management has carried out due diligence exercise properly and negotiated a realistic price.

That price is likely to be well below the bid figure bandied around on the market of 165c. Some analysts consider Kudu overpriced even at its current 146c.

It should also be favourable for the overall industry, because it is a continuation of the consolidation trend of the past year. Rice Rinaldi Turner analysts Michael Wuth and Philip Murphy point out this has transformed the industry into a more streamlined entity with fewer players having a larger market share and more diverse product ranges.

They say “we believe the SA granite industry will move from strength to strength over the next few years. Output and exports will continue to grow in line with expanding global demand, particularly in the Far East.”

Despite this, some analysts are still seriously concerned over possible power plays and personality clashes between key executives at Kelgran and Marlin.

Kelgran is now controlled by Malaysian company Mycom, which bought out Gencor, while Marlin is controlled by Italian business interests whose representative on the board is new business director Mario Marcenaro.

If this leads to another bout of price cutting the companies could lose out on much of the benefits of current strength in the international granite market.

Says an analyst “Executives can deny it all they like but given the nature of the business and the personalities of the players, there is a chance of a corporate warfare erupting between the Malaysian Triads at Kelgran and the Italian ‘Mafia’ at Marlin.

“It’s no secret Kelgran is furious about being stymied by Marlin over the Kudu acquisition I would have been much happier with Kudu going to Kelgran because it would have stabilised the grey granite business.”

Grey granite is the industry’s bread and butter. A Marlin/Kudu merger will oust Kelgran as leading producer.

According to statistics published by Rice Rinaldi Turner, grey granite makes up 74% of total SA output. Kelgran this year accounted for 36% of grey production with Marlin at 13.7% and Kudu at 27.3%, meaning Marlin and Kudu combined would amount to 41%.

In terms of total market share for all types of granite, Kelgran has 42.1% while a combined Marlin/Kudu would have 36.6%.

The Kudu acquisition could be swiftly followed by a rights issue from Marlin to pay for it as well as get rid of much of the debt inside Kudu. Marlin’s new controlling shareholders have shown previously that they are debt-averse.

There could also be a restructuring of the group, as it would comprise four, interlinked, listings, Marlin, Marhold, Monaco and Kudu. The market does not like messy, complicated holding structures that are difficult to understand.

Among many ifs and buts still hanging over the deal is what stake Kelgran/Mycom could end up with in Kudu. They have an option on Kudu MD Pieter du Toit’s 18% and market speculation is they may also have bought enough additional stock to take their stake to 25%.

If Kelgran got sufficiently blood-minded, that size stake means it could interfere in major decisions such as rights issues. Brendan Ryan

CSO SALES

HEADING FOR A RECORD

The Central Selling Organisation (CSO) is due to report 1996 diamond sales figures next week. Analysts expect another record year, most looking for total 1996 sales between US$4.7bn-$4.8bn, with at least two forecasting the final figure might even be as high as US$4.9bn.

Rough diamond sales totalled US$4.53bn last year so the range of estimates works out to a gain of between 4.4% on sales of US$4.7bn and 8% should they hit US$4.9bn.

The market, it seems, is surprisingly bullish on the prospects for both the diamond market and De Beers, after all the worries over the Russians and the Australians and other factors that have dominated forecasts for the past 18 months.

Estimates of De Beers’ results for the year to December are for increases ranging from 25%-40% on 1995’s US$3.7bn to $5.2bn, or about 20%-25% on 1995’s US$3.3bn.

The CSO’s recent report and a number of analyst reports are looking for another strong year for the CSO. CSO has already overtaken 1994’s US$3.3bn in turnover, with US$3.8bn expected for the year.

The mine operating costs are lower with US$800m expected for the year compared to 1995’s US$920m.

BOE NatWest analyst Barry Sergeant is looking for CSO sales of US$4.75bn, a gain of 20%, and the same for profit, US$1.2bn compared to 1995’s US$1.0bn.

He comments “In the SA context De Beers is a buy and offers good value on a forward p/e ratio of 9.8.”

Standard Equities’ James Picton has worked out his earnings forecast on CSO sales of US$4.8bn but feels the final figure could be between US$4.8bn-$4.9bn.

He forecasts equity earnings of US$1.25bn and says “De Beers rates a buy at current...”
Cement sales rise sharply

Robyn Caine

Cement sales, domestic and exports, grew strongly in November to boost total sales for the first 11 months of the year to 9.09 million tons, compared with 8.89 million tons for the same period last year.

Analysts said yesterday sales were unlikely to grow more than 2% to 3% this year.

This remained significantly lower than the 6% growth initially forecast by the Cement & Concrete Institute. However, analysts were confident next year would see a larger increase in sales.

Institute figures showed domestic cement sales rose to 8.64 million tons in the year to November 30 from 8.59 million tons for the previous comparable period.

Exports rose to 441,706 tons from 297,397 tons.

Institute marketing manager John Sheath said the data base had been changed to reflect actual sales to end users. Previously it included inter-producer sales.

An analyst said cement demand could increase next year as the low-cost housing programme finally began to deliver mass housing.

Public spending on infrastructure was also likely to rise.
As expected, Marlin last week acquired control of Kudu Granite but the dust is nowhere near settling on this deal judging by the comments and actions from competitor Kelgran.

Marlin's due diligence was largely expected to result in a lower price for Kudu than the nominal bid of 165c and prevailing JSE price of 146c but the 100c finally struck is surprisingly low.

Some analysts were looking for between 110c-120c a share.

By contrast, Mycom, the Malaysian company which controls Kelgran, has bought Kudu MD Peel du Toit's 18% for at least 165c.

Kelgran financial director Henrie Werth says that Mycom had a call option on du Toit's shares which it exercised a month ago at 165c. He denies market speculation that Mycom actually paid 200c or more a share and exercised the option just last week.

Du Toit is one of the winners in this deal. After cashing in his chips for at least R12m -- the value of his stake at 165c -- he left Kudu on Friday and won't be returning to the business he founded.

Says Werth: "Mycom is positive on the future of the granite industry worldwide and, even though a minority stake is second prize, it feels there is still value to be had through investing in Kudu."

But Kelgran and Mycom are not happy about the price of 100c a Kudu share.

Marlin new business director Mano Marcenaro indicated at last week's presentation the main reasons for this low price were Kudu's sky-high debt and poor short-term cashflow.

According to Marcenaro, Kudu has R60m debt on the books and another R11m off-balance sheet.

That's far worse than was expected by the market because Kudu's last financial statement for the year to June 1996 showed debt of R23m and pref share capital of R12,5m.

Says Werth: "We were not able to do a due diligence but our estimate of Kudu's total debt was about R55m. Even allowing for this extra debt, the price of 100c is still too low and not fair to minorities. After a due diligence exercise, our bid would still have been higher than 100c assuming there were no hidden problems other than the extra debt."

The price was accepted by Anglo American, which seems to have played a key role in getting Kudu's controlling shareholder Destag to accept it.

Says Anglo financial manager David Fish: "We decided that it was a fair price given Kudu’s debt and the perceptions of the fair value of certain assets such as mineral rights."

Anglo is one of the losers in this deal. Fish says Anglo has lost about DM60m (about R180m) since it bought its 28% stake in Destag in 1989. He points out these amounts have already been written off and hopes a successful Kudu/Marlin merger will start paying back profits to Anglo through its 30% stake in Marlin's holding company, IIE.

What happens next seems to depend on Mycom/Kelgran. Werth confirms Mycom has been buying Kudu shares in the market. It holds 23% and intends to take its stake to 25%, at which level it will be able to affect major business decisions such as the creation of new shares and rights issues.

That could affect Marlin's plans to hold rights issues to pay for the Kudu acquisition, get rid of the debt in Kudu and restructure the group, which now consists of four listed companies Marlin, Marwood, Kudu and Minaco.

Says Werth: "We will have to see what happens next. Any offer to Kudu minorities should be at a fair price and we do not think 100c is fair. Mycom would like to hold discussions with Marlin on future developments at Kudu."

Whatever happens, we will act in such a way that nobody will be able to point a finger at us later and say 'We did not act in the best interests of Kudu.'

At last week's presentation, Marcenaro said he hoped Kelgran would act in a responsible way towards the restructure of Kudu.

Asked what would happen if Kelgran, armed with a 25% stake, tried to block any restructuring, he said: "The money is available to restructure Kudu. We will first offer the deal to the shareholders and if it's not possible to do it this way because of negative reactions, then we'll do it another way."

"We are happy to have Mycom/Kelgran as shareholders in Kudu at whatever stake they have because it shows what a good investment the company is," Brendan Ryan.
Good volume growth likely in cement industry

Robyn Chalmers

THE cement industry is likely to experience good volume growth over the next three years as the construction sector picks up, but prices could come under pressure following the dismantling of the cement cartel.

A review by UBS Securities of the cement industry estimates that cement volumes should rise about 3% this year after showing no growth in the year to August.

Cement volumes were expected to increase 6% next year and in 1998, largely as a result of an expected growth in gross domestic fixed investment of about 7% in real terms over the two years.

The review said that the main driver behind the positive outlook for gross domestic fixed investment were expectations of strong growth in residential buildings, non-residential buildings and also civil engineering works relating to infrastructure development.

Although the review said it did not expect a price war on a national basis, cement price increases were likely to remain below the level of inflation over a two- to three-year period. This was largely due to regional shifts in market share and government pressure to keep prices below inflation in order to help boost the reconstruction and development programme.

"All three producers (Pretoria Portland, Alpha and Blue Circle) are adamant that they will not reduce prices to gain market share as this will lead to retaliation by competitors, resulting in the overall price level declining.

"At the same time, they are equally adamant that they will defend market share at all costs," it said.

The relatively high cost of transporting cement meant that certain producers could supply cement more cheaply than others without reducing ex-factory prices, which would lead to regional shifts in market share, it said.

The review said forecasts of higher volume growth could see capacity utilisation ranging 75% on average next year and peak capacity utilisation could increase to as much as 86%.

It said both Alpha and PPC were trading on premium ratings based on expected earnings next year, which were high as earnings growth was likely to be below the market average over the next three years.
MANUF. - NON-MET.
MIN. PRODUCTS

1997
Erwin will examine cement firms’ argument on merger

Lukanyo Mnyanda

8/8/1/97

TRADE and Industry Minister Alec Erwin has asked cement companies Alpha and Blue Circle to present him with submissions on their proposed merger — more than three months after the Competition Board blocked the move.

The two companies said yesterday they had received a letter from Erwin’s office asking them to present their arguments for the merger in writing by next Wednesday. Erwin would then take a final decision on whether or not to overrule the recommendation of the board.

Trade and industry ministry spokesmen did not confirm the deadline, saying Erwin would look into the matter after returning from holiday on Monday.

The companies had asked to meet Erwin to try to convince him to overturn the board’s decision to block their proposed merger on the grounds it would not have promoted competition in the industry.

This was the second time that the board had taken a decision against the cement industry. Government backed the board’s 1994 ruling that the sector’s 25-year-old cartel should be scrapped. The cartel formally came to an end last October.

Alpha and Blue Circle said yesterday they were relieved that the matter seemed likely to be settled soon, after having dragged on since June, as the uncertainty was affecting business prospects.

Both companies said they were still debating the nature of their submissions to Erwin, but that they would include points not covered in their original submission to the board.

Analysts had warned Erwin was unlikely to overrule the board, citing his ministry’s lack of urgency as evidence. One said recent board appointments indicated a tougher government stance on competition.
Coastal pulls the threads together in textile deals
PLANS REINFORCED

Broad hints that Alpha Ltd should abandon its plan for an R800m cement plant at Saldanha Bay have apparently fallen on deaf ears. Even the loss of the Saldanha Steel slag contract to arch-rival Pretoria Portland Cement (PPC) is not enough to deter Alpha.

Alpha cement division director Marco Germena defends the company’s stand on the new project, which is the subject of an Environmental Impact Assessment (EIA). He says there is misunderstanding surrounding the issue, to the extent that some people believe there will be a duplication of cement-producing facilities at Saldanha if both Alpha and PPC go ahead with their respective projects.

“Without of course clarifying the issue, especially in respect of the parties associated with the EIA,”

Germena says the slag from Saldanha Steel can be used to replace a proportion of the limestone in the manufacture of cement. When ground and added to clinker together with gypsum, it produces a blended cement, which is suitable for many applications. Because it is a waste product of the steel manufacturing process, it can usually be obtained more cheaply than the equivalent quantity of limestone and is therefore favoured by cement manufacturers and customers.

Its use has the additional benefit of disposing of a large quantity of industrial waste that would otherwise have to be disposed of in landfills.

Having concluded the slag contract with Saldanha Steel, PPC intends to build a slag-grinding mill which will be situated on that property. From there, it will be disposed of as PPC sees fit. This may include, among other options:

- Transporting it to existing PPC factories at Piketberg and Riebeeck in order to manufacture cement, and
- Sale of an (unknown) proportion on the open market to the building industry.

Had Alpha concluded this contract, similar slag-grinding facilities would have been constructed in order to supply the cement plant at Saldanha.

“Since more slag will be produced by Saldanha Steel than could be used at the cement plant, Alpha would have sold the balance on the open market, in the same way that PPC is intending to do. There will therefore be no duplication of cement-producing facilities at Saldanha if both PPC and Alpha are located there.”

“It has also been suggested that the loss of the slag contract means that one of the main motivating factors for Alpha’s location at Saldanha has been lost. This is not correct. We would like to refer interested and affected parties to the summary background information document published at the beginning of the EIA for the project in which our rationale for locating at Saldanha was stated. The three principle reasons are:

- Lack of market penetration in the Western Cape,
- The location of suitable limestone resources at Saldanha, and
- The proximity to an export port.”

Alpha purchased the cement factory site, the surface and mining rights for the limestone quarries and the servitudes for the conveyor between 1970 and 1985 for the above reasons, says Germena.

“The company sees the use of slag from Saldanha Steel as a useful synergy, not as a primary motivating factor for the project. Furthermore, it must be remembered that an investment in a new cement factory is a long-term investment (30 years plus) and it cannot be assumed that over this period slag from Saldanha Steel will not be available to Alpha. It may be available through another channel such as the possibility of Alpha purchasing surplus slag on the open market.”

With growth rates of 6% being bandied about, Alpha will not be deterred from getting into the Western Cape — traditionally a PPC market.

And the prospect of African exports is a further inducement not to allow the opportunity to slip...
**DEBT SQUEEZE**

The delayed publication of the annual report for the year to June provides some of the statistical meat behind the recent takeover battle for the company, with Marlin beating Kelgran (Fox November 22, December 13 and 20).

Despite the upbeat comments from former Kudu MD Feet du Tott — he departed immediately Marlin got control — about improved yields and profitability, at end-June Kudu was up to its ears in debt and haemorrhaging cash.

Du Tott believed that the improved profitability would generate better cash flows, which would contribute to a reduction in borrowings. However, the notes to the accounts show that the group last year was forced to go off-balance sheet to fund its capital expenditure.

That was one of the points made by Marlin new business director Marco Marcenaro to justify the rock-bottom price of R1 at which his group acquired Kudu after making a nominal bid of 165c/share, subject to the outcome of a due diligence exercise.

Marcenaro told financial analysts and media in December last year that Kudu had R60m of debt on its books and another R11m off-balance sheet.

The report shows debt of R61.7m on the balance sheet at end-June. The notes to the accounts reveal a commitment to pay R11.3m over five years to cover the cost of an agreement entered into during the financial year for the lease of plant and equipment. Presumably, the extra R8m debt was run up in the first half of the current financial year to end-December.

Borrowings rose to R31.2m (1995 R23.1m), while shareholders' loans nearly doubled to R14.1m because Kudu had to borrow to meet the scheduled repayment of R6m on its preference share capital, which dropped to R6.5m from R12.5m. While attributable income rose 54% to R8.3m (year ago R5.4m), the most telling number is the outflow of R7.2m, in the cash flow statement.

The best news in the report is the yield improvement at Kudu's Rustenburg grey granite quarries, where the heavy capital investments made in new plant and mining technology seem to be paying off.

What happens next to Kudu depends on how quickly Marlin brings its restructuring plan into action. And that depends partly on what happens between the group and competitor Kelgran.

Kelgran MD Henry Laas doesn't consider the R1 acquisition price fair to minorities, particularly since Kelgran's controller Mycom bought Du Tott's 17% stake for at least 165c/share.

Mycom also bought more shares in the market to increase its stake to 25%. At that level, Mycom/Kelgran can interfere with Marlin's plans for Kudu but, according to Marcenaro, cannot block them, because there are alternative ways to achieve what Marlin wants to do. The two sides were scheduled to meet for discussions early this week.
Housing delays hobble cement sales

Reyn Chalmers (1/3)

CEMENT sales failed to live up to expectations last year, rising only 2.5% to 9.68-million tons over 1995 which analysts attributed largely to slow growth in building and construction gross domestic fixed investment (GDFI).

Figures from the Cement and Concrete Institute showed domestic cement sales rose to 9.18-million tons from 9.14-million tons in 1995 while exports increased to 490-989 tons (1995 297 563 tons).

"At the beginning of the year, Pretoria Portland Cement estimated sales would rise between 6% and 8% this year, Alpha believed a 4% increase was on target and Blue Circle Cement predicted 8% to 10%.

However, the institute — formerly called the SA Cement Producers Association — estimated that demand for cement would rise between 2% and 3%.

Analysts said the weak domestic cement volumes were largely the result of the slow start to government's low-cost housing programme as well as limited investment in social infrastructure.

They believed that last year was the slowest year for SA's three producers PPC, Alpha and Blue Circle in terms of volumes growth and this would pick up this year.

Volumes were likely to be driven by growth in public sector investment, specifically the reconstruction and development pro-

gramme (RDP), an analyst said.

"There are encouraging signs that the RDP is finally starting to take off and the progress on the low-cost housing front should provide a boost for volumes," he said.

GDFI growth over the next three years was likely to be driven similarly. The analyst forecast a real increase in overall GDFI of 6.8% this year and 7% next year, driven largely by the building and construction component of GDFI which was expected to rise 13% this year and next.

"The building and construction section of GDFI consists mainly of civil engineering works relating to infrastructure development. Government has made it clear that this is where the major push will be in the coming years."

Another analyst expected 4% growth in volumes this year, assisted by the fact that it was coming off a low base last year.

"Most contractors seem satisfied that there is sufficient work until mid-year," he said.
Alpha wins R470m contract

Mpho Mantjui

Johannesburg — Alpha, the cement and concrete manufacturer, has won a R470 million contract to supply cement and pre-mixed concrete to the North West Builders' Federation in a project financed by the public works department, the two groups said on Friday.

The contract involves the building of the province's Phase IV schools project, which is aimed at establishing more than 140 schools over a period of five years.

The partnership was formed after presentations made by different companies at Sun City last year at the invitation of the federation.

Danny Elliot, the president of the federation, said it was Alpha's display of commitment and involvement in the training and empowerment of emerging builders that influenced their decision on the partnership. Alpha will be the sole supplier of the products to the members of the federation, which represents 1,300 emerging contractors across the province.

The four-year-old federation recently completed a R17 million contract for the construction of the Mabopane Central shopping complex in a joint venture with LTA, the listed building and construction group. North West is mainly involved in the cement industry and has the largest concentration of national capacity, located on extensive limestone reserves.
Emergent road builder may have to close

Caltex denies supplies to Cape asphalt maker

MAGGIE ROWLEY
PROPERTY EDITOR

Cape Town — A shortage of bitumen in the Western Cape is threatening the survival of an emerging business, which has secured 25 percent of the premium asphalt market for regional road surfacing over the past two years.

Processing problems at Caltex, the region's sole refinery, have left the oil company unable to meet local demand for bitumen.

Robin Fyfe, the general manager of More Asphalt, which has a 40 percent black shareholding, said Caltex had cut off supplies at short notice in the past week.

"We are now having to truck in bitumen from Gauteng, which is pushing up the cost to us by about 25 percent."

Thus, he said, put his firm at a major competitive disadvantage to sole competitor Colas Southern Africa, a Murray & Roberts subsidiary, which as a customer of Caltex was still being supplied by the Cape Town refinery.

Caltex spokesman Niall Kramer confirmed bitumen was in short supply because Caltex was using a non-traditional crude unsuitable for producing bitumen.

"We have a week's supply in hand and must obviously service our own customers first. We are talking to our existing customers about alternative plans."

He said bitumen comprised only 2 percent of total production at the Cape Town refinery, and all other products were unaffected.

Kramer could not say how long the shortage was expected to last.

"We are working on the technology side, but it is complicated," he said.

Fyfe said More Asphalt was contracted to Engen but had approached Caltex to take a contract out with them in the hope of benefiting from preferential treatment.

"But we were told even if we did so they had already committed available supplies to their customers."

"They cannot even tell us for how long this situation will go on. During the last shortage Engen absorbed some of the costs of trucking supplies in for us, but they can't do that indefinitely."

Fyfe said prior to More Asphalt's formation, Colas was the sole private sector premium asphalt player in the region. "If this competitive disadvantage goes on for much longer they will again be the only player," he said.
Higher manufacturing costs knock improved turnover

Alpha hurt by demise of cartel

Cape Town — Building material supplier Alpha has been hard hit by the break-up of the cement cartel, reporting a 1.7 percent decline in attributable earnings for the year to December 31.

While turnover was up 18.8 percent at R1.7 billion, operating profit fell 18.2 percent to R254 million because of higher maintenance expenditures on manufacturing plants and additional marketing costs following the termination of the cartel.

This was partly offset by a substantially lower tax rate of 8 percent (28 percent).

Borrowings increased to finance the lime kiln and additional working capital, resulting in finance charges rising sharply to R94.2 million (R7.9 million).

Anticipating rosier prospects for this year, a final dividend of 20c a share will be paid, bringing the total dividend for the year to 28c, up 7.7 percent on the previous year.

Trevor Wagner, the financial director, said that while turnover had increased, this was mainly through the inclusion of new subsidiaries and transport revenue in the cement division for the first time following the termination of the cartel. Demand for the company’s products, he said, had been lower than expected and remained at similar levels to the previous year. This was largely attributable to the excessive rains in the first quarter of the year, the low level of economic activity and the absence of any significant investment in infrastructure. Cement sales, which account for 48 percent of group turnover, had increased by a disappointing 3 percent.

Wagner said stronger demand for cement and ready-mix concrete was forecast during 1997 in line with higher forecasts for civil construction work. There were also signs that low-cost housing delivery would gain momentum this year.

The group was forecasting an improvement in profit before tax and cash flow this year, but as the tax rate was expected to rise, earnings would show only a slight improvement, he said.
The Competition Board has recommended that Trade and Industry Minister Alec Erwen once again reject the proposed merger between two of the three large cement producers in the country, Anglo Alpha and Murray & Roberts' Blue Circle.

Competition Board chairman Pierre Brooks said on Friday that the two parties had made further submissions, but that these did not allay its concerns. "The latest concessions submitted by the two groups were not enough to offset the disadvantages of the merger," he said.

The board's ruling has been handed to Erwen Trade and Industry says the matter is being considered, but Erwen is unlikely to overrule the board.

Blue Circle chief executive Carl Grim says he has heard nothing. "The minister wrote to us in December asking for a final comment, which we submitted. At this stage we are waiting to hear," Alpha also says it has not yet been informed.

The proposed deal, which was announced in June prior to the September 20 dissolution of the 25-year cement cartel of Alpha, Blue Circle and Pretoria Portland Cement, was blocked in September after a board investigation.

The merger would have given the two companies 55% of the R2-billion-a-year market. The board said in September that "with little prospect of new rivals entering the market as well as the negligible threat of imports, there were insufficient market pressures after the merger to ensure that these efficiencies would filter through to benefit the end users of cement." The two companies then appealed to government to overrule the board's recommendations and made a joint submission to the minister.
Blue Circle may bring in foreign partner

Lukanyo Mnyanda

BLUE Circle Cement was considering bringing in a foreign partner to boost capacity following Trade and Industry Minister Alec Erwin's decision to back the Competition Board's ruling against Blue Circle's proposed merger with Alpha.

Blue Circle chairman Carl Grum said at the weekend that the company was "not unduly perturbed" and was now looking at other opportunities. "We will look at possible international partners," he said.

Erwin told the companies earlier in the week that he would uphold the Competition Board's recommendations against the merger.

The company had considered the possibility of Erwin overruling the board to be unlikely and was "fairly well covered", Grum said. "We have increased our capacity 10% during the past year and the lower market growth will take off some of the pressure."

The company was exploring ways to enhance the technical capabilities of its cement clinker. The merger was rejected by the Competition Board last year. It said there was little prospect for new entrants and a negligible threat of imports. There would have been insufficient pressure to ensure the merger benefited the consumer.

Alpha MD Johan Pretorius said the decision was "bad news", but not unexpected. The companies would look at expansion plans individually.
Slow year expected for cement industry

Lukendo Mnyanda

The cement industry's margins are likely to be depressed by negligible volume growth this year, but should start picking up from 1998 when RDP-related housing and infrastructural development takes off.

Analysts said yesterday that cement sales growth would be modest this year at between 3% and 6%, and would not be able to offset higher coal and labour costs. Cement companies, especially Alpha whose proposed merger with Blue Circle was turned down by Trade and Industry Minister Alec Erwin last week, were also likely to begin expansion programmes which could add to their interest bills.

One analyst said Blue Circle was unlikely to start expansion immediately, as it had recently increased its capacity.

Chairman Carl Grim said last week the company had increased capacity 10% in the past year and was looking at enhancing its cement chinker.

Another analyst said central and local government — with general elections due in about two years — were under increasing pressure and should start spending more on housing and infrastructure developments. "They need to have something to show their constituents," he said.

He said the fundamentals were in place and the sector should start taking off towards the end of this year.

"We are not expecting a great performance from any of the cement companies this year and sales volumes should only grow about 3% to 4%," another analyst said.

The demise of the cement cartel had led to aggressive pricing competition and this should put more pressure on margins.

"There is nothing great on a one year view. Earnings growth should be lacklustre at under 10%," another analyst said.

However, increased fixed investment from 1998 should provide some relief for the sector which was still feeling the effects of the cartel's break-up.
Tile maker fires up earnings

JONATHAN ROSENTHAL

Johannesburg — Ceramic Industries, which over the past few years laboured to grow earnings in the face of increasing imports and a slow building industry, reported a 31 percent increase in earnings to R3c a share for the six months ending on January 31.

The largest manufacturer of ceramic tiles in South Africa, Ceramic Industries increased market share at the expense of imports and boosted turnover 51 percent to R10.5 million for the half-year. But the company failed to repeat its performance of last year, in which operating income rose faster than turnover, and showed a weakening in margins, with attributable income climbing 31 percent.

Johan Bouwer, the financial manager, said margins had come under pressure from labour conflicts at the Betta Sanitaryware division in Krugersdorp. The division had been subject to a major re-structuring in which the introduction of new plant and technology had led to retrenchments and strikes. The division made "significant" losses during the six months, Bouwer said, and the company aimed to bring Betta Sanitaryware back to breakeven by year-end.

He said the more significant market growth was in the domestic markets for pressed wall and floor tiles. A new clay milling plant under construction at Baelela at a cost of R20 million would increase production capacity of pressed floor tiles by about 30 percent.

The company declared an interim dividend of 8c a share compared with 6c during the comparable period last year. Battista Errera, the chief executive, said the company expected to maintain its current sales for the second half. But sales of industrial split tiles, dependent on the local building industry, would not increase dramatically given a weaker rand. He said the present earnings growth would be maintained in the second half.

Ceramic's share price was unchanged yesterday at 79c.

Automakers to invest R1bn

ROY COLOANE

 Pretoria — Automakers, the holding company of Nissan South Africa, is to invest about R1 billion in new models and expansion of facilities at its Rosslyn plant between now and 2006, Johan Kleynhans, the group affairs and communication director of Nissan, said yesterday.

That follows the announcement by Nissan Motor Company last week that it is to acquire a 50 percent stake in Automakers for R3.90 a share, or R579.75 million, effective from July 1 this year. The acquisition is conditional on minority shareholders accepting an offer by Sanloph, the investment corporation of Sanlam and Automakers's largest shareholder, on January 20 this year, to buy their shares at 41c before the delisting of the company.

Kleynhans said R200 million of the R950 million to be invested by Automak-
Cement merger blocked for second time

Robyn Chalmers 61313147 (93)

THE proposed merger between cement companies Alpha and Blue Circle Cement has been officially blocked for the second time.

Trade and Industry Minister Alec Erwn said yesterday he had decided to accept the Competition Board's recommendation that the proposed merger between the two cement companies should not be allowed.

Erwn said the decision had been made after careful consideration of all the relevant points raised in the board's report and consultation with the parties involved. Alpha and Blue Circle, a subsidiary of Murray & Roberts, agreed with Erwn that his decision brought the matter to a close.

The proposed deal was announced last June, just three months before the 25-year cement cartel was disbanded. The board recommended in September that the merger should not be allowed, saying there was little prospect of new market entrants and a negligible threat of imports. There would be insufficient market pressures after the merger to ensure benefit for the consumer, it said.

Alpha and Blue Circle then turned to Erwn to overrule the board's recommendation, a last resort which was effectively blocked yesterday.

Alpha's share price closed untraded yesterday at R86. The share price has recovered well from the 12-month low of R71.25 hit in mid-December last year after a one-year high of R137 was reached in March last year. The counter of Pretoria Portland Cement, the main rival to Alpha and Blue Circle, was unaffected yesterday, closing untraded at R77.

Analysts said the Alpha counter did not trade yesterday as the market had expected the merger to be stopped and had already discounted it.

Alpha and Murray & Roberts announced earlier this month that they were withdrawing a cautionary announcement relating to the proposed merger after Erwn indicated he was likely to block it.

Alpha MD Johan Pretorius said the reasoning behind the proposed merger was to create two companies of almost equal strength competing in the marketplace.

A Blue Circle spokesman said it was not in the longer-term interests of the industry to block the merger as SA needed an internationally competitive cement industry in the long term.
INVESTING IN CAPACITY

1996 was a torrid time for companies dependent on the fixed investment spending cycle. The euphoria of the previous two years gave way to pessimism (or realism) about government's ability to deliver on its various social upliftment programmes.

- **ACTIVITIES.** Production and distribution of cement and related products
- **CONTROL.** Altur Investments (54.8%)
- **CHAIRMAN.** P Byland MD J G Pretorius
- **CAPITAL STRUCTURE.** 30.1m ordin Market capitalisation R2.62bn
- **SHARE MARKET.** Price 8.725c Yields 3.2% on dividend, 7.0% on earnings, p e ratio, 14.2, cover 2.2, 12-month high, 15.400c, low, 7.180c Trading volume last quarter, 803 083 shares

<table>
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<th>Year to December 31</th>
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<td>5 506</td>
<td>6 296</td>
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* Historic cost 1 Current cost

In Alpha's case these problems were compounded by internal factors, some industry-related, others not. They included larger charges against profits for depreciation and interest following commissioning of a new kiln at Alpha Lime's Danielskuil facility, abnormal plant breakdowns (mainly at Ulco) and much higher energy costs.

Like other cement companies, Alpha was affected by the costs of establishing its own distribution network following termination of the cement cartel. and the effects on turnover of an unusually wet 1996-1996 summer.

This wiped out 1996's 21% operating profit gain and, after taking into account net interest charges, pre-tax profit (historic cost) fell 23% on 1995 and 4% below the corresponding 1994 figure.

This was balanced by a virtual elimination of the tax charge (77% of pre-tax profit versus 28.1% the previous year).

The bottom line, after current cost depreciation and including retained earnings of associates, was up fractionally.

Chairman Peter Byland and MD Johan Pretorius both expect this profit pattern to reverse this year as they are forecasting a resurgence of operating profit as some of the non-recurring events of 1996 work their way out of the system.

However, as the tax charge normalises, this is not expected to filter through to EPS which, like last year, will probably show only a marginal improvement.

Unusually, if one excludes one-off profit drains, it seems Alpha's bottom line, smoothed by tax, is giving a more accurate picture of general industry conditions than are operating results.

This picture is not particularly encouraging, being dominated by sluggish spending on infrastructure and delays in getting RDP spending off the ground.

Alpha's view is that the hiatus is temporary and that the expectations on which the 1994-1995 euphoria was based will still become reality. Pretorius says the group is planning to spend roughly R1.6bn at current costs over the three years to 1999, of which more than 40% will be to expand capacity (a decision on a new cement plant is expected to be taken by mid-1997). The rest will be absorbed by routine plant replacement and refurbishment.

This compares with net capex and investment of about R600m for the three years to 1996 and the group's present (current cost) fixed asset base of R1.6bn.

With gearing of only 9% and gross cash flow exceeding R300m a year, these spending plans should not upset the balance sheet.

To the extent that borrowings are used to supplement cash flow, the same may not be true of the income statement. Initial returns on new capacity in the cement industry tend to be wafer thin.

Alpha's gross return on net capital employed for 1996, at current cost, was only 9.1% — probably a fair reflection of what can be expected from new investment. It was also 3.5 percentage points below the group average cost of borrowings (total interest charges on year-end debt).

Even if the comparison is based on 1995, when operating profit peaked, it merely results in break-even on interest charges, the gross return just matching the 13.6% average borrowings cost.

There's nothing new in this, nor is it...
confined to Alpha. But it undervalues why earnings growth in capital-intensive, GDFI-based companies is likely to be slow and steady rather than spectacular.

It would also support the premise that the euphoria that drove Alpha's share price to a high of R154 early in 1996 and a 26 times p/e ratio was excessive. The question now, with the share price 43% off its peak, is whether the pendulum has not swung too far the other way.

Alpha has significantly underperformed both the JSE industrial market and, more importantly, the Building & Construction sector, with respective total returns over the past year (capital plus income) of -33% for the share and -21% for the sector index.

This can be ascribed partly to disappointment over government's veto of the merger of Alpha with Blue Circle. But against this is the company's view that its relative competitive position in a non-cartel environment is at least as strong as that of the other cement majors — implying it expects to grow under the new dispensation in line with the overall market, much the same as it would have had the cartel not been disbanded.

The question of investment merit now boils down to whether we are, at last, going to see the boom in social infrastructural spending expected since the 1994 elections. If Alpha's view prevails, the price "adjustment" to the share over the past year should ensure sound returns over the medium to long term. Brian Thompson.

LTA

CASH MOUNTING UP

LTA's unbroken 10-year record of growth in headline earnings and expectations that this will continue in 1997 have resulted in a significant rating of the share in the building & construction sector.

Over the past year, the price has gained 10%, which, with dividends declared, gave shareholders a total return of 12.5%. Though this failed to match the 17% growth in earnings, it was achieved in depressed market conditions.

These did not favour companies dependent on gross domestic fixed investment and contributed to a decline of around 23% in the building sector index. LTA's rating in the sector moved to a 15% premium based on earnings multiples, a year ago, it was at a 10% discount.

ACTIVITIES
Building and construction, civil engineering, and so on.

CONTROL
Amco 66%; 1%.

CHAIRMAN
P.K. Davies M.D. C. V. Campbell.

CAPITAL STRUCTURE
28.3m. Odyssey. Market capitalisation R792m.

SHARE MARKET
Price: R28 Yields: 2.4% on dividend. 6.8% on earnings. p/e ratio: 14.7. cover: 2.8. 12-month high: R29. low: R17.
Trading volume last quarter: 513,009 shares.

Year to December 31st

<table>
<thead>
<tr>
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<th>93</th>
<th>94</th>
<th>95</th>
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<tr>
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<td>78,7</td>
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<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
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<tr>
<td>Return on cap (%)</td>
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<td>7.1</td>
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<td>Turnover (Rm)</td>
<td>1,393</td>
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<td>2,311</td>
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<td>Pre-tax profit (Rm)</td>
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<tr>
<td>Pre-tax margin (%)</td>
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<td>3.0</td>
<td>3.2</td>
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<td>Dividends (c)</td>
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<tr>
<td>Tangible NAV (c)</td>
<td>613</td>
<td>671</td>
<td>772</td>
<td>973</td>
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</tbody>
</table>

* Non-month accounting period, annualised

Few would consider the upward rating undeserved. The earnings advance was broadly based, with four of the group's five operating divisions achieving or beating start-of-year budgets. The only one that didn't was Process Engineering, which, outgoing chairman Hilton Davies says, suffered from a lack of work.

The earnings advance was accompanied by a spectacular strengthening of the balance sheet. Net cash and resources surged R142m (13.1%) to almost R250m, exceeding tangible net worth. (R247m) and just R13m short of total shareholders' funds, including minority interests.

MD Colin Campbell attributes this to "good cash management." A more fundamental reason seems to have been an unusually favourable year-end working capital situation.

At December 31, the group had a negative working capital requirement of R297m, equivalent to 13% of turnover.

The corresponding figure for the previous two years averaged 9%. This arose because of sharp upticks in contract and trade creditors, which far exceeded increases in the group's inventories and contract debtors.

The year-end cash inflow may be temporary. It was not representative of LTA's overall financial position throughout the period. Annual interest receipts were just enough to cover borrowing costs.

Both amounts were significantly below respective 1995 comparatives despite increases in total debt and cash at bank and on deposit at December 31.

Whatever the reason, the group continues to succeed in financing an increasing proportion of its business with cost-free funds.

The ratio of such funds to total assets in 1996 was 72%, up from 64% in 1994. This benefited equity returns and partly explains why return on equity was a commendable 21.8% (1995 20.5%).

Davies notes that work on hand exceeded R2.5bn or 83% of last year's R3bn turnover.

With the potential for work from Cape Town's Olympic bid, government's privatisation programme, long-term contracts that have already been secured and other opportunities identified, Davies and Campbell believe there will be enough impetus to ensure further earnings growth.

Campbell's divisional reviews indicate that, like 1996, the advance should be broadly based across the main divisions, though in Process Engineering (last year's weak spot) this outlook depends on additional work being secured.

FINANCIAL MAIL • MARCH 14 • 1997
Cement strike threatens Cape building sector

Wage talks in deadlock

TIABO MABASO
Staff Reporter

Cape Town's busy construction industry could face shortages of building material following a strike at two major stone, cement and concrete supply companies.

The industrial action by Construction and Allied Workers Union (Cawu) members at three Ready Mix Materials plants started two weeks ago over wages. Cawu represents the majority of the workforce at the plants.

On Wednesday, about 45 percent Alpha's stone and readymix division workers went on strike throughout the country.

Cawu is pushing for a 12 percent wage increase and Ready Mix Materials is offering nine percent.

The two have now approached the Commission for Conciliation, Mediation and Arbitration.

Ready Mix Materials managing director John Horsefield said the strike had also affected production at the company's Eastern Cape, KwaZulu-Natal and Bloemfontein plants.

"The majority of workers in these provinces are not at work. We have skeleton crews and are just managing to limp along," he said.

Alpha's stone and readymix division director Carl Messner-Rolof said production had been affected but the company was doing its best to meet customer demands.

An executive at a major construction company who preferred not to be named said the strike had had no serious effects as yet.

"There are often shortages of cement. We don’t know if this time it's because of the strike."

But the National Black Contractors and Allied Trades Forum (Nabcot), which represents small black contractors, said the effects of the strike were already being felt and if nothing was done by Monday a "crisis" could occur.

"The material that these companies supply is supposed to be used immediately. If the strike goes on, it will have an impact on fast-track projects such as the Malmesbury and Wingfield prison projects and one or two road projects," Nabcot chairman Daraweese Gasan said.

"The two companies involved are major players in the industry and there is a very small number of others who can provide the services they offer."

Wynand Stapelberg, secretary general of the Building Bargaining Council, a Gauteng-based construction industry employer-employee negotiating forum, said the strike in Gauteng had had minimal effect so far.

But he warned that if it went on for too long it could have disastrous effects on the building industry.

Cawu secretary general Matthew Oliphant held out little hope of the strike ending soon.

"The indication is that workers want the strike to continue until a reasonable resolution is reached."

"For now there is no end to the strike," he said.
its debt, which totalled R60m at December 31, and pay for a R45m gangsaw plant — but it does not want to hold a rights issue.

When Kelgran's interim results were released last month, MD Henry Laas said management considered the share undervalued and a rights issue would make it worse.

In contrast, Marlin has held rights issues in Marlin and holding company Marhold to fund the Kudu acquisition, and a rights issue in Kudu itself is next to retire its debt.

As a result of these issues, Wuth and Murphy have attributed a lower rating to Marlin's valuation than to Kelgran's, as Marlin has to establish a track record on this expanded capital base.

Kelgran's share price stands at 390c and the analysts rate the stock as showing value to R5. Marlin is at 85c, the analysts' valuation is 116c.

Marlin MD Graham Treagus says the rights issues to fund the Kudu acquisition have gone smoothly and Marlin is finalising a group restructuring which should be announced within a month. After that the rights issue in Kudu will be tackled.

Wuth and Murphy say the plan is to group all the Rustenburg operations under Kudu, all the beneficiation interests under Minaco and everything else under Marlin.

Turning to production, the analysts estimate SA granite production rose 17% to a record 881,000 t last year from 754,546 t in 1995 and they forecast this volume will exceed 1 Mt for the first time during 1997 because of the expansion plans under way.

Despite rising local output, SA has lost export market share, dropping from 13% in 1991 to 11% in 1995 because of expanding exports from countries like Brazil, India and China. China has moved from third to first place, with 19% of the market in 1996.

The analysts expect significant expansion of local beneficiation. Only 11% of SA's annual granite production is beneficiated locally and the country has fewer than 10 processing lines for the conversion of raw blocks into slabs and tiles.

"When one considers that India — until recently on a par with SA in terms of raw granite exports — has established more than 100 processing lines in the last five years, one can understand the scope that exists in the medium to long term for the granite beneficiation industry in SA, says Brendan Ryan.

Preparations for growth

So far, so good. It seems the two main players in the granite industry — Kelgran and Marlin — have settled their differences after the fight for control of Kudu.

That's a conclusion of the latest authoritative review of the sector by Rice Randalls Turner analysts Mike Wuth and Philip Murphy, who predict the granite companies are looking at strong earnings growth over the next two years.

"Moves in the Marlin and Kelgran camps suggest plans for expansion. Overall, the outlook for the industry appears positive," they say.

Announcements from both companies on further restructuring are imminent. Kelgran needs to raise funds to reduce
Go-ahead for Stage 1 construction

Job boost for Saldanha
Report sees good export potential for granite

Johannesburg — The South African granite industry is due for strong earnings growth in the next two years, driven by increased exports and higher output, but care should be taken to prevent transfer pricing, a new report by JSB brokers Rice Rinaldi Turner said.

“We retain our positive outlook for the industry as a whole and continue to see granite as a growth sector on the JSB. But an issue that will need to be guarded against is that of transfer pricing,” analysts Mike Worth and Philip Murphy said.

Transfer pricing is when a company produces materials and sells them at a loss or at cost to another company, which adds value and makes all the profit. In the case of granite, analysts are worried that most of the profit and added value would be earned in Italy or elsewhere, rather than in South Africa.

The Martin Group, RED Granite and Kelgran dominate the South African granite industry. Martin and RED Granite have strong ties with Italy, and Kelgran is controlled by Mycom, a Malaysian conglomerate.

Martin bought rival Kudu Granite late last year with the help of mining house Anglo American. Analysts were concerned that Martin, with its large distribution and beneficiation network in Europe, would be able to make most of its profit overseas.

The report says, however, that increased transparency in the granite industry will make transfer pricing “unlikely.”

The brokers argue that overall the outlook for the industry looks positive. But it also says there are some who see a potential conflict between Martin and Kelgran over Mycom/Kelgran’s 25 percent shareholding in Kudu, citing Kelgran’s ability to interfere with the planned rights issue in Kudu.”
Cement industry predicts slow short-term growth

Lukanyo Mnayanda

CEMENT sales rose marginally to 1,45-million tons in January and February compared to 1,39-million tons in the same period last year, confirming the industry would have to wait for a boost from increased investment.

Analysts said yesterday the modest growth could be attributed to the continuing low level of public and private sector investment, though the longer-term outlook was more favourable.

They said although heavy rains could be a contributing factor, the figure was in line with expectations and confirmed that the industry would experience sluggish growth this year.

Volume growth would remain modest at between 3% and 5% for the rest of the year, but major projects in the pipeline such as the Maputo corridor development — expected to attract up to R23bn in joint venture and greenfield investment — should provide welcome relief in the next two years.

One analyst noted that government had budgeted for a decline in capital expenditure this year, which was disappointing news for the industry. But capex should increase from next year, peaking in 1999.

Analysts also noted that the African National Congress government would have to contest a general election in 1999, by which time it should have evidence of delivery to satisfy its constituency.

Government subsidies for low-cost housing were off the increase but this had not yet translated into volume growth for cement companies. Low-cost housing was expected to provide a boost when actual construction took off. But high interest rates were likely to restrict growth in the bondable market.

"Interest rates are a key (to a contribution from housing) and it is hard to see how people can afford mortgages at these rates," one analyst said.
Warning on cement producers' sales tactic

Lukanyo Mnyanya 6674797 (193)

SA's main cement producers have encroached on merchants' business by selling straight to the end user in the wake of the demise of the cement cartel, says the Cement Merchants' Association (CMA).

Chairman Charles Matthews said the body — formed to secure favourable trading conditions for merchants in dealings with SA's main producers — had been dealt a heavy blow by the cartel's demise.

It had also seen its membership dwindle as more merchants opted to negotiate independently with producers, believing this would secure them better trading conditions.

"This is a result of the aggressive drive for market share by manufacturers, who have begun negotiating directly with merchants. The opening of the markets has left many merchants feeling they no longer need the CMA as a mouthpiece," Matthews said.

He warned that although merchants were able to secure better deals individually under the new system, SA's main producers were encroaching on merchants' business by selling directly to the end user.

The producers were not accountable to merchants and there were no clear rules regarding policy or pricing. Minimum standards should be set on quantities producers were allowed to sell directly to users. There needed to be broad agreement on pricing to ensure producers did not undermine merchants by selling directly at lower prices. "On the matter of policy and pricing, the CMA intends to meet the manufacturers individually to ensure rebates are based on volume and are a benefit to the merchant alone."
Kudu loses R23,4m over six months

David McKay

KUDU Granite Holdings reported an attributable loss of R23,4m in the six months to December, compared with full year earnings of R2,3m in the year to June last year, which reflected accounting adjustments arising from the takeover of Kudu Granite by Marlin Corporation.

The company, which said the results were not comparable with the previous period due to a change in the year end, reported a share loss of 54,4c from earnings of 19,9c in last year's financial year. No interim dividend was declared.

Marlin Corporation acquired a 56,2% controlling interest in Kudu Granite in January this year, which created SA's second largest granite producer in terms of market share.

A spokesman for Marlin Corporation said Kudu's profits for the year to December this year were expected to exceed those for the year to June last year.

Marlin bought Kudu Granite through the acquisition of assets owned by Destag AG, a deal which was announced in December last year after several months of speculation that SA's other major granite producer, Kelgram, was trying to buy Kudu.
Analysts take cautious line over Boumat’s prospects

Lukanyo Makeenda
891314197

BUILDING materials company Boumat’s share price tumbled about 24% this month, as analysts revised growth forecasts downward for the year to June in expectation of tough trading and high restructuring costs.

The share staged a minor recovery yesterday and gained 10c to close at R5.50 on the Johannesburg Stock Exchange. It moved off the R5 annual low it reached earlier in the month but was a far cry from the R17.90 12-month high it hit last April.

Analysts said the latest fall in the share price could be attributed to market expectations of lower than expected earnings growth as restructuring costs cut into the bottom line. They originally expected the company to show share earnings of about 106c at the year end, but these had been downgraded to between 50c and 71c.

Loss-maker Home Warehouse was being affected by intense competition and should take between a year and 18 months before breaking even, which should provide a boost to share and earnings growth.

“It (Boumat) is in the right industry but is suffering from intense competition and volumes are quite low,” an analyst said.

One analyst said Boumat was undervalued and should stage a recovery once all its divisions had been fully restructured. Another said it was “volatile” with prospects closely linked to economic movements.

Analysts were also concerned about Boumat’s merchant division, which saw operating profit fall by 32% in the interim period.

Boumat CEO Peter Glenning said he was confident of improved earnings this year, though the company would be affected by “fairly tight” trading conditions and heavy rains during March.

He said the low-cost housing market had started to pick up.
MARLIN Corporation produced good earnings growth in the year to December 1996 and expects to do better following a year of acquisitions.

During 1996, Marlin bought 71.4% of the listed Minaco for R18-million, 100% of Natural Stone Quarries and Natural Stone Exporters for R16.8-million, followed by the purchase of German group Destrak AG's South African assets which included 56.2% of listed Kudu Granite and a third of the equity of Natural Stone Processors for R8.8-million.

After the year-end, a rights issue raised cash to cover the acquisitions and leave Marlin with R75-million net cash. Managing director Graham Treagus says the group's structure will be rationalised as four quoted vehicles, Marcor and Marhold, Minacon and Kudu are unnecessary.

Enlarged operations lifted Marlin's turnover by 81% to R156-million and operating profit was improved by 174% to R14.8-million. Earnings a share climbed by 127% to 5c. No dividend was declared.

Marlin's SA quarries contributed R8.1-million to the divisional operating profit — 50% more than in 1995. Minacon's quarries also contributed R4.3-million and its stake in foreign marketing company Mondial R2.2-million.

Marlin's North American quarries — a success story by any yardstick — made R4.1-million, which contribution was unfortunately wiped out by a matching loss (before R2-million of finance charges) in Marble Pentelic, the group's beneficiation operations.

Treagus says Marble Pentelic underwent a major equipment overhaul, took some write-offs and is being restructured so that the primary beneficiation of blocks into slabs takes place closer to the quarries and entirely separate from the manufacture of products for consumers.

Mario Marcellano says demand is strong for Marlin's three key products Rustenburg Grey, Belfast Black and African Red, and the green stone produced at its northwest Cape quarries is gaining acceptance. He is especially pleased that stone from the quarry Virginia Mist, in which Marlin recently acquired an interest as part of its North American operations, is to be used for the new head office of Dutch bank Amro.

"It is a high-profile start for a new material," says Marcellano, who adds that when South Africa starts to grant casino licences, domestic demand for high-quality material should pick up.

Looking ahead, Marlin expects production growth to continue. Last year was the year of big acquisitions and this year, beneficiation will receive attention. The recommencement of dividend payments can be expected this year.

Nevertheless, Marlin Corporation's share price slipped 7c to a year's low of 62c after the results.
Poor first half stymies results

And the share price halves in sympathy

A year ago, while warning of a tough first half, chairman/MD Alan Wilson hoped that 1996 would extend Masonite's recovery from its early-nineties setbacks. But though the second half of last year was indeed better than the previous year, it was not good enough to overcome the steep slump in first-half earnings.

Implicit second-half EPS are in fact 29% up on 1995, at 94.5c (73.5c), but coming after

- **ACTIVITIES** Makes and distributes wood products, owns and develops plantations
- **CONTROL** Masonite (US) 66.7%
- **CHAIRMAN & MD** A Wilson
- **CAPITAL STRUCTURE** 8.82m ords Market capitalisation R97.9m
- **SHARE MARKET** Price R11.10 Yields 3.8% on dividend, 14.8% on earnings, p/e ratio 6.7, cover 3.9, 12-month high R21.1, low R10.90 Trading volume last quarter 30,000 shares

Year to December 31  | '93  | '94  | '95  | '96  
---|---|---|---|---
Net debt (Rm)  | 4.7  | 3.2  | 2.0  | 6.8  
Net equity (Rm)  | 2.3  | 0.7  | 0.5  | 0.0  
Debt/equity ratio  | 6.5  |  —  |  —  |  —  
Shareholders' interest  | 0.65  | 0.67  | 0.66  | 0.65  
Int & financing costs  | 15.6  | 71.7  |  ns  | 23.1  
Return on cap (%)  | 18.8  | 14.8  | 16.3  | 12.9  
Turnover (Rm)  | 137  | 155  | 193  | 221  
Pre-profits (Rm)  | 11.0  | 14.8  | 20.7  | 16.1  
Pre-tax margin (%)  | 8.0  | 9.6  | 10.8  | 7.6  
Net interest (Rm)  | 126.2  | 142.2  | 188.8  | 164.3  
Dividends (c)  | 35  | 38  | 50  | 49  
Tangible NAV (c)  | 983  | 1,087  | 1,226  | 1,395  

**Sources** Institute of Chartered Accountants

the first-half dip from 115c to 70c, annual EPS are still 13% lower.

Wilson says the year started badly in both domestic and export markets. For the full year, local hardboard sales were only 2% down, and mineral fibre board sales were the highest ever, rising 28%. But prices remained under pressure, squeezing margins (though they got better as the year wore on), and the improvement in local markets is proving difficult to sustain.

Hardboard export volumes rose 46%, thanks to new markets. Prices fell in real terms, but continued depreciation of the rand helped offset this.

Performance of the Estcourt mill was excellent, despite a number of "unusual" disruptions. Industrial relations were good, with no labour stoppages. The forestry division had a mixed year, a freak snowfall causing severe damage to the Greytown plantation.

The balance sheet remains strong. While borrowings increased over the year, year-end net cash rose from R2.4m to R3.3m. However, 1995's net interest income of R173,000 was converted into a R703,000 net charge. This apparent anomaly reflects a midyear hump in long-term liabilities. These were R406,000 at end-1995, R725,000 at end-1996, but a whacking R1.3m at half-year.

Financial director Dave Cooper explains this partly a seasonal factor, as stocks are normally large at midyear and financed by bank facilities which are run down by year-end, compounded last year by an abnormal build-up in stocks because of slack first-half demand.

The abbreviated balance sheet published at half time does not break down current assets, but the fall in total current liabilities from R74.7m at June 30 to R71.2m at year-end largely reflects a restoration of the stock position to normal levels.

Wilson expects 1997 to be a tough year for the economy, but hopes for increased domestic sales volumes as the housing backlog at last starts to be run down. He hopes Masonite's strength in the door industry will more than counterbalance possible downturns in other segments.

EPS peaked as far back as 1991, at 228c, when dividends were 60c, having been even higher in the mid-Eighties. About 10 years ago, the share price was R1.7. This has hardly been a rewarding investment for long-term holders, though wide fluctuations in the share price have offered jobbing opportunities.

The latest slide, almost halving in the past year, has taken the share price below published NAV — which, taking plantations and other properties at cost (less depreciation), is almost certainly understated. So, for those prepared to treat Masonite as a trading stock, this could be an entry opportunity with little downside risk.

Michael Costain
PPC chief says signals point in right direction for his firm

Lukanyo Mnyanda

SLOW volume growth and a higher tax bill were expected to cut into cement producer PPC's bottom line, resulting in flat or slightly lower earnings growth in the six months to March, analysts said.

They said predictions for PPC were in line with market expectations as SA's three producers continued to grapple with the transition from cartel to free markets for the cement and lime businesses. But the medium-term outlook for PPC was better, the analysts said. Cement sales for the six months to March were likely to be distorted by March's public holidays and heavy rains which depressed industry volumes.

Forecast earnings growth for PPC's year-end were more upbeat at between 9% and 11%, although one analyst said earnings growth could be as low as 6%. "The tax bill should cut into the bottom line and we should see about 5% for the half year," an analyst said. He expected higher growth for the full year at 5% or 6%.

Another analyst said PPC was well placed to lift market share next year, when it would benefit from an expected surge in infrastructure developments as the Maputo Corridor and other major projects came on stream.

PPC Cement managing director Clive Tasker said growth depended largely on interest rates and an acceleration in government's housing programme.

The signals currently were pointing in the right direction.

Tasker said the first three months of the financial year had been characterised by flat volume growth as high interest rates discouraged private sector investment.

Government infrastructure development had not come through yet, while increasing building plans still had to translate into higher cement sales, Tasker said.
Plate Glass hit by market woes

Johannesburg — An excellent performance from its international operations was not sufficient to counter the effects of local production problems and a dismal domestic market for Plate Glass & Shutterproof Industries (PGSI).

It reported a 6 percent fall in earnings to 702.3c a share for the 12 months to March 31 from 745c in the previous year. A final dividend of 184c a share has been declared, making an unchanged total for the year of 338c. Shareholders may elect to receive capitalisation shares instead of a cash dividend.

The income statement was helped by the consolidation of the group's newly merged US operation, Vistar, in which PGSI has a 49 percent stake. The stake is held through PGSI’s overseas arm, Belron, which also includes operations in the UK, continental Europe and Australia.

The first-time inclusion of all of Vistar was behind the 45 percent increase in turnover to R8.6 billion from R4.5 billion. It also accounted for the 53 percent rise in operating profit to R577.9 million from R225.7 million. The lower operating margins — down from 9.4 percent to 8.6 percent — reflect the difficult operating conditions at home.

Dividends received were down and net financing costs up, leaving pre-tax income showing a 31 percent advance to R503.8 million. Outside shareholders' interests were up substantially to R187.3 million from R26.7 million, reflecting the effects of accommodating the Vistar minorities.

Attributable income was down 4 percent to R278.4 million from R286.6 million. About 58 percent, or R165 million, of this year's income is attributable to Belron's earnings. This is a dramatic 80 percent increase in Belron's financial 1996 contribution of about R55 million, or 30 percent of group earnings.

Ronnie Lubner, the chief executive, said the group's long-term objective was for Belron to contribute about 50 percent of total earnings. Lubner said Glass SA had a most disappointing year, with attributable profit down 80 percent. This was because of manufacturing problems, lower margins in the automotive industry and continued weakness in the construction industry. At PG Becon, attributable earnings were down 47 percent because of production problems and weak demand in the furniture industry.
Cement Project would increase capacity by 850 000 tons a year

Natal Portland Cement researches a second kiln

Shirley Jones
First Flyover Natal Editor

Durban — Natal Portland Cement is exploring the possibility of installing a second clinker kiln at Simuma, its south coast factory, at a cost of R900 million, Raimund Weber, its managing director, said yesterday.

Speaking at the launch of its new-branded Eagle products, Weber said this would be a massive project which would increase Natal Portland Cement’s cement capacity by 850 000 tons a year. This would increase production to almost 2 million tons of cement annually.

As soon as the economy picked up, signalling increased demand for cement products, a decision would follow, he said.

The new Eagle products, in their pro, plus and super variants, would be produced in line with international specifications recently adopted by the South African cement industry.

Weber said the launch of Natal Portland Cement’s Eagle products should be seen as the culmination of a two-year capital expansion project worth more than R70 million.

The main component of this expansion was a massive roller-press plant which was commissioned late last year.

This doubled milling capacity at the Durban plant.

It also included a R500 million expansion of customer service infrastructure and the provision of twenty 35-ton portable silos designed for customers using large quantities of cement.

Weber said Natal Portland Cement was considering investing an additional R1.5 million in portable silos to a total of 80 by the end of next year.

Cementing Change Raimund Weber, the managing director of Natal Portland Cement.
Time to split the business

A strong international showing could not offset poor local performance

The two parts of the group are looking like strange bedfellows. Local operations, which include SA's only float glass manufacturer Glass SA, particleboard maker PG Bison and Zimbabwean glass and wood business PG Industries, are mature businesses with limited growth opportunities.

Unbundled, they might command a rating similar to Afril, about the closest company on the JSE, which has a p/e of 9.3. Then Belron, the successful international windscreen repair business, would be on a p/e of more than 20. Even this would be modest in view of its rapid growth and huge potential. A separate listing for Belron could unlock considerable shareholder value.

Executive chairman Ronnie Lubner says there are no plans to split, but it has not gone unnoticed that controlling shareholder SAB is enthusiastic about Belron and far less so about its local non-beverage manufacturing interests such as Afril, Da Gama, Lion Match and PGSI.

Local operations have some scope for recovery as they get over some manufacturing problems and markets recover.

Glass SA was congratulating itself on the 1996 financial year for the trouble-free R150m repair of its float glass plant. But technical gremlins led to downtime, which is significant when you are operating on a 24-hour continuous basis, and, to service local customers, it had to limit exports.

An overcapacity of glass in Asia depressed world glass prices and imports accounted for up to 15% of local sales.

Lubner says the investment to service the motor industry was made at a time of sanctions and tariff protection when Glass SA could call the entire original equipment market its own and imported cars were almost unheard of. Now most luxury cars are imported.

To be fully profitable, the plants must work at full capacity. In a depressed market, its attributable earnings fell by 50%.

PG Bison had an equally difficult year, on top of a weak 1996, and its attributable earnings fell 47%. Though its key furniture market is likely to stay depressed until at least the second half of the financial year, it has improved productivity and quality under new manufacturing boss Jorge Weeber. Bison should increase profits even if the market does not improve.

Lubner says the group is looking for international strategic alliances to use excess capacity in its SA businesses.

But even if there is strong recovery in the SA and Zimbabwean economies, the local operations cannot provide the same long-term growth as Belron. Its sales topped US$1bn and now account for 6% of the group's R6.56bn turnover. It has further growth potential from new markets such as Brazil, where it has a joint venture, and India, where negotiations are still in progress. It was profitable in all territories and had the benefit of assessed losses in Continental Europe and the US, which kept the tax rate low.

PGSI's effective tax rate fell from 21% to 15% but financial director Mike Read sees it climbing to 25% in a few years.

Lubner expects local operations to maintain earnings and Belron to get better. PGSI was overpriced seven months ago at R165 but at R109, on a 15.5 p/e, offers good recovery potential.
Cement sales bounce back during April

Lukanya Mayanda

CEMENT sales bounced back in April, lifting total sales for the year so far by 2.3% to 2.93 million tons, compared with 2.86-million tons for the corresponding period last year, figures released by the Cement 
& Concrete Institute on Friday showed.

Analysts said volume growth last month had boosted chances of an increase above 5% for the year and represented an encouraging turnaround after March's sales were depressed by heavy rains and holidays.

"This confirms the view that there is still strength in the domestic market and means that 5% growth is still achievable," an analyst said.

Analysts had expected moderate growth this year with earlier estimates ranging from 3% to 5%

However, they were concerned that flat volume growth in the first quarter could have made even their moderate expectations seem optimistic.

Encouraging

An analyst said that building plans completed in the year so far were higher than last year's despite SA's high interest rates — an encouraging sign that activity had not slowed.

Reconstruction and development programme projects should start "picking up steam" soon, and the low cost housing programme should accelerate further for the remainder of the year, he said.

Another analyst said "Volumes have picked up nicely. It is very encouraging and we are now looking for 5% for the year. We are above 2% already for the year so far."

Analysts have said that the sector is unlikely to provide "fireworks" this year, but should improve in the next couple of years.
With the end of the industry cartel, the big producers are relaunching to keep ahead

Alpha rebrands to cement its future

*CONCRETE RESULTS* Johan Pretorius, Alpha's group managing director, with the repositioned and reformulated A1 cement product range

The scrapping of the cement cartel has forced the industry's leaders to sell their R9.2 billion worth of products more actively than at any time in the past.

Accordingly, cement producers have been busy relaunching and branding their products with the aim of making them more attractive to the end users.

Alpha has been in the forefront of such initiatives, starting not only to relaunch its products but also itself in an aggressive, high-profile media campaign.

Ben van der Woude, Alpha's marketing director, in an interview of this current promotional activity, says the rebranding and the new branding strategy will not have short-term results.

"The new corporate identity will take a year or two to pay off. The new packaging should show short-term results. We should begin to see the effect late this year or early next year."

He says the new packaging, an integral part of the branding campaign, is retail-driven.

The Alpha relaunch has been timed to coincide with the release by the SABS of new specifications, calling for a more consistent quality to conform to European norms and standards.

"We're trying to position Alpha in terms of a new corporate identity to elevate it more than just an entity," explains Johan Pretorius, Alpha's group managing director.

"We've redefined our market as concrete, so we supply all the materials going into concrete, and further added value in the form of ready-mixed concrete and mortar. Our product range is far wider than just cement. Our major competitor is now following that path.

Pretorius claims Alpha is South Africa's largest producer in terms of cement and concrete building materials. Alpha also has other interests - lime and industrial minerals which only tend to cushion the building industry cycle in the past. But the real challenge is in the building materials industry.

What is the outlook for an upturn in the building industry?

"We're seeing slightly more demand from the RDP due to the general good weather and more projects in the building industry," says Pretorius. The prospects for this year are far more than modest growth. RDP delivery is still slow," says Dreyer, who says the pace of delivery has been slow mainly because the government has required more capacity at local authority level.

"The government has made it clear that the projects are going to be delivered at the coalface, in the community. We're starting to see some deliveries. Most of our cement is going into the RDP retro-fit."

Dreyer says the group's strategy is to focus on the group's heritage as the largest producer of cement in South Africa, maintaining its position as the building materials industry leader.

"We're not going overboard. We have determined that all our marketing and advertising expenditure must be below 1% of turnover. We believe that is in line with the competitors in the group's heavy marketing expenditure."

Dreyer says the group has worked on a number of projects, including the group's heavy marketing expenditure. We've been working on a number of projects, including the group's heavy marketing expenditure. We've been working on a number of projects, including the group's heavy marketing expenditure. We've been working on a number of projects, including the group's heavy marketing expenditure.
Kelsaran in Granite deal with Baltokene

COMPANIES

D.B. White (1949)

O.S.Y.A. Integrated Services
Company focuses on improving worker skills

Business Day Reporter

IN ITS bid to improve the skills of employees, Inca Concrete has opted for a competency-based training programme geared to produce workplace improvements. Inca Concrete is a subsidiary of Blue Circle group member Beadymix Material.

A pilot programme is focusing on bolstering productivity and heightening quality awareness, which human resources manager Thato Potsane intends supplementing with team building.

Charter Training Group's "progress plan" concept has been introduced to Inca at director level, and then filtered down to middle management, supervisory and junior level. The entire workforce at Inca factories in Meyerton and Sasolburg has been told of the project and its goals — mainly the increase in skills levels, and thus productivity.

The company is pleased with the results so far. "The people we have trained have become more independent as well as more assertive in executing their decisions," says Potsane.

In an early productivity assignment, trainees identified problems and holdups and traced their causes to operators, machinery or materials.

Potsane said: "They are able also to calculate mathematically their input and output, putting a rand and cent value to what they produce. These results tell me the project is working."
BLUE CIRCLE

FM 27/16/97

Shaping up for competition

It's hoped a divisional merger and cost-cutting will buttress margins

On July 1, unlisted Blue Circle Cement and the Ready Mix Materials division of Murray & Roberts (M&R) will merge to form what management claims will be SA's first operational one-stop shop for concrete and cement in SA.

M&R materials CE Carl Grim says Blue Circle is following this route to achieve competitive advantage in the industry, which has been marked by price cutting among the three producers — Alpha, Pretoria Portland Cement (PPC) and Blue Circle — since the break-up of the cartel by the Competition Board late last year.

He contends effects of the price cutting will be evident when Alpha reports for the year to June. PPC reported an 8% fall in attributable profits for the six months to March 31.

In the year to June 1996, the two operations contributed 71% of the earnings before interest and tax (EBIT) of M&R's materials division. This division was responsible for 42% of M&R's total EBIT.

In the six months to end-December 1996, the operating profit of the materials operating group (including the piping systems division) fell from R102m to R98m. Lower margins were blamed.

Grim says the executive committees of the two divisions have unanimously supported the proposal, despite reductions in staff. "The first six months are going to be traumatic, but we should still achieve the profits that we would have achieved if we didn't do anything. After that we will reap significant benefits."

FINANCIAL MAIL - JUNE 27 - 1997

COMMENT

FOX

Key gains will relate to cost containment and the improvement of customer service. With the single division able to offer a complete range of concretes, cements and other concrete components such as sand and crushed stone

Stuart Rutherford
Hard times for cement as local demand levels off

Lukanyo Mnyanda

HEAVY rains in the second quarter and a building industry slowdown combined to restrict cement sales to a marginal 1% increase in the five months to May.

Analysts said the industry was now unlikely to achieve initial growth forecasts of 5%-6% this year.

Instead, figures released by the Cement and Concrete Institute last week showed domestic sales had grown just 1% to 3.59 million tons, compared with the same period last year, and had dropped 0.4% compared with the previous three months.

Analysts said the building industry was unlikely to show much recovery until interest rates had come down and this, combined with unseasonable rains, had seen growth forecasts for cement reduced to just more than 2%.

The oversupply of residential townhouse stock in Gauteng and other areas meant the sector would remain quiet for some time. Developments had received a boost from crime fears, but speculative development had come to a halt in the face of an oversupply.

These figures are very poor and we will not get near the 5%-6% growth figure. We will be lucky if we get more than 2%,” one analyst said.

The Building and Defence Federation of SA (Bifsaf) said in its latest statistical year book, released last week, that the sector had grown 3% last year, a trend it did not expect to be maintained this year. “All signs are pointing to a reversal this year,” it said.

Another analyst said the building industry would need at least two interest rate cuts before staging a recovery. As the impact of a recovery would not be felt immediately, it was unlikely to contribute to short-term cement sales.

“The building industry always takes at least six months before responding to interest rate movements,” he said.

To achieve a growth rate close to 6% for the year, cement volumes would have to grow about 10%, and this was unlikely considering the lack of reconstruction and development programme (RDP) infrastructure projects.

Another analyst said: “There is no RDP. It is a figment of people’s imagination.” Lack of capacity and the brain drain from local authorities would also inhibit the delivery of major infrastructure projects.

“We are looking at maintained earnings for PPC, while Alpha’s earnings should grow about 2%. This is not a good time for cement,” he said.
Clay brick makers are still gloomy on housing

ROY COKAYNE

Pretoria — It will be an "impossible task" for the building industry to achieve the government's target of building 1 million houses between 1994 and 1999, Nic Louw, the executive director of the SA Clay Brick Association, said yesterday.

Louw said South Africa's 134 major clay brick manufacturers around the country were now operating at 20% below capacity despite the government's home-building initiative.

Figures compiled by the Central Statistical Service indicated that less than 150,000 of these houses had been built by the end of March this year.

Louw said that this figure could probably be boosted to 200,000 homes because of unrecorded homes that had been completed.

However, the next general election is only two years away and another 800,000 houses would have to be built within this period to achieve the government target.

"Pressure will be on building supplies and undoubtedly on skilled labour if the target is pursued. It will be an impossible task. Somewhere along the line the planning has gone wrong," he said.

"Pressure will be on building supplies and undoubtedly on skilled labour if the target is pursued. It will be an impossible task. Somewhere along the line the planning has gone wrong," he said.
Alpha reports dip in income

Lukanyo Myanda 006 6/17 1997

Cement producer Alpha reported a 4.2% decline in attributable income to R80m in the six months to June, following decreased building activity and a decline in demand for stone and lime products which affected profitability.

Earnings per share showed a corresponding increase to 368c, but headline earnings a share increased 2.5% to 273c.

The group declared an interim dividend of 82.5c compared to 80c last year.

Sales revenue was 15.8% up at R946.2m owing to the consolidation of new investments and was helped by a marginal increase in demand for cement, ready mixed concrete and other industrial materials.

Operating profit improved by 3.2% to R120.3m, but competitive pricing in the wake of the break-up of the cement industry cartel saw Alpha's operating margin drop to 12.7% from 14.8%.

The interest bill jumped to R12.1m (R11.6m) as a result of higher capital expenditure which included the commissioning of a R106m lime kiln at the group's Outplaa factory.

Investment income declined by 8.8% to R12.5m.

Pretax profit dropped by 5.5% to R117.1m with an 11.7% increase in the tax bill to R36.7m (R32.8m) leading to a 11.7% drop in profit after taxation to R80.4m.

The balance sheet showed that long-term borrowings had increased to R186.6m from R137.3m for the same period last year. Investment in property, plant and equipment had increased to R1.2bn from R964m last year.

Group MD Johan Pretorius said that increasing subsidies in the low cost housing market were beginning to filter through, and this had helped to offset a sluggish performance from the residential property sector.

The industrial market remained buoyant, but cyclical construction had shown signs of renewed confidence during the review period.

Pretorius said the group was expecting stronger growth from its products but was forecasting a slight increase in earnings for the year "in the light of current trading conditions"
Production capacity has fallen by 20% over the year

Ceramic sector slides on slumping demand

Johannesburg — A slump in demand for ceramic products and an influx of cheap imports mainly from the Pacific Rim had dealt a crushing blow to the local ceramics industry, with production capacity falling by 20 percent over the year, industry sources said yesterday.

The Institute of Race Relations' latest newsletter corroborates the picture by noting that insufficient demand had led to a decline in production capacity from 90.5 percent last year to 71.3 percent this year. The industry now accounted for just 1.7 percent of the employment base in the manufacturing sector.

Fred Boerner, the managing director of Armitage Shanks, said his company had suffered a 40 percent decline and had to lay off 35 employees over the year in face of tough marketing conditions.

Alec Gray, the director of Gray Ceramics, said he hoped the upsurge of new hotels might just be the lifeline for the industry after a spell of lean years.

The crisis in ceramics had prompted the government to commission a cluster study to develop new strategies and a vision to realign the industry to improve its customer focus and develop unique African designs.

On the recommendation of study, the Pottery Manufacturers' Association was formed in May this year to represent its interests. Marketing and training had been identified as the pressing issues that needed to be addressed by the association.

“With the new ceramic cluster, we have a chance to revitalize the industry and make it more competitive. The influx of illegal Chinese goods, as well as the economic downturn, have been major challenges. We need more support from the government to address these issues and ensure the survival of our industry,” said Gerhard Nicolaus, the director of metals and allied industries in the department of trade and industry, said yesterday.

He said the circumstances might prompt the government to intervene in the industry. More co-operation would be needed with other state departments to address, among other problems, the influx of illegally cleared goods from China at customs and excise.
Consol reports 27% decline in earnings

Janet Parker

PACKAGING group Consol reported a 27% drop in headline earnings to R251.4m in the year to June which analysts said was below market expectations.

Consol group MD Piet Neethling said the restructuring and re-engineering that Consol was undergoing had proved more "disruptive, severe and painful than we expected", depressing manufacturing efficiencies and output.

Headline earnings would have dropped only 17% had the group retained its partial deferred tax basis for the full year, he said.

During the year under review Consol refocused as a packaging company, disposing of its rubber division from January 1. The cash effect of the deal was R1.1bn.

For the year under review the group maintained a final dividend of 10.2c. Group operating profit fell 34% to R257.7m on a 24% drop in turnover to R2.5bn. The total glass packaging market had declined 3% and Consol had lost an additional 3% market share, resulting in a 6% decline in sales volume from the division. Neethling said the glass division had contributed 50% to group turnover and about 70% to earnings.

Net financing costs decreased 46% to R47.5m owing to the R1.1bn cash generated by the disposal of the rubber division, the capital profit of which is reflected as the R180.5m exceptional item. The tax bill plummeted 71% to R26.9m largely due to overprovision in previous years.
Saldanha cement mine
‘threat to rare plants’

JOHN YELD
ENVIRONMENT REPORTER

Plant life on the site of the proposed Alpha cement mine near Saldanha Bay is rated “of very high conservation importance” on a national scale, according to a comprehensive environmental impact assessment report.

This vegetation – technically “calcrete shrublands” – occurs only in the West Coast region and contains several rare and endangered plant species, as well as at least three species not yet formally described by botanists.

The R750-million cement proposal includes a production plant near the existing ore-loading terminal at Saldanha and next to the new Saldanha Steel plant, limestone and clay quarries north-west of Saldanha town, and an 8km conveyor system linking quarries with the production plant.

According to the draft EIA report, only about 10 percent of the known extent of the site’s calcrete shrubland vegetation is formally protected – at Postberg in West Coast National Park and on the Saldanha Steel property.

The EIA recommends that the total area for mining should be reduced.

In response, Alpha has accepted a restriction on mining to an effective “80-year scenario”, although total reserves exceed 200 years; that no mining should occur south of the Jacobs Bay road, and managing the rest of the proposed mining area for conservation.

This would result in conserving some 76 percent of rare and threatened vegetation in the mining area.
Saldanha cement mine
‘threat to rare plants’

JOHN YELD
ENVIRONMENT REPORTER
22/8/97

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COMMENT

FOX

BUILDING BLOCKS

<table>
<thead>
<tr>
<th>Year to June 28</th>
<th>1996</th>
<th>1997</th>
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<td>Turnover (Rm)</td>
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<td>Pre-tax profit (Rm)</td>
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<tr>
<td>Earnings (c)</td>
<td>13.7</td>
<td>23.7</td>
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</table>

It has made a “substantial” investment in information technology to allow it to operate more efficiently, particularly from a mass buying point of view. MD Pat Goldrick says this allows huge bargaining power.

The turnaround hasn’t come without some pain, mostly in borrowings which have almost trebled to R44.5m. Much of this been used to pay for compans, some has gone towards upgrading 27 of the 36 stores earmarked for refurbishing. Goldrick doesn’t expect debt to rise further.

One reason for the 116% increase in attributable earnings to R6.9m (which remained static at the interim) was good performance from subsidiaries in Namibia, Swaziland, Botswana and Lesotho.

A turnaround company, Cashbuild’s share price hit a year’s low of 300c in June. However, even at 450c on a p/e of 1.5 it is still relatively inexpensive and is sure to benefit if the building of low-cost housing eventually gets off the ground. Building of rural clinics and schools is already having an effect.

Heather Farley

CONSL

Losing market share

MD Plet Neethling says the group had expected some disruption as it undertook a R1.1bn capex programme over five years to modernise its glassworks, but it turned out to be more painful than he had imagined.

During the process, service and quality suffered and the glass division, which accounts for about 70% of Consol’s bottom line, saw a 6% decline in volumes, and its total market share fall from 75% to 72%.

Neethling says modernisation will take a further 12-18 months to complete. In the year to June a new R200m bottlemaking facility was commissioned at Bellville in the Western Cape primarily to serve the fastest growing section of Consol’s customer base, the wine and fruit juice industries.

Consol’s first 80-year-old Talana plant at Dundee, Natal was closed, leaving four plants much closer to its main customer base in Gauteng and the Western Cape.

Consol Paper suffered from the market slowdown on the paper and board packaging industry and was unable to recover fully raw material cost increases.

Consol Plastics, which had been the black sheep, returned to profit after two years. It has moved out of commodity markets, such as fabric softener bottles, and concentrates on niches such as the new 5L plastic paint cans and motor oil cans.

Packaging turnover increased just 3% to R1.5bn and packaging margins sank from 15.3% to 12.7%.

The published 27% fall in headline earnings to R161.8m, however, rather overstates the decline Consol has switched from the partial to the comprehensive method of providing for deferred tax. Without this the decline would have been 17%, in line with the interim slide of 16%.

Consol sold its Contred rubber operations at half-time and is now a focused packaging operation. It received R72.5m cash and R300m debt was assumed by purchasers Goodyear and Anglovala Industries. There was a net cash increase of R627m and net cash stands at R335m.

Neethling says Consol should continue to generate cash in spite of over R300m of capex this year.

Though he expects consumer spending to perform tentatively he hopes new products such as the long-necked nonreturnable beer bottle and 250ml soft drink bottle will stimulate sales. He expects better earnings this year from all businesses.

At R30, Consol is 33% down on its October high of R45. With a p/e of 11.9 it is rated below rivals Kohler (12.9) and Nampak (17.5), which is more than justified by recent performance. Consol is best avoided until the modernisation programme has shown tangible results.

Stefan Brandt

MDAS

Moving to make sales King

Improved margins pushed growth in 1997, with little help from sales.

Performance for the year to June 30 appears unsTEPS, at best turnover up 1% and headline EPS up 3%. However, the bottom and top lines mask some radical movements in operating margins, interest payments and tax charges.

For the fifth straight year MDAS managed to improve pre-interest margins. They are now 5.7% thanks to productivity improvements. Tighter control over working capital also enabled it to slice gearing from 37.9% to 13% and cut interest payments by 44%. But this was all but wiped out by tax, which soared 893% to an effective 22.4% tax rate. This is set to approach 31% as the last remaining tax losses are offset.

Financial director Derek Hill says MDAS was unable to produce meaningful turnover growth because of the slow market and that the fact that the buyers of competitor Federal Mogul picked up its stock at a discount and released it at cut-throat prices.

Hill says the focus this financial year will be firmly on increasing market share. “The area we want to grow is greater Gauteng. If we get the same share of the market here as we have in the Cape and Kwazulu-Natal we will greatly increase turnover.”

“We can do some further work on efficiencies and expenses and we’ll have greater purchasing power with higher volumes, but the market will largely dictate margins." MDAS isn’t offering forecasts, but much will depend on how much it can progress in an insipid market. It should benefit from the three acquisitions, which will add about 9% to turnover, and from possible further acquisitions in the engine parts business. But gains will be dampened by tax. Better investments are available.

SLOW MARKET

Year to June 30 | 1996 | 1997 |
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<td>Dividends (c)</td>
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</table>
PGSA surges on news of Belron plan

SHARES in Plate Glass & Shatterproof Industries surged yesterday on news that its global arm Belron International was extending a £336m takeover bid for Canada's Autostock.

Plate Glass shares closed at R125,50 yesterday after rising 325c or 2.55% to R128.75 on 52,600 shares traded at midday.

Reuters reports that one Johannesburg-based equities dealer said: "It's certainly heading up on the announcement. This thing has been hugely volatile this year. It's not as if we are in uncharted territory here."

Plate Glass announced yesterday its 78.2%-owned unit, Belron International, which is the world's largest automotive repair and replacement glass company, had entered into an agreement to extend an offer to buy the entire issued share capital of Canadian-based Autostock.

It said that the cash offer was for C$5.50 a share.

The two principle shareholders of Autostock, which together hold 74% of the company, had agreed to the offer.

The offer follows the recent announcement by Belron that it intended to buy Canadian-based Standard Auto Glass for C$37m. Standard has 126 branches throughout Canada.

Plate Glass & Shatterproof chairman Ronnie Lubner said he was confident both transactions would be finalised in the near future and that they would add "real value" for Plate Glass shareholders.

"The deals are another step in achieving Belron's goal of consolidating its leadership position in the world's major automotive glass replacement markets," he said.

Once the transactions had been concluded, Belron would have more than 1,250 branches in 16 countries with annual sales of almost R5bn.

Lubner said having Standard Auto Glass and Autostock in the Belron stable would put the organisation in a strong position to make rapid gains in the Canadian market and secure a meaningful share of the automotive glass market.

Polish acquisition is part
Granite Industry Fortunes Set to Change

Companies
Marcorp set to meet forecast

MARLIN Corporation (Marcorp) was set to realise forecast headline earnings of 10c a share for the year after reporting strong interim results yesterday, analysts said.

The group, which also houses new acquisitions Kudu Granite and Minaco Granite & Marble, posted a 1.2c jump in headline earnings a share to 4c. It expected a better second half as output rose and costs were reduced. Marcorp said it would resume the payment of a dividend at the end of the financial year.

Turnover more than doubled to R150m in the six months to June. But higher volumes were reflected in operating costs which rose to R122m from R53m in the corresponding period last year.

Attributable profit increased to R13.2m from R6m last year. Marcorp said R9m of profit was derived from local subsidiaries and the R4.2m balance was the contribution from its international operations.

Net borrowings, which analysts said had dampened confidence in Marcorp previously, had now been removed.

The group said it had received Reserve Bank approval to buy a 50% stake in a quarrying operation in Madagascar. This involved an investment of about R6m and added two popular materials to the range offered by the group.

It had bought new sites for the development of new African Red-type quarries. Output had started at one site and development of the other was planned for this month onwards, the group said.
CONSL

More pain than gain so far

Market share was lost as the huge capex programme ran into trouble

Consol's bleak 1997 year was as much a result of self-inflicted problems as of poor economic conditions.
The packaging industry is generally considered a barometer of the economy, so one could argue the group couldn't do much about falling demand from customers, who mostly sell products to the consumer market.
But avoidable manufacturing disruptions and furnace failures caused the group to lose market share in the painful process of restructuring its business to become globally competitive.

When Consol realised it had to improve efficiencies to succeed in its new environment, it embarked on a huge capital investment programme of about R1bn to upgrade production facilities, particularly in the glass division, which contributes 54% of turnover and 71% of operating profit.

However, 'disruptions and an inability to meet customers' demands contributed to a 6% downturn in volumes in this division. The wine industry was particularly pained when the group couldn't produce the dark green colour demanded. It didn't count on the Western Cape sand having a different chemical make-up to that further north. Customers moved elsewhere, particularly to competitor Huppak.'

"The impact of restructuring has been worse than expected," says group MD Pet Neethling. "We've taken lots of pain and quality has been affected."

To be fair, poor economic conditions also played a role. Customers such as SA Breweries face a slowing economy. For example, says Neethling, beer consumption growth grew only 1%, while soft drinks grew 10% and wine consumption 1.3%. And because the economic outlook is poor with no signs of interest rate cuts, customers have been running down inventories.

Glass was not the only division that performed poorly. The paper and board division also saw subdued demand while plastics made an operating profit of R6m after a R9m loss a year ago.

Overall, turnover fell by 24%, affected by the sale of the rubber business, for which about R1.1bn was realised.

On top of declining market share and poor turnover came the move from a partial deferred tax basis to comprehensive tax, in line with parent AngloVaal. On the partial method, headline earnings fell 17%, on comprehensive deferred tax, they fell 27%.

Consol has much pain still to bear. "We need time to turn the ship around," Neethling says. "We're being pressure by customers who are benchmarking international packaging groups and asking why we can't produce the same here."

With the economic outlook dim and the restructuring slow, Neethling is expecting efforts to kick in only in 1999-2000. However, Consol wants to regain lost market share sooner by improving service.

Consol's debt has shrunk significantly and it has cash to make acquisitions should it find something tempting. Much hope is being placed on new glass division MD Simon Crutchley.

However, the packaging group has a long way to go before it will produce the returns expected by shareholders. Its p/e is about average at 11.5, but it's not yet a turnaround stock.

Heather Farmby

n A T I V I T I E S: Manufactures and markets glass, paper and plastic packaging
n C O N T R O L: AngloVaal Industries (64.1%)

n C H A I R M A N: D C Robbertze Group MD P

n N e e t h l i n g

n C A P I T A L S T R U C T U R E: 64.4m ordinary Market capitalisation R1.87bn

n S H A R E M A R K E T: Price R29 Yields 3.5% on dividend, 8.7% on earnings, p/e ratio, 11.5, cover, 2.5 12-month high, R45, low, R23.80 Trading volume last quarter, 842 085 shares
‘Alpha’s Saldanha plant to aid economy’

JONATHAN ROSENTHAL

Proposed 700,000-ton-a-year cement plant at Saldanha would, in one fell swoop, boost national economic growth by 1 percent and would contribute about R214.3 million a year (at 1996 prices) to GDP, reports an environment impact assessment commissioned by Alpha.

The most immediate contribution would be the provision of 266 direct jobs and an estimated 1,400 indirect jobs. Building the R719 million plant would also create a peak of 750 jobs during three years of construction in an area where unemployment is estimated to be 35 percent.

The ratio of jobs to capital invested would be slightly lower than the national average, while 23.2 percent of the project’s income would flow to people in the low-income group as defined by the National Housing Commission. This is because of the high capital intensity of the project and the fact that it would require a high proportion of skilled personnel.

But the report raises the possibility that job creation at Saldanha could be counterbalanced by job losses at PPC, a competing cement producer that dominates the Western Cape market and would be likely to lose some market share if the Alpha plant went ahead.

The study also found that the plant would have several detrimental environmental and social effects. Key among the concerns are the effect of mining and the visual infringement of the plant.

Another concern was the effect of a large cement plant on the mariiculture industry that employs about 334 workers and has been proposed by environmentalists as a low-impact alternative to heavy industry in the area.
Ceramic's big turnaround

Johannesburg — After flat turnover for four years, Ceramic Industries, the tile and sanitary-ware manufacturer, boosted revenue in the year to July 31 while at the same time recording a 31 percent increase in attributable profit.

Johan Bouwer, the financial manager of the group, said yesterday, “We concentrated on growing our business this year. The pressed tile business was really flying this year. We increased our investment substantially and we are starting to see the benefits.”

Attributable profit rose to R10 million from R14.4 million as turnover grew 34.7 percent to R180 million. Earnings a share rose to 106.5c from 80.7c, and the company maintained its dividend cover at five times, lifting the payout from 15c to 21c.

Most operations performed well except Betta Sanitaryware, which was sent into a loss by an illegal strike.
PACKAGING R1bn upgrade will match product quality of stakeholder Owens-Illinois

Consol Glass on way to world class

JABULANI SHAKHANI

Johannesburg – Consol Glass, a listed and one of the largest glass packaging companies in the world, is ten months into a R1bn upgrade programme to turn the country's largest maker of glass into a world-class competitor by 2000.

Towards this objective, Consol Glass is also tapping into the technical expertise of Owens-Illinois, the US-based glassmaker, which owns 19 percent of the Consol Group.

Recently, Consol Glass appointed Gary Halford, the former director of international technical support services at Owens-Illinois, as its technical and manufacturing director.

Simon Crutchley, who became the Consol Glass managing director in July, said the money was being spent on upgrading Consol Glass's manufacturing base to the best of Owens-Illinois's.

During the past financial year, Consol Glass completed the building of a R200 million furnace at Bellville, which will service the Western Cape's wine industry. Beginning in April next year, it will upgrade the furnaces at its Wadeville factory near Germiston.

Crutchley said part of the need to be internationally competitive was driven by Consol Glass's customers having to compete locally against international brands.

"They also export wine. The price of our wine bottles has to be same as that of competition that our customers face.

Consol Glass's battle was also made tougher by the loss of market share in recent years to competitors like Nampak, the other listed packaging group.

Crutchley explained the loss of market share was partly because of the three major rebuilds of Consol Glass's furnaces, which resulted in the disruption of production schedules.

"Our customers were frustrated with our service," said Crutchley.

In its bid for a world-class player status, Consol Glass's task will also be made difficult by the huge variety of products made from its 12 furnaces. Consol Glass produces some 800 products of different colours and moulds which require shorter production runs.

"We would prefer to have long runs of one product, which will give us the operational efficiencies we need. With each change we lose 9-10 hours," said Crutchley, adding that colour changes were also fairly disruptive and expensive.

Part of the solution to the large number of products made could be in Consol Glass sourcing some of the products from Owens-Illinois's factories around the world. However, importing glass is expensive because the fragile nature of glass requires that it be shipped in containers.

In terms of the worldwide Owens-Illinois family, Consol Glass is already exporting beer and soft drink bottles to Malawi, Zambia, Namibia, Mozambique, all the Indian Ocean islands, Zambia and Tanzania.
Cement plant may burn tyres instead of coal

ROY COKATNE

Pretoria — PPC, the cement and lime producer, was moving ahead with a project to replace 15 percent of its coal requirements at its Hercules cement factory in Pretoria by burning scrap tyres, Francois Germshuizen, the general manager of PPC’s Hercules plant, said yesterday.

Germshuizen said PPC Hercules was in the process of applying for capital to install hardware, such as a feeding system for the tyres into the kilns. This was done manually during the pilot project which involved 20,000 tyres.

The tyres would replace coal as a fuel in the cement kiln, thereby saving precious fossil fuels and solving a major environmental problem by recycling energy from waste material.

The feeder system would be installed in phases. The first phase, to be completed by the end of September next year, would cost about R5 million but would only make the feeder system semi-automatic, Germshuizen said.

It would cost about R7 million to make the tyre feeder system completely automated but further phases were dependent on “getting the tyre manufacturers on board”, he said.

A system for collection and transportation of infrastructure also had to be developed for the tyres, he said.

“Unless we get full co-operation from the tyre manufacturers, the project will never work. A lot of work still has to be done, and we still need to do a full impact study.”

Estimates were that the factory would require 1.2 million scrap tyres a year to replace a percentage of its coal requirements.

When PPC launched the pilot project in 1994, it was reported that some 85 percent of used tyres were unsuitable for retreading, which generated about 6 million scrap tyres a year.
Bifsa wrong over prices, says Corobrik

Shirley Jones

Durban — Corobrik refuted charges yesterday that the clay-brick industry was responsible for the skyrocketing price of building materials.

The Building Industry Federation of South Africa (Bifsa) said recently the price of face bricks had escalated by 22.9 percent while the increase in building materials prices had been only 10.2 percent.

Peter du Trevou, the managing director of Corobrik and the president of the Clay Brick Association, said Bifsa’s estimate for the price rise was incorrect. The average increase in prices of building materials was about 9 percent.

Speaking on behalf of Corobrik, Du Trevou said price increases had been kept below the producer price index at between 8 and 10 percent.

The catalyst for pulling in its

belt, cost-wise, was the fact that the building industry was facing tough times and great concern that low-cost housing — one of the bigger markets for clay bricks — would resort to using cheap, poor quality materials with disastrous consequences.
Rolling out the grey carpet

SA companies are all looking north, but seeing totally different things

Alpha announced its first acquisition outside SA last week, in the form of a 60% stake in Tanzania’s largest cement producer, Tanga Cement.

The purchase is one of only a handful of deals struck in Africa by SA cement makers, the most recent of which was Blue Circle’s purchase last year of 49.9% of African Portland Cement, Namibia.

For Alpha, the stake, bought from its controlling shareholder and the world’s largest cement producer, Holderbank, is particularly significant.

Alpha financial director Trevor Wagner says it gives the company access to an infant cement market and makes it less dependent on the SA market, where margins have been squeezed since the breakup of the cartel. Cement consumption per capita in Tanzania is 26 kg/year, which compares to 200 kg in SA.

Alpha says it is investigating opportunities in other African countries south of the equator as part of its geographical expansion plans, which accord with those of Holderbank: “We know where we want to be, but the speed at which we move depends on when governments privatise, as in many cases cement is owned by government.”

But Wagner’s bullishness is not echoed by either Carl Gnm, CE of Murray & Roberts Materials (housing Blue Circle Cement), or PPC group MD John Gomersall. Gnm cautions that many of the cement companies in Africa already have international equity partners with pre-empitive rights to increase their stakes.

“There are not a lot of gaps in southern Africa,” says Gnm, “You really have to get to the Central African Republic before you start finding opportunities.” Gomersall says he doesn’t know if there are any opportunities left on the continent.

Gnm says starting up operations within these countries is also difficult, since current capacity is more than capable of coping with demand. He suggests it may be better to fix what is already there.

Alpha, meanwhile, says the Tanga acquisition should have an immediate, but small impact on EPS in the year to December 1997, and that greater contributions should come in the medium to long term. The Tanzanian company stands to benefit from improved efficiencies, a possible fuel price drop and increased throughput. Production stands at 350 000 t/year, and is expected to reach full capacity of 500 000 t in two to three years.

Wagner says the group will decide by early next year whether to expand into the Western Cape, where PPC has a monopoly, or to expand its other domestic facilities. The planned R120m plant in the Western Cape would push Alpha close to its self-imposed gearing limit of 67%, but this is expected to fall quickly.

With no financial information available on the acquisition, it is impossible to evaluate the impact on the company. But it is encouraging to see Alpha finding new growth opportunities and benefiting from its link to Holderbank.

FRASER ALEXANDER

Going down to the core

Growth may seem limited, but management doesn’t think so.

Latest results from Fraser Alexander signal a watershed for this group which has now completed the restructuring started last January, when new CE Dennis McIntosh took over.

The group has been cut back to its core businesses with the sale of the coal mining interests and resolution of the bitter fight in the waste disposal market with Enviroserv. Frasers merged its Waste-Tech division with Enviroserv in a deal funded with equity. It is now unbonding this business, enabling its shareholders to hold shares in Enviroserv directly.

Fraser financial director Les Maxwell says the reasons are the group policy not to hold minority stakes in operations it does not manage, and a desire to provide a bonus to shareholders.

He hopes the cleaner structure and clearer future for the group will result in a re-rating of the share.

Frasers comes out with a rock-solid balance sheet: It is ungeared and has cash in the bank, a year ago it had R67.6m debt.

The group is now focused on three core divisions: bulk materials handling, concrete products and mining services, including the tailings dam management operations.

If there’s a worry it concerns the apparently limited growth potential. Frasers has acquired almost all the available tailings disposal business in the SA mining industry and the concrete products operation business depends on RDP business.

One reason for the decision to unbundle the Enviroserv shares rather than sell them and return the cash was that management could see no obvious use for the cash.

Marketing director Kevin Eborall sees growth in all three of the divisions. On the bulk handling side, Frasers wants to acquire the materials handling contract for the proposed second coal terminal at Richards Bay, KwaZulu-Natal.

The project is being won by Group Five and Anker Kolen, which bought the Eldorado-fontein coal mine from Frasers. Frasers has also secured a contract to provide materials handling services to Samancor’s Meyerton, Vereeniging plant which Eborall views as a new, strategic development.

Frasers has moved into materials handling in Zimbabwe by buying Field Engineering, management has been surprised by new business it is “generating”. Mining services business is booming in Zimbabwe.

On the concrete products side, Eborall says the long-awaited RDP delivery process may be gaining momentum. He’s optimistic about major projects such as the Maputo corridor development, and work on new toll roads.

Fraser has also formed a joint venture in Zambia with a company that produces concrete railway sleepers, and wants to expand there and in neighbouring countries.

Headline EPS for the year to end-June rose only 6% (Fox October 3) but Maxwell says Frasers’ results for the past five years show a compound annual growth rate of 20% in both before and after tax earnings.

He expects more this year.

Brendan Ryan

TA BANK

Invading the market and JSE

TA Bank wants a listing to launch an assault into southern Africa.

TA Bank, which opened its doors in SA just four months ago, is on the prowl for a listed vehicle to enable it-to speed up its pen-
Merger news bodes well for Plate Glass

JOHANNESBURG — The Plate Glass share price eased back 25c to close at R125 on Friday following the release of details concerning the proposed multimillion-dollar merger which will result in Visitar, its US-based automotive glass replacement (AGR) operation, becoming part of one of the largest companies in that market in the US.

The merger was expected to provide a boost to Plate Glass earnings in financial 1999 once rationalisation costs had been absorbed. Analysts said on Friday that the share price had moved up after speculation relating to the deal and that there was reasonably strong demand from institutions.

Thus, they said, was based on medium to long-term prospects for the group rather than the 12-month outlook, which was unexciting because of the continued weak performance of the South African operations.

In the 12 months to June 30, an excellent performance from Plate Glass’s international activities was not sufficient to counter the impact of the poor performance on the home front, and the group reported a 6 percent fall in earnings.

For the present year, financial 1998, the potential benefits of the US merger were expected to be matched or exceeded by the likely costs associated with the rationalisation that appears to lie on the cards.

Visitar, an AGR operation with 356 branches, is 51 percent owned by Belron, the international arm of Plate Glass. This business will be merged with Safelite Glass Corporation which has more than 500 AGR retail outlets.

The rationalisation exercise is expected to see the combined number of outlets trimmed back to about 750, which will have an estimated annual turnover of $300 million in a market valued at between $3 billion and $4 billion.

Belron will exchange its 51 percent Visitar holding for a 45 percent holding in the merged entity, which will operate under the Safelite name. At present, Safelite is 100 percent owned by Thomas Lee, a Boston-based private equity investment company.

The deal is subject to the approval, in terms of the Hart-Scott-Rodino Antitrust Act, of the US Federal Trade Commission.

A Plate Glass spokesman said such approval was expected to be granted because the total number of AGR shops in the US was 20,000 compared with the merged group’s 856 before rationalisation.
Offshore divisions rescue Plate Glass

ANN CROTTY

Johannesburg — The financial results released yesterday highlight the extent to which Plate Glass & Shutterprufe Industries is becoming a rand hedge investment. Disappointing results from the domestic operations and news that the regulatory authorities in the US have approved the recently announced merger involving PGSI's US business underscore the group's growing appeal as a rand hedge investment.

PGSI yesterday reported a 6 percent decline in headline earnings to R733.36 a share in the six months to September 30 from R741.46 in the previous interim period. An unchanged dividend of 148c a share was declared.

The group's rapidly growing offshore division, Belron International, accounted for 60 percent of the earnings while SA operations — Glass SA and PG Bison — contributed just 25 percent of earnings.

This trend will encourage shareholders, who may have become weary of the uncertain earnings performance of recent years, most of which can be attributed to the sharp drop in contribution from the group's South African assets.

As recently as financial 1996, the local glass and wood operations accounted for a combined 61 percent of group earnings. Group chief executive Ronnie Lubner yesterday acknowledged that South Africa was inevitably assuming a relatively lower profile, but added that it still represented PGSI's core business.

"We've sorted out our production problems in South Africa, but it is still difficult to get a handle on when the market will recover," he said.

The uncertainty on the domestic front had made the decision on whether to mothball excess capacity extremely difficult, he added.

Approval for the merger of Belron's US Vistar operation with Safelite was secured within two weeks. The merger will form an automotive replacement glass network with an annual turnover of more than $900 million.

As PGSI holds 45 percent of the merged operation, its results will be equity-accounted for the last three months of the current financial year, which is when the deal became effective.

Belron's recent debt-funded acquisition of two automotive glass replacement chains in Canada will lift total North American turnover to more than $1 billion a year. Lubner is confident that "in due course revenue from this region will more than fulfill our expectations."

Results from PGSI's other international operations were described as generally pleasing, "with the European businesses continuing to show improvement in terms of sales and market position."

Zimbabwean operations performed in line with expectations.

Lubner is not expecting trading to improve in the second half and states that the expected 60 percent increase in net debt, because of the Canadian acquisition and costs relating to the US merger, point to a similar earnings decline in the full year to March next year.

The share shed R11.20 to R114 yesterday as more than 240,000 shares changed hands.
Plate Glass's income shies on disappointing results from SA outlets
Ceramic aims for 50% more efficiency

Johannesburg — Ceramic Industries, the country’s largest tile maker, hopes to become almost 50 percent more efficient in the next three years, Johan Bouwer, the financial director, said yesterday.

Bouwer was commenting on the company’s annual report, released last week. The report showed a steady rise in operating margin, with the exception of last year. From 1993 to 1996, margins grew from 6 percent to 13.6 percent. Last year, the margin fell back to 13.3 percent because of an illegal strike at Betta Sanitaryware.

“If you look at the company over the last five years, turnover was stagnant, but last year it started to fly (rising 34 percent). Profit showed an upward trend, which could be attributed to cutting out excess and inefficiency. That is the whole management philosophy. It hasn’t been easy, but now it’s starting to pay dividends,” Bouwer said. The company expected the margin to rise to 16 percent next year and 20 percent in three years’ time. This year, the company hopes to lift turnover over 20 percent to R220 million.

The expected improvements should come from expanded production and a turnaround at Betta. Workers at Betta went on strike in April. The high court later ruled it illegal, but the damage had been done as Betta lost R4.9 million.

Ceramic did not blame the workers alone. Bouwer said the strike had been precipitated by poor management control, so the management was replaced. The new team had taken a much tougher stance with the union. Bouwer said the division was above break-even and should earn R2 million in the year to next July 31.

Growth in pressed tiles production should raise revenues and cut costs. Sanca, the pressed wall and floor tile division, has installed a new continuous-milling clay plant which should lift floor tile production by 35 percent and wall tile production by 25 percent. Sanca was the largest contributor to profit last year, and Bouwer expected this to continue.

Ceramic has been a star JSE performer. It was the fourth most successful stock in the 12 months to September 30. Since the beginning of the year, it has more than tripled. Yesterday it gained 50c to R19.50. It has also attracted much more notice trade in its stock rose from R8 million worth in the 1995 financial year to R29 million worth last year.
CEMENT producer Alpha had been hit hard by slowing demand and a dearth of gross domestic fixed investment, and would be "hard pressed" to match last year's earnings, outgoing MD Johan Pretorius said yesterday.

Analysts said they were expecting lower earnings from Alpha, which was not well placed in SA, lacking exposure to growing markets and losing market share to competitor PPC in some areas.

Latest Cement and Concrete Institute figures show that the Western Cape — where PPC has a virtual monopoly — was the only province to show significant growth this year, running sales by 13.5% to 1-million tons in the 10 months to October.

SA's largest market, Gauteng, where both had a presence, experienced a 6% decline to 2.4-million tons North West, Northern Cape and Mpumalanga where Alpha's other operations were located barely had a disappointing year, with Northern Cape posting a decline to 147,950 tons compared to 161,000 in the comparable period.

The companies' contrasting fortunes have been reflected in their respective share prices. Alpha lost another 100c yesterday to R60 while PPC was steady at R65. Alpha reached a 12-month high of R107 last August and PPC stood at just R65 during the same time.

Overall cement sales grew just 1.2% during the first 10 months of the year, a far cry from the industry's "modest" expectations of between 3% and 5% at the beginning of the year.

Analysts said Alpha's challenge to PPC had been dealt a heavy blow by the Competition Board's decision to block its merger with Murray & Roberts' Blue Circle, which would have given it the economies of scale required to enter new markets.

Pretorius, who goes into retirement at the end of February, said the current year would be "tough" due to slower demand in SA and the company was looking to countries outside SA to drive growth.

Alpha recently took a 60% stake in Tanzania's largest cement company, Tangoma. Cement It would look for opportunities in other African markets but Pretorius could not provide details.

Pretorius denied the company had embarked on a major restructuring of its Gauteng operations to deal with the tough trading conditions and said it was combing some operations in its stone and ready mix division as part of a continuing process.

Pretorius said he would be replaced by deputy MD Mike Doyle after a years transition period.
CONSOl

Buy-in bid is a surprise

But minorities will be better off in shares with greater growth prospects

Anglovaal's plan to delist Consol, in which it has a 64% stake, is "a bit of a surprise" to analysts. But the offer to minorities is considered reasonable considering the short to medium-term prospects.

At R28, the offer is at a 40% premium to Friday's R20 price, and on a p/e of 11. The share has since risen but as one analyst says: "When one looks at a forward p/e of 12, the price is very realistic.

However, investors who bought shares in 1994 at about R57 on a p/e of 23 may understandably feel a bit peeved.

Consol's demise — headline earnings fell 27% in the past financial year — is a good example of how the world caught up with a company which failed to act before inevitable changes took place. The packaging company, which derives most of its earnings from glass packaging, became complacent with its huge stake of the glass packaging market — it still has 73% — and failed to upgrade plants to world standards.

It couldn't meet customers' needs and treated them cavalierly. One analyst says management underestimated customers who found global manufacturers against which to benchmark prices and quality.

When management decided to upgrade plants at R1bn, the market was misjudged. An analyst says capex was misspent at the new Bellville, Cape Town glass plant, which was set up for single shape production and four colours, when the market wanted multiple bottle shapes and six colours.

"Though Bellville is the best glass plant in SA, they should have set up two furnaces instead of one large one," he says. "Maybe they should now stick with long runs and import short run orders to improve margins." Also, when that capex was planned, Pepsi orders were still coming through and the economy was expected to improve.

Another failure was the lack of management succession planning. Now that ex-group MD Piet Neethling has retired, Consol has a part-time MD, Anglovaal's Richard Savage. Though the market rates new glass division MD Simon Crutchley, and punts him as the new group MD, he has yet to prove himself. "They've needed new eyes to look at old problems for a while now," an analyst says. More management changes and staff rationalisation are expected.

US glass packaging company Owens-Illinois, which already holds 19% of Consol, will probably play a greater management and technical advisory role. At one time, it was discussing taking a larger stake but talks fell through. For now, its stake will be increased "marginally."

Minorities will be better off in shares with greater growth prospects.

Heather Fernando
Cement producer eyes exports

Fernando Lima

MAPUTO — Cimentos de Mocambique, a cement producer that was privatised three years ago, is now able to meet all Mozambique’s domestic requirements and is looking to export into the region. The company, which has a monopoly on cement production with three factories near Maputo, Beira and Nacala, is expecting to make 215,000 tons of cement this year, its highest figure since independence. Production will be increased to 252,500 tons next year, considerably more than can be absorbed by the domestic market.

The company’s local manager, Helder Rodrigues, said in an interview he would begin targeting markets beyond Mozambique — SA’s Mpumalanga province, Swaziland and Malawi — Portuguese multinational Cemig, largely involved in cement production, bought 51% of Cimentos de Mocambique in October 1994, in one of the biggest privatisation operations since the privatisation programme began nearly a decade ago. The rest of the company is owned by the Mozambican insurance parastatal Emose and railway parastatal CFM. According to the state authority in charge of privatisation, UTRO, the total investment in the company amounts to about $97 million.

The company’s factories have begun producing “clinker”, the raw material used for cement, which has to be imported from SA, and Rodrigues says the quality of cement is now on a par with that produced in SA.

Before they were privatised, the three factories were producing 60,000 tons a year and most of the cement used in Mozambique was being imported from SA.

Robyn Chalmers reports that the disbandment of SA’s 25-year-old cement cartel — recommended by the Competition Board in 1994 and implemented last year — has forced SA’s three cement groups to market and distribute cement in an open market.

This has opened up the SA market to foreign and domestic competition. The demise of the cartel has made the three cement groups — Pretoria Portland Cement, Alpha and Blue Circle — more vulnerable to such competition because of higher operating costs and smaller margins.

Meanwhile, the Mozambican economy continues to perform well. Figures released by Prime Minister Pascual Mocumbi this week indicate that the average inflation rate dropped from 17% in 1996 to 4.3% in 1997. Gross domestic product growth is expected to reach 6%. Exports, however, show modest growth from $210 million last year to about $230 million this year.

According to government, the delay in the export of electricity from the Cahora Bassa Dam to SA had a significant effect on the targeted GDP figures.
Sales of cement fail to live up to expectations

DOMESTIC cement sales failed to live up to the industry's "modest" expectations for the 11 months to November, rising just 0.9% over the same period last year to 8.7 million tons as growth in construction gross domestic fixed investment (GDFI) remained sluggish.

Figures released by the Cement & Concrete Institute show that cement sales in the three months to November were 0.6% down on the previous three months, while the six month period was just 0.3% ahead of the previous comparable period.

Analysts were disappointed that the figure was significantly lower than the industry's initial projections of a growth rate of 3-6% this year, and were not convinced that the situation would improve much next year.

Slow demand was mainly due to low levels of private and public sector investment in infrastructure, they said, while unseasonal heavy rains, especially during the second quarter, had also depressed the market.

High real interest rates and an oversupply of townhouse stock in areas such as Gauteng had also helped fuel a slowdown in the construction sector. Though it became clear that the industry would not live up to original expectations, analysts only downgraded their forecasts to about 2% in June and have been disappointed with the latest showing.

One analyst said it was still not clear if GDFI growth would pick up in time to boost the industry's performance next year. He would probably downscale his growth estimate for next year from the current 2.5%-3% range.

The analyst said government's infrastructure plans were of a long term nature and the industry might start benefiting towards the end of next year, which would hurt major producers' profits.

Growth in demand for cement would also depend on how soon planned projects such as the construction of casinos and reconstruction and development projects got off the ground.
MANUFACTURING - NON MET. MIN-PROD.

1998
No Quick Recovery for Cement Firms
Alpha feel effect of sushi shop industry

Laughter shyness

(19)
Massionate suffers in tight trading
Lingo Tech SA forecasts earnings rise

INVESTMENT
The plan would initially produce 75,000 tons of high-impact plate...
Alpha confident about Saldanha factory

Lukanyo Minyanda

CEMENT producer Alpha should be able to make a final decision on the proposal to build an R800m plant in Saldanha Bay in about 18 months and was confident of obtaining regulatory approval by mid-year, Alpha MD Mike Doyle said at the weekend.

He said the firm was keen to return to the Western Cape market from which it retreated in the 1980s but would ensure it had a significant market share before committing to a move.

Its application for a greenfields factory at Saldanha was at an advanced stage and the firm hoped environmental authorities would make a decision by year end, after which it would seek permission for miningchalk stones.

Alpha's competitor, PPC, has a monopoly in the Western Cape, the only region to show sales growth over last year with 13% compared with the national average of 1.5%.

However, Doyle said that although the Western Cape should continue to outperform the rest of the country this year, market growth trends should reverse during the next few years. Gauteng, which recorded a slight drop last year, should stabilise and show some growth towards the end of the year.

Group chairman Basil Hersov said in the latest annual report that the firm would not decide on an extension of capacity in the northern until after 2000 because of slow trading conditions.
Marlin reports rock-solid rise in turnover

JONATHAN ROSENTHAL

Johannesburg — Marlin, the Anglo American-controlled granite producer, yesterday reported a 129 percent rise in turnover to R381 million and a 77 percent rise in headline earnings to R556,563, or a share of R1.10.

Graham Troagus, the managing director, said a major feature of the year was the successful consolidation of the group’s Rustenburg quarries into a single operation. This more than doubled production to 75,657m³ of stone.

"This rationalisation and coordinated planning has significantly improved production efficiencies and will contribute to sustained growth," he said.

He said the group had strengthened its position in the market through broadening its product range and introducing new fashion colours as well as increasing its quarrying activities in North America. He said Marlin would expand into Mozambique and develop joint venture operations in Madagascar during the current financial year.

Increased sawing capacity at its slabbing factory, through the installation of new technology equipment, would impact on results from the next financial year. During the past year Marlin shut down its consumer products division, citing losses at its Germiston factory.

Troagus said demand for its products in both dimensional blocks and value-added form remained strong.

"The identifiable growth in the utilisation of natural stone products for interior and exterior applications, which has been in the region of 6 percent a year, is expected to continue," he said.
When friends turn enemies

Alpha is finding out how vicious its old cartel chums really are

The recent slowdown in the SA cement market, if anything, has served to intensify the bloody battle between the three estranged players — Blue Circle (part of the M&R group) — Alpha — Pretoria Portland Cement (FPC)

Alpha is in the thick of the action because of its location in areas showing low growth and tough competition (for February 20), and has had to contend with real price declines and market incursions. The net result is the two key profitability ratios are down on previous years. Return on capital was 11.4%, compared with 13.9% in 1996 and return on equity was down to 15.6%, from 19.2% in 1996.

Headline EPS for the 12 months to December fell to 592.3c, and higher interest payments pushed bottom-line profits down to even lower levels. Gearing rose to 21% through capital expenditure for the acquisition of Tanga Cement and the purchase of the remaining 33% in the Eastern Cape and

Swaziland cement distribution operations. That was despite stronger cash flows of 885.7c per share following a significant reduction in working capital. Management used the positive cash flow to justify lifting dividends by 20c to 30c.

Alpha's new chairman Basil Heslov says sales revenue increased by 13.9% mainly by inclusion of the trading results of Tanga cement producer Tanga, which were consolidated for the full 12 months. This gain was, however, lost for a number of reasons, including higher fuel prices, promotional and advertising costs, a more expensive mix of inputs in concrete and some inefficiencies at Tanga.

Operating margins were down to 12.4%. This compares with PPC's 17.1% for the year to September. M&R does not break down specific figures for its Blue Circle operation. The returns that showed the worst operating performances were Alpha Stone & ReadyMix and Alpha Cement Cement. showed a gain of just 1.3% on turnover growth of 20.5% due to the inclusion of Tanga While Stone & ReadyMix slid 45.6% on sales growth of 2.6%.

Heslov has replaced long-standing chairman of the board Peter Byland, who died in Switzerland late last year. Group MD Johan Pretorius has also retired and has been replaced by Mike Doyle, who has been with the group since 1971.

Doyle says he expects some recovery from the recent lows during 1998, principally through the improvement in realised prices and real reductions in variable costs. The company should also benefit from its decision to defer capacity expansion until the market picks up. This should prevent depreciation hiked and help the group tackle gearing through its stronger cash flow. Heslov says according to the group's five-year operating plan the company will move into a surplus cash position by 2000 and continue to be in this position.

That obviously excludes any acquisitions which the group may make outside SA borders. Management has said it intends to make other strategic investments in sub-Saharan Africa and expects to announce something in this regard shortly. Some strengthening in sales is expected before the 1999 elections. In the shorter term the outlook is for cement growth of 2% in 1998 with perhaps a more equitable spread among the provinces as casinos go ahead. For now there is little reason to rush into Alpha.

WINHOLD

Discount still too high

Unbundling may be the only option

After a year of substantially improved results, and one in which a number of long-standing financial problems were resolved, it is unlikely Winhold's management ex-
debt equity ratio in 1996.

What is clear is that the group is being dragged down by investor perceptions of flexible plastics manufacturer Gundie, historically the major profit source, whose share price has plummeted from a 12-month high of 950c to 295c.

In this instance, disappointment may be justified by the fact that second-half EPS moved into reverse with a 2% decline after a strong 33% first-half showing. This was mainly attributable to a 1% point drop in operating margin during the latter period.

But while the results justify the full extent of the drop in the share price over the past 12 months is another matter. What the market has been on a par with earnings per share at a time when the ratio for the packaging sector was 14.4. Valued in line with the index, Gundie's price should have been about 425c, which also suggests that the notes offer of 500c, may have been a bit rich in relative value terms — as those who took up the offer have discovered to their cost.

The question now, though, is whether the pendulum has swung too far the other way. The share is valued at about a 35% discount to the sector against the 74% premium at the time. The discount is likely to be determined by a take over of the company's new hi-tech Guang manufacturing facility, due to make its first contribution to earnings in the current year.

For Winhold (and, ultimately, Pyramid Winbel), the diminution in the value of its holdings in Gundie has been partly offset by a 40% gain in Innims' share price. So despite what has happened to Gundie, the discount at which Winhold is trading relative to the combined underlying value of its listed investments has narrowed from 36% to 26%.

This is still too large a gap and, unless some means can be found to reduce it, unbinding may be the only option if Winhold shareholders are to receive full benefit from the group.

Brian Thompson

YORKCOR

Not watching the trees grow

Hopes for solid results — touch wood

For years, the York Timber Organisation (Yorkcor) has prided itself on the quality of its financial disclosure, but not the quality of its financial performance. Its 10 years' performance figures, sighted in a red and black than a Societe Generale Frmlin Pakalum banquet.

Financial 1997 results were on the right side of the profit line, and were heralded by the erudite company chairman Sally Tucker as a landmark: "We said we would get back in the black before the jaccandans were out. The rains were prompt. We beat our advertised target ahead of time. And we are going to encore." he trumpets in the annual report.

The group posted headline earnings per share of 28.2c for the 12 months to December, compared with a loss of 47.2c in 1996. Gearing came down from 76% to 40% and net asset value rose from 218c to 333c, following the revaluation of the group's real estate and the transferral of the net surplus to nondistributable reserves.

Tucker says the turnaround was the result of some stern belt tightening in financial 1996, good price increases and an increased value-added component of the business. The group also managed to figure out how to work new equipment that had bought in the previous year.

The year was noted for Yorkcor's legal successes in securing its rights to sawmills from both government plantations and from Saflol, a public corporation which controls about 18% of SA's plantation holdings.

The group hopes to capitalise on the imminent privatisation of Saflol, to improve its position in the market. Tucker says the group intends to bid for part or all of Saflol in a consortium. He says they
Clay milling plant boosts Ceramic Industries’ figures

Stanley Mapholengela

TILE and sanitary ware manufacturer Ceramic Industries lifted attributable earnings 84% to R14.2m for the six months to January despite difficult conditions in the building industry.

The company was granted a four-year tax holiday granted by the Board for Regional Industrial Development to the company’s pressed floor-tile project in Babelela. This resulted in a reduction in the taxation charge and an 84.3% increase in earnings a share to 79.2c.

The company increased operating income R13.8m (1997 R10.5m) on turnover of R100m (R85m). Headline earnings a share rose 80.4% to 77.7c. A dividend of 10c (8c) a share was declared.

CE Battista Errera said the good results could be attributed to the successful commissioning of the clay milling plant at the pressed tile division. This further reduced production costs, through the application of the latest technology, and the turnaround of Betta Sanitaryware from making losses to breaking even.

The board of directors approved a capital expenditure programme of R51.1m, to be effected over two years. Errera said cash resources were sufficient to fund spending.

"This expansion would increase capacity, improve quality and reduce cost at the pressed tile and sanitary ware plants," Errera said. The firm’s financial position was strong, with an ungeared balance sheet.

Errera said he expected good trading conditions and a real growth in terms of market share for the rest of the financial period. The Ceramic Industries group consists of Samca Tiles, Betta Sanitaryware and Tilecor.
Open season in KwaZulu-Natal

Battle for Blue Circle and Alpha

No-one can accuse SA’s big three cement producers — PPC, Alpha and Blue Circle of competing half-heartedly for the SA market following the forced break-up of the cartel. They all have the killer instinct and have waged battle throughout the country.

Perhaps the most vicious, and the most interesting, of these turf battles is taking place in the KwaZulu-Natal market, with Natal Portland Cement (NPC), jointly owned by the big three, at the centre of the action.

During the cartel days the major players kept out of the KwaZulu-Natal market. Any shortfall in demand would be made-up by NPC purchasing cement from one of the three and selling it under its own name.

With the collapse of the cartel this arrangement fell away and all three started supplying directly to the market. Initially, this involved supplying any shortfall directly. But recently NPC has been operating 100 000 t (about 10%) below capacity, as outside penetration increased. According to Cement & Concrete Institute statistics, cement sales into the KwaZulu-Natal market last year amounted to 1 434 233 t.

Recently, Alpha said that one of the factors in its disappointing 12% decline in EPS for the year to December was a lower contribution from NPC following competitive action by its shareholders. Blue Circle also confirms that lower NPC contributions have hurt it, but not substantially.

The one identified as being most guilty for the KwaZulu-Natal incursion is named both by Alpha and Blue Circle as being PPC. Both admit supplying some cement into this market but nothing like the volumes that PPC Alpha MD John Goemersall is unrepentant about PPC’s sales into KwaZulu-Natal, details of which he is not prepared to disclose. He says PPC is out to maximise total profit, whether that means through NPC or through direct sales into KwaZulu-Natal. "NPC should be the lowest cost producer in the area and if it is then they shouldn’t have difficulties."

Doyle says NPC has one of the best transportation infrastructures in the industry and is capable of regaining market from PPC but at the cost of reduced margins. "It is also improving customer relations which have slipped in the recent past." Alpha holds the management contract for NPC, though it is answerable to a board consisting of the shareholders.

All three producers do not believe the infringement in this market indicates the unsustainability of the shareholding structure at NPC, and are fiercely protective of their stakes in the company. Gnm says they are still happy with the investment returns from NPC, despite the recent slowdown.

But these latest developments will put strain on the relationship between the big three. There is an obvious conflict of interests when there are representatives from the competition sitting on your board.

One analyst has suggested that NPC is an ideal candidate for sale, specifically as an empowerment deal (For December 19).

Stuart Borthwick

A tidy day’s work

The market’s crazy about it

One morning, a company valued by the directors at R55m listed among the JSE’s information technology stocks. By that afternoon, the market had decided the same company was worth about 10 times the directors’ valuation. Theoretically — neither party is cashing in — Impotek management and sponsoring broker Investec made about R37m.

What justifies the difference? Certainly, earnings potential is one reason for investor optimism. The directors’ R55m valuation is based on their assessment of the company’s future earnings and a conservative growth estimate. Based on impressive historic growth, the market is prepared to be bolder.

Another reason for enthusiasm is Impotek’s strong reputation. The group offers a comprehensive design, installation, cabling, maintenance and training service for PC, midrange and large systems. Through a national network it provides fast response to cut customer down-time. Service levels are good. It’s well-known that this industry is growing fast.

The group targets mid-size companies. Management says that means Impotek doesn’t compete with large IT groups. But it probably doesn’t escape competition.

Another significant reason for the high rating — it’s trading on an alarmingly high price-to-earnings ratio of 92 — is the market’s belief in Impotek’s management and Investec’s expertise. For prospective shareholders, this level of confidence, however good management may be, could be daunting.

But many investors haven’t been put off. On the company’s first day of trade, small volumes traded by individual brokers indicate that any staggering was probably done.
for private clients Investec nominees were net sellers of 450 000 shares. Irish Menell sold 600 000. The biggest buyer was Simpson McKie, which acquired about 400 000 counters.

The market obviously expects strong growth. Management says acquisitions should be announced soon. With no information about these additions, it's impossible to predict to what extent they will boost earnings.

An interesting feature is the agreement between management and Investec — 20% shareholder and merchant banker. Together they own about three-quarters of the equity. Unanimous consent is required from the voting pool. Surely that poses potential difficulties?

No, says Investec corporate finance consultant Leonard Bruhns. He says the voting pool agreement merely formalises an agreement entered into when Investec bought 22% of the private company about a year ago. "Impotek directors aren't Investec's kiddies," says Bruhns. "We won't hamstring the group."

The conclusion has to be that Impotek's valuation is also proof of the market's current enthusiasm for IT stocks. The rating could fall as the market evaluates the stock. Still, with the company's solid reputation and Investec's corporate finance backing, Impotek seems worth watching, Michelle Jacob.

LIBERTY LIFE

Fighting a war on two fronts

Earnings suggest better rating

Liberty Life's chairman Donny Gordon would be a happier man if the JSE increased the company's rating. But results to some degree vindicate Liberty's relatively low p/e ratio. It is the first time for years the group has reported EPS growth of less than 25%.

A frustrated Gordon believes the share is hopelessly underpriced compared to some of its competitors.

He could be right, but it will never be clear whether the company is just too valuable an acquisition tool for insurers and pension funds. Reed's ability to compete with apples and apples.

Gordon scoffs at the high ratings given to some of the smaller, highly successful, locally listed life companies. It really seems not to matter to him that the likes of Fedsure, Aflife and Metlif have had higher EPS growth rates over the past few years. He believes the strength of the substantial earnings contribution generated by Liberty's offshore investments and the sheer size of the overall group is of more importance.

Gordon has a point: There is security in the group's diversity and its geographical spread. Though Liberty Life's EPS growth may no longer be that impressive, its earnings base is.

Discretionary funds and property interests under management by local and international pension fund clients and other institutional investors stand now at R41bn. Overall, the group manages about R142bn of assets. And if the wider Liberty Life/Standard Bank relationship is consolidated, it is the largest financial services group in SA with global investment and financial assets of around R300bn.

That's why Gordon is a proud man. All this has been achieved in 40 years.

Yet, the financial service industry is undergoing rapid change, aided particularly by the speed of developing technology.

Rightly or wrongly, stock exchange investors are paying less attention to hard asset backing. Instead, investors are following and placing high ratings on companies whose intoxicating EPS growth is driven by intellectual capital rather than a sound asset base. It's a trend that's taking stock markets of the western world by storm. And who is to say they're wrong? Gordon does. He believes those sorts of growth rates will not be sustained.

And he goes further. Markets in SA are "greatly disadvantaged" by the lack of proper disclosure and regulatory controls which are vital to facilitate the operations of and orderly financial market. In essence, our markets are dangerously and unnecessarily exposed. He talks about a two-tier market in which share liquidity can be "massaged" to cause volatility of prices for speculation purposes, and the inability of small capital stocks to support such activity.

This and the "questionable stock-lending and derivative focus" has attracted to the SA market bankers and speculators schooled in these practices, resulting in the prices of most of the leading SA shares declining to significantly lower valuations in comparison with less liquid stocks whose values can be easily maintained by vested interests.

Liberty Life's 1997 results are reported on a changed basis. All investment surpluses attributable to policy holders and shareholders arising during the year are now
Johannesburg — Ceramic Industries, a tile and sanitaryware manufacturer, yesterday reported an increase of 31 percent in operating income to R19.8 million for the six months to January 31.

Turnover increased 8 percent. Battista Errera, the chief executive, said business had been affected by difficult trading conditions and a slowdown in the building sector.

Headline earnings a share shot up 85 percent to 77.7c. This was largely owing to the company’s qualifying project in Babelele, which had been granted a four-year tax holiday by the Board for Regional Industrial Development.

This represented an 84 percent increase in attributable income to R14.2 million and significantly increased the net asset value a share.

Ceramic’s share price closed 6c higher yesterday at R22.10 on thin volume.
STONE KING

Don Robertson

I hope to be sharing the lead of

designed to improve the overall
decision-making process. In this
context, I would like to highlight
the importance of collaboration
among various stakeholders to
achieve the desired outcomes.

The current economic
crisis has significantly
affected the acquisition of new
capital, particularly in the
energy sector. This has led to a
delay in the implementation of
several projects.

In my view, a comprehensive
approach is required to
address this challenge. It is
important to

Michael Doyle

shackles of carrels

Freeing comment from the
**PPC on track for first phase of Saldanha**

**CT (003) 17/1 1996**

JONATHAN ROSENTHAL

INDUSTRIAL EDITOR

Johannesburg — PPC, South Africa’s largest cement producer, yesterday said it had commissioned the first phase of its R550 million materials-handling and supply project at Saldanha Steel, on time and within budget.

When complete the project will handle all of Saldanha Steel’s incoming raw materials — with the exception of iron ore — and will handle slag, coal fines and flue dust generated by the plant. Much of the waste coming from the Saldanha Steel mill will be used as raw material at PPC’s two Western Cape factories.

John Gosersall, PPC’s group managing director, said it had managed to achieve its commissioning deadline despite industrial action on the site. By contrast, a week-long strike at the site had set the steel project back by several weeks and increased its peak funding requirements to R7,1 billion.

"Although the scope of the overall project has increased, it is to be completed in time for Saldanha Steel’s Corex plant commissioning, which should start in October this year," said Gosersall.

He said the project — which forms part of a three-year, R1,3 billion capital expenditure programme — would provide initial returns by 1999, with substantial returns becoming evident by 2000.

Investment analysts said one of the key aspects of the materials-handling contract was that it maintained PPC’s dominant position in the Western Cape Alpha, the country’s second largest cement producer; had for some time been planning a cement plant adjacent to the Saldanha Steel project.

But since slag and other waste materials from steel plants were cheap additives to cement, PPC’s control of these materials reduced the economic viability of Alpha’s planned plant.
Institute out to revitalise
cement industry growth

Mzwandile Jacks

EXPANSION in the concrete market was necessary to stimulate growth in demand for cement, Cement and Concrete Institute's marketing manager, John Sheath, said yesterday.

Demand for cement was 9.3-million tons a year following a lacklustre growth rate in the past two years, he said.

He attributed this to the generally low growth in fixed public and private investment in the industry.

"Our new role, agreed with the cement industry, is to promote the use and awareness of concrete, thereby increasing the demand for the cementitious materials.

"In addition to this, we play an advisory and testing role in order to ensure that the industry produces what is required in the market place," Sheath said.

Cement producers were now operating in a truly competitive market and it was proving more cost-effective for producers to provide many of the support services the institute provided in the past.

"This change in our objectives and the need to provide our members with value for money has meant the closure of our coastal regional offices, but we will ensure continuity of the commercial services that (the institute) has traditionally supplied," Sheath said.

The institute was restructured after intensive talks with its members regarding its role in what has become a very competitive market situation.

The organisation, Sheath said, would continue to offer services like a reference and lending library, publications department and training at the Midrand-based School of Concrete Technology.

"The concrete laboratory testing, however, will focus on specialised testing — undertaking durability testing, chemical testing and research projects for clients," Sheath said.
Afripak gets state-of-the-art plant

By Wilson Ramothata

PRETORIA Portland Cement (PPC) subsidiary Afripak will soon be an internationally competitive supplier of paper sacks and related products following a R34 million award to PPC to refurbish its KwaZulu-Natal plant.

The ambitious project will entail the installation of a new state of the art fully automated cement sack production line, which will include a high speed tuber, bottomer and palletiser.

PPC managing director John Gomersall said the production line was the first of its kind to be installed in South Africa.

"We expect the project to be completed in June this year, ahead of schedule 10 percent under budget on capital expenditure. We expect to see returns on this exciting investment by the first quarter of the next financial year," Gomersall said.

**Foreign supplier**

German-based Windmoeller and Holscher, the world’s leading producer of paper sack machines, supplied the equipment and are currently commissioning them in conjunction with technicians from Dipeco, another large paper sack producer.

Gomersall said the completion of the first phase of the project would result in Afripak having the most up to date and efficient infrastructure in the local industry.

The benefits in both cost and quality, which will arise from this world class plant, are expected to significantly strengthen Afripak’s position in both the export and local markets.
Local demand for cement continues to grow - PPC

By Sowetan Business Reporter

THE demand for local cement is expected to grow at the rate of between two and five percent in the next five years, Pretoria Portland Cement (PPC) managing director John Gomersall said yesterday.

Gomersall said housing construction as well as infrastructure development projects were expected to boost cement demand locally. Because of the expected growth in the economy, cement would continue to play a vital role in development projects such as the Maputo Development Corridor and water projects that are undertaken by the Water Affairs and Forestry Ministry.

He said despite critics talking about non-delivery of housing, the sector still had potential to grow. Over the past two and a half years, PPC invested R242 million in re-commissioning its Dwaalboom Cement Factory in Northern Province.

Second phase

"While we cannot quantify the margins, we expect returns on this investment to show during the 1999 and 2000 financial years," Gomersall said.

He said the second phase of re-commissioning the cement milling, packing, blending and despatch facilities was almost complete, with progress running two months ahead of schedule and within budget.

Once completed, the second phase of Dwaalboom factory would have the capacity to produce 720 000 tons of cement a year.

Gomersall said the Dwaalboom factory would be the most technologically advanced and cost effective cement producer in South Africa.

The factory will be supplying cement to Gauteng, North West, Botswana and Zimbabwe.

The company has seven factories which are located in Johannesburg, Pretoria, Eldorado, Mafikeng, Port Elizabeth and two in the Western Cape.
PCSI feels strain of industry downturn


Ln 8/5/83
Headline earnings drop 8% to R255m

PGSI results crack under 'sluggishness'

THABO LESILO
BUSINESS EDITOR

Johannesburg — Sluggish furniture, building and motor industries had badly hit Plate Glass & Shatterproof Industries (PGSI) with an 8 percent drop in headline earnings to R255 million for the year to March 31, Ronnie Lubner, the company's chief executive, said yesterday.

Lubner said increased competition from imports had made the situation worse. The results were not fully comparable with last year's because of the changes in the group's US holdings, he said.

"In 1997, the 51 percent interest in Vistar was consolidated," he said. "Belron subsequently acquired the minorities' rights to income, effective April 1, 1997, and 100 percent of Vistar's income was consolidated for the past nine months. "Following the merger, 44 percent of Safefires' results were equity accounted for the period December 19, 1997 to the end of its financial year."

Headline earnings a share slumped to 63c (69c) A final dividend of 184c a share was declared, making the total the same as last year at R3,33.

Finance costs were up 34 percent on borrowings of R1,7 billion — triple the amount for last year. Gearing rose to 85 percent from 44 percent the year before.

Lubner said the high increase in debt was mainly because of the acquisition of two operations in Canada for R511 million, and a R276 million promissory note to acquire the income and voting rights of the minority shareholders in Vistar in the US. Belron, the offshore parent company, owes R1,4 billion.

During the year three ageing production lines were closed in Piet Retief at a cost of R44 million. The Pieternettburg plant was being modernised at a cost of R30 million.

Lubner was confident that domestic conditions would improve, but similar earnings were expected for next year. Net income attributable to shareholders fell to R213.9 million (R276.4 million).

The share price closed at R60 yesterday up R1,70 on the day.
PG's got 18% of the world's cars covered

PLATE Glass & Shatterprufe Industries, which celebrated its centenary last year, has built up an estimated 18% share of the world's automotive glass repair and replacement market through its 78%-held subsidiary, Belron.

Belron operates 1,700 branches in 16 countries, housing 68% of the world's vehicles. PGSIC chairman Ronnie Lubner says Belron made up two thirds of PGSIC's R6.9-billion turnover and R283-million profit in the year to March 1998.

While headline earnings retreated by 11% on 1997 at 624c a share and are expected only to be maintained in the current financial year, Lubner is confident that planned consistent earnings are barely a year away. He refers to the balanced nature of the Belron portfolio, mature investments complemented by recently entered growth markets and the potential offered by Eastern Europe, Asia and South America.

Expansion in America has been the most important development during the past year. In 1990, Belron had no market share and opened Windshields America as a greenfields company with 25 branches. During 1996, it merged with Vistar Inc, which lifted combined market share to 12% with 285 branches. Belron owns 51% of Vistar.

This year, Belron chased hard to secure a partnership with Safelite. The two businesses were of more or less equal size, the biggest difference between the two companies was that Safelite had more debt than did Vistar, Vistar got 62.5% of the equity of the merged company, and Belron increased its effective stake to 44.6%, which is equity-

AUTOMOTIVE GLASS

By JULIE WALKER

accounted for PGSIC Belron's partner in Vistar, Kellman, bought 17% and Belron has a two-year option to acquire it for $84-million.

The deal looks attractive: a p/e ratio of 8.7 was applied based on earnings before tax, interest, depreciation and amortisation (ebitda) in valuing Safelite. Safelite now commands a 23% share of the American market - twice as much as the closest competitor. Sales approach $1-billion a year.

"If the merger had been effective for the full year, ebitda would have been $81-million, not taking into account the estimated merger synergies of some $35-million. We have done this with no shareholder investment. The growth has been debt-funded and stands at $480-million," says Lubner. "However, when we refinanced the debt, it was 100% oversubscribed by the banks."

Belron also bought two leading Canadian automotive glass repair and replacement companies for US$156-million, and acquisitions in Spain and New Zealand cost another $71-million. Lubner says he is unconcerned by PGSIC's debt of R1.4-billion - gearing of 185%. "More than enough cash is generated to service it. For the time being, PGSIC has all the carrying cost of these acquisitions and for the next six months there will be expenses associated with rationalising the businesses. It's a case of long-term offshore opportunities being pursued at the expense of short-term earnings."
PPC defies market in raising profit

NCABA HLOPHE

Johannesburg — PPC, the cement and lime producer, defied the depressed local cement and lime market to chalk up a 19 percent increase in net profit to R105 million for the half-year to March 31, John Gomersall, the group managing director, said at the weekend.

Gomersall said increased turnover, improved profit margins and lower tax charges contributed to the increase in earnings. He said the group was on track for a real increase in headline earnings for the full year.

"We are pleased with the results, which are extremely positive in industry terms. Although we anticipate real growth for the full year, the second half is not likely to match the first," he said.

Earnings a share rose by 14 percent to 2283c, and a dividend of 58c a share was declared. Turnover rose by 11 percent to R203.6 million on increased cement and lime sales volumes, improved selling prices and the inclusion of Creme Cats, Rendymix and Freeways Transport.

Operating profit increased by 18 percent to R157 million as a result of the higher turnover, improved operating margins and the improved results from PPC Transport.

Finance charges also increased as a result of the capital expenditure programme whose benefits would flow through to earnings from next year. Spending on the group's major capital programme continued with R209 million cash outflow during the half-year. It is expected to remain at the same level for the rest of the year.

Gomersall said the group's Draspoom factory, which had been recommissioned within budget, would allow the group to supply cement to the Northern Province directly. He said phase one of the Salanda Steel project was also coming on stream and would be followed by phase two in October.

Cement turnover had increased by 14 percent to R833 million.
Service improves, “despite problems of a free market”

Johannesburg — Until September 1996, Alpha, Blue Circle and PPC, the cement groups, formed a cartel which set cement prices and sold to only one customer, Cement Distributors of South Africa (CDSA). When the cartel broke up on the recommendation of the Competition Board, the companies found themselves in unexpected competition.

John Gomersall, PPC’s managing director, said “Almost two years after the demise of the cement cartel, the three former members have realised that margins will never be what they were – but they are now providing better service, which could boost the entire cement market. Cement margins were much higher back then.”

“We won’t get back to that. Since the cartel, when you talk about profit increases in real terms, we haven’t performed as well as we should have.”

The big three distribute up to 93 percent of all cement sold in the country.

Cross-haulage has also increased since the cartel broke up “(But) as the sophistication of the industry and its systems develop, we should revert to a more rational distribution pattern,” Gomersall said.

The new free market was hard on them all “Alpha lost some market share in the first year,” said Mike Doyle, the managing director. “To that end, the company has moved into Botswana and may move into the Western Cape later.”

The Competition Board’s ruling effectively left monopolies in certain geographic areas. Alpha was dominant in the Transkei, Lesotho and Nambha. PPC had almost the whole market in Cape Town, Port Elizabeth and Botswana.

“It would be madness for Alpha to just go in and get a few tons at much lower returns,” said Doyle. The company’s strategy would be to move into Botswana first and leave the Western Cape for later, he said.

The end of the cartel has also meant more competition for the needs of KwaZulu Natal that are not supplied by Natal Portland Cement, a profitable joint venture of the three companies.

Transport is the biggest margin depressor. “Transport used to be done by the CDSA,” Doyle said “It’s a very low margin business, if any, so it has depressed everybody’s margins. Nevertheless, no one openly longs for a return to the cartel.”

Gomersall said a cartel was right in a younger country, when capital-intensive projects were vital to ensure the allocation of scarce resources. Now the free market made more sense.

“Those customers who used to deal with the CDSA are getting better service,” he said. “Competition is not just about price, it’s also about reliable delivery, about assuring them of technical and design issues.”

But Paul Oosthuizen, a development director at Mica Group, which buys about 120 000 tons of cement a year, said price wars in Botswana and KwaZulu Natal sometimes hit into margins.

“The industry can’t bank on deliveries like we used to,” he said. “We have to rely on independent transporters. One advantage is that cement is now branded.”

“Companies are prepared to run product knowledge courses for retailers. Service, despite transport problems, is improving.”
**Alpha in R447m deal**

BUILDING and construction materials producer Alpha said in a circular to shareholders yesterday that it had entered into an agreement with a consortium for the sale of its noncore lime and industrial mineral businesses for R447m.

The transaction is effective from January 1.

The consortium consists of private equity provider FirstCorp Capital Investors and the management of the businesses headed by industrial division director Piet Ferreira and finance and administration director Trevor Wagner.

The amount paid by the consortium for the businesses will result in a book profit to Alpha of R144m, subject to adjustments.

Alpha MD Mike Doyle said funds from the transaction would be used primarily to strengthen Alpha’s business within and outside SA.

FirstCorp Capital’s Eugene Stals said the businesses being acquired had all the fundamentals required for a successful private equity transaction, including a highly experienced and dynamic management team — Sapa
PLATE GLASS & SHATTERPROOF

"LOOK BEHIND THE NUMBERS"

ACTIVITIES Manufactures glass and board products in SA and Zimbabwe, repairs and replaces automotive glass in 15 countries and makes windscreens in the US and Australia

CONTROL SA Breweries 68%

<table>
<thead>
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In PGSI's 1998 annual report, chairman and CEO Ronnie Lubner once again asks shareholders to look "behind the numbers", and bear in mind that the group is focusing on internal growth and external opportunities as they arise, even at the expense of short-term earnings. "I strongly hold the view that this approach is in the long-term interests of all concerned," he says.

Lubner also points out that results for the year cannot be compared with those of the previous year, other than at the net income attributable to ordinary shareholder, headline earnings and headline EPS levels. This is because of considerable changes to the group's US holdings during the year.

This is just as well, because the year-end results compared to 1997 are about as disappointing and different as is possible. Gearing has leapt from 44% to 185%, pre-interest operating margins have crumpled from 8.7% to 5.9% and goodwill of R520m has been set off against shareholders' funds.

To its credit, the group does try to give a detailed picture of what exactly is going on in its various operations. Lubner's eight-page chairman's statement is complemented by a review of operations and details of their various contributions to the group.

This, together with an inflation-adjusted income statement and a current value balance sheet, does show the method behind the madness.

A booklet showing highlights of the centenary celebrations is also a nice touch.

Stuart Sutherland
Want to make sure directors attend your board meeting and keep their minds on the serious issues at hand while raising money for charity at the same time? Multinational group, Plate Glass Shatterprufe Industries (PGSI), prevents its board members from dozing off by fining them.

At their meetings a director can get fined for any number of things: arriving late, talking out of turn, wearing another company’s tie, not telling everybody it’s your birthday or even supporting the wrong soccer team.

PGSI financial director Mike Read says the system is the brainchild of offbeat chairman Ronnie Lubner and is mostly for fun — but it does serve as an incentive to be punctual. Fines range from R10-R50 and can be levied at all meetings to anyone present, regardless of position.

“The brewer (SAB guys, including Meyer Khan, now police CE), got fined just as much as anyone,” says Read. “But they don’t mind, it’s all for a good cause.” Not even outsiders are safe. At a recent Investment Analyst Society presentation, Lubner threatened to fine one analyst that wandered in late.

All the money raised goes to Streetwise, which assists needy streetchildren. Read says between R10 000 and R15 000 can be raised during a two- or three-day company conference.

Stuart Rutherford
PGSI appoints advisers on a Belron listing in New York

ROY COKAYNE

Pictorius - Belron International, the global motor glass repair and replacement division of Plate Glass and Shatterprufe Industries (PGSI), had appointed advisers to recommend whether it might be appropriate to list Belron in its entirety on the US stock market, Ronnie Lubner, the chairman and chief executive officer of PGSI, said at the weekend.

Lubner said the advisers had been appointed in the context of the stated intention of Belron and Thomas H Lee (THL), a Boston-based private equity investment company, to list Safelite, a leading player in the American motor glass repair and replacement market.

He said that the advisers recommended the listing of Belron in its entirety, they also had given not an indication of the possible timing of such a listing. Vissar, 51 percent held by Belron and formed from the merger last year of US Autoglass and Windsheilds America, was merged in December 1997 into Safelite, which had been recapitalised by THL.

Lubner said Belron had an equity interest of 44.6 percent of the merged company as well as the option, within two years, to exercise two calls at a fixed price. He said that these were not exercised, a put right at a fixed price would arise on the third anniversary of the merger.

"These rights, if exercised, will result in increasing Belron's equity share in Safelite to 62.5 percent."

A merger consideration of R310 was paid to Vissar shareholders and a similar amount to THL in respect of preference dividend.

The fee and dividends are taken into account in the total Safelite debt of about R2.4 billion.
SABS to crack down on cement suppliers

ARGUS CORRESPONDENT

Johannesburg - In a bid to prevent poor-quality housing construction, the government has declared it illegal for suppliers to distribute cement without the South African Bureau of Standards stamp of approval.

As from today, the bureau can visit factories unannounced to ensure their cement complies with SABS standards.

If the cement is not up to scratch, the factory could face closure after being reported to the Department of Trade and Industry's business practices committee, according to SABS divisional head of materials technology Mario Rocha.

The law, part of the Harmful Businesses Practices Act, targets mainly small companies which blend the main cement ingredients with high proportions of other materials such as fly ash or sludge, making the product cheaper, but also less effective, says the Department of Trade and Industry.

South Africa's major cement producers, Blue Circle, Alpha and PPC already adhere to SABS standards.

Colin Jones, sales and marketing director of major producer PPC, said the cheaper, defective product was used a lot for low-cost housing where "unsophisticated builders" were none the wiser.

Mr Rocha ruled out collusion between cement suppliers and builders to cheating unsuspecting consumers.

"Some suppliers take advantage of consumers who are trying to cut costs," said Mr Rocha.

He said some of the cement blends tested by the SABS didn't harden and disintegrated in water.

The consequences of the blending are obvious - rickety buildings and the possible loss of human lives.
Triangle Glass bids to halt imported glass inquiry

RAVIN MAHARAJ

Durban — Triangle Glass had called upon the Board on Tariffs and Trade to immediately suspend its investigation into the imposition of dumping duties on imported glass, Cyril Gebhardt, the managing director of Triangle, said yesterday.

Triangle is the independent glass distributor backed by smaller distributors of glass to the building industry.

Gebhardt said PPG, the sole manufacturer of float glass in South Africa, was petitioning for dumping duties, as its market share had dropped from virtually 100 percent to 83 percent because of imports.

The building glass market in South Africa is worth about R350 million a year. There is a huge oversupply of glass, mainly from imports from India, China and Israel.

The Board on Tariffs and Trade was unavailable for comment.

Keith Luyl, the managing director of PPG, said “We are applying for anti-dumping against dumped imports, which are products basically sold below the domestic price in the country of origin.”

Luyl said the company’s market share had been eroded, but it was not afraid of competition. Instead, he said PPG wanted to compete on levelled playing fields, though there were not many local glass manufacturers.
LOOK FURTHER AHEAD AND GIVE IT A BREAK

Local problems are only part of the picture

P. G is one of SA's first and most successful global companies — today a major force in the automotive glass markets of 16 countries that have 68% of the world's 650m vehicles. About two-thirds of sales and profits in financial 1998 were generated outside SA. It should be a winner, and yet the share stands 68% off its October high.

Foreign operations, held through 78%-owned Belron, date back to the Seventies. Australia came first, followed by the US at the wholesale level, the UK and European US retail market got going in 1990. Vistar started with 25 branches and no market share. Seven years later sales were US$425m, with 365 branches in 44 states.

During financial 1998, PG began aggressive expansion of its foreign interests. Most significant was the merger of Vistar with Safeite Glass. Belron now holds 45% of Safeite and Thomas H Lee the balance. PG has calls that could increase its holding to 62% within three years. Combined sales exceed US$800m through 856 outlets in 50 states. Significant economies of scale will result from the closure of about 15% of duplicated outlets alone.

Two big Canadian acquisitions were made and smaller ones in New Zealand and Spain. A Brazilian pilot venture was mutated. The buying spree gives PG 20% of the world's automotive glass market.

Unfortunately it also leaves the company with a mountain of debt. Safeite's borrowings total $480m and a further $38m was incurred in the Canadian acquisitions. This probably caused most of the damage to PG's rating because SA investors have become accustomed to relatively ungeared, cash-rich local groups. It has become uneconomic to gear in SA. In the US, by contrast, PG is paying about 8.5% for its money. Financial director Mike Read says Belron was offered up to $1.1bn by US banks.

Belron is a strong cash generator. The bulk of the borrowings could be repaid within five years.

There is a strong probability that either Belron or Safeite, or both, will be listed separately. This would not only reduce gearing but also unlock much of the value that is being undermined by the poor performance of the SA operations.

PG SA has been hit from all sides. Weak new car sales have been hit further by higher imports. The PG Bison Board operation is suffering from poor furniture manufacturing levels and a weak housing industry. The latest interest rate increases will make things worse and add about R40m to PG's SA interest bill.

Read expects the problems facing local operations to drag total group earnings down again in financial 1999. Foreign contribution to earnings will be about 80% of the total, but with cash flows committed to loan redemptions, PG's dividend is vulnerable.

The group strategy, says chairman and CEO Ronny Lubner, has been to sacrifice short-term earnings growth in favour of future globalisation synergies. Synergies are materialising, at a price. It will probably be only in financial 1999 that their impact will become significant.

The market has penalised PG recently for appearing to be over-ambitious in the short term. But it seems to be ignoring the company's medium- to longer-term potential as a global player with 100 years' experience in its field.

The share price has gone a long way to discount what will probably be poor results in financial 1999. But down the line, recovery and organic growth is likely. The probability of foreign listings could make this happen much sooner.

Stefan Thomas

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**NEW SHARE ISSUES**

**COMPANY AND TERMS**

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**ISSUES**

**COMPANY AND TERMS**

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**RESULTS AND DIVIDENDS**

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P = Preliminary • = Weighted earnings per share ¥ = Headline earnings per share = = Interim dividend * = Interim dividend † = Final †† = After exceptional items Δ = Capitalisation award option D = Dividend † = Annual § = Not comparable • = Per combined unit = = Pro forma 6 = 12 months ‡ = Per unit 3 = For 3 months ** = Second interim dividend
Corobrik moves to short-time work

MARTIN DEMER \( (193)387 \) (159R) 4/8/98

SHIRLEY JONES

KWAZULU NATAL EDITOR

Durban — High interest rates and the inability of provincial and local bureaucracies to mitigate housing projects had stowed demand for building materials to the point where Corobrik, Tongaat-Hulett's building materials arm, would be forced to close between four and eight factories temporarily before the year-end.

J.B. Magwaza, the chairman, said yesterday this was a stock reduction strategy that would go hand in hand with overall cash and cost management. Rather than close down a brick plant, Corobrik had decided on a kind of short time. Should the market pick up, Corobrik remained perfectly positioned for growth.

Peter Du Treou, the managing director, said the Springs plant had been shut and negotiations for other closures were under way.

"Our order books are dropping quickly and we need to take proactive measures." Corobrik was trying to turn large stocks into cash at plants where order books were weak.

He said the process would be long and slow, but he hoped closures would be complete before December. Should the market begin to strengthen, plants would be up and running by February.

Du Treou said the nature of brick plants meant they could not go on half-time. Once kilns were fired up, it was more cost-effective to run them at full capacity.

It was uncertain how long the closures would last. Most were likely to be between two and four months, although longer closures would be preferable at some plants. The closures would only occur where stock for the closed period was available, he said.

The full effect of the closures was unknown, but turnover was likely to remain at last year's R692.5 million, Du Treou said.
Minority shareholders may be offered R65 a share

Alpha shares surge 47% (1992) CT 29/99 (PR)

JONATHAN ROSENTHAL  INDUSTRIAL EDITOR

Johannesburg — Shares in Alpha, the country's second largest cement producer, soared 47 percent to R68 yesterday on word of a possible buyout of minority shareholders at R68 a share by the group's two controlling shareholders.

In a busy day, Alpha issued a cautionary announcement in the morning advising shareholders that negotiations were in progress that could result in shareholders being offered R68 a share.

Later yesterday, the company reported flat headline earnings for the half-year and told shareholders that Anglovold and Swiss cement company Holderbank, its two main shareholders, planned to increase their stake in Alpha.

Noan Menachemson, an analyst at Barnard Jacobs Mallet, said the earnings were in line with expectations.

"The big news is the talks to take out minorities and delist. I think it's going to go through and that the premium looks fair," Menachemson said.

Headline earnings for the six months to June 30 fell 7.6 percent to 232.9c.

Mike Doyle, the group managing director, said margins had come under pressure from higher volumes against greater competition.

"Pressure on selling prices and only a slight improvement in volumes were the main contributions to the decreased operating margin," Doyle said.

Although there was a decline in headline earnings, the group's attributable earnings increased 150 percent to R198.6 million, or $64.2c a share, because of the R140 million sale of its lime and industrial minerals businesses.

"Funds from the transaction have been used to repay certain debt obligations and will be used to strengthen Alpha's business within and outside South Africa," Doyle said.

The group also said it had written off the money it spent on a detailed feasibility study into a new cement plant at Saldanha.

Doyle said market conditions were not expected to improve in the second half, but higher interest income from the sale would allow the group to increase its headline earnings in line with inflation.

Menachemson said the high premium paid for Blue Circle and the premium expected to be offered to Alpha minorities indicated that earnings in the industry were expected to rise in the medium term.
Alpha Cement’s earnings slip in face of tough conditions

Mzwandile Jacks

ALPHA Cement’s headline earnings decreased 7.6% to R76.1m (1997 R82.3m) in the six months to June as difficult trading conditions in the industry took their toll on margins.

Headline share earnings were also down 7.6% to 252.9c (273.6c) and an interim dividend of 82.8c a share was maintained.

The group said shareholders should refer to the cautionary notice published this week which said negotiations were in progress which could see shareholders offered 6 500c a share.

On continuing operations, sales were up 4.2% to R797.9m. The group said sales volumes of cement were up slightly on last year’s while the stone and readymix volumes showed strong improvements. Costs were contained due to staff restructuring and the “nonrecurrence of abnormal maintenance expenditure”.

However, the operating margin dropped to 9.1% from 11.4%. The group said that due to competitive pressure on selling prices, the gross profit margin decreased to 36.2% from 28.1%.

Cash generated by operations improved sharply, increasing 72.2% to R133.5m in continuing operations, due mainly to a decrease in tax paid. The cash generated by businesses disposed of — lime and industrial minerals — in the previous period was replaced by interest earned on the proceeds from the sale of these businesses, which netted after tax profit of R140m.

The proceeds would be used primarily to strengthen the company’s businesses. Part had been used to repay debts. Borrowing costs increased mainly as a result of the investments undertaken last year.

The group said the difficult business environment was not expected to ease in the second half but headline earnings for the full year were forecast to increase in line with inflation, thanks to increased interest income.

The board said it had undertaken a year 2000 compliance exercise and “the risk of Alpha facing direct and indirect liability arising from a failure to address the 2000 problem is low”.

Cement Industry

New Rules — PPC’s No Longer The Big Brute

The market’s all mixed up, but not set for price wars

Remember the post-cartel days when PPC was the dominant male of the SA cement market, and Alpha and Blue Circle were leaning on the Competition Board to let them merge so there could be “two equally strong cement companies”? Well, those days are gone, with the entry of world number two in cement, Lafarge, and the consolidation of number one, Hold-erbank, in SA.

As Merrill Lynch’s Gordon Taylor neatly puts it “With Lafarge and Holderbank (here) it turns the industry structure on its head, PPC is no longer the big guy on the block, it is the small guy.” Yup, once again the market will run according to a completely new set of dynamics.

The purchase by Lafarge of Blue Circle from M&R for R1.5bn has been concluded and its impact on M&R was discussed in last week’s FM (Companies & Markets August 7). The takeout of minorities by Holderbank/AVI has been proposed and indications are that major shareholders, management and minorities will support the offer of R65 — a 66% premium to the price at August 4.

AVI MD Richard Savage says they deliberately paid a hell of a premium to avoid an IBM-type rebellion from minorities one up for the working class.

What, then, will be the impact on the cement market? First up, there will be fundamental changes in the rules of the cement game in SA. As unlisted companies, Alpha and Blue Circle will not have the burden of disclosure and can start making moves based on long-term rather than short-term considerations.

The alpha announcement indicates Holderbank is taking out minorities around the world in order to become more flexible in market response — meaning, I assume, that if the opposition hits them, they will rip the opposition’s heart out.

What exactly are we likely to see as a consequence is difficult to say. What about price wars and market invasion?

Taylor says research done by Merrill Lynch worldwide suggests this is unlikely. Bernard Jacobs Mellett analyst Nolan Menachemson says PPC can hold its own “PPC is by far the best positioned cement producer in SA in terms of geographies and resilience to price-cutting”.

PPC MD John Gomes says as far as we are concerned, it is business as usual. PPC has been working on its global competitiveness for a number of years and we have made great progress.

Savage says much of the competition will be on service rather than prices. “There will be keen competition, but I don’t see it exploding into a price war.”

Why, you may ask, with all this uncertainty and the premiums paid for Alpha and Blue Circle, doesn’t Barlows sell PPC?

The market doesn’t believe this is a consideration. Judging by PPC’s share price, which was still trading at around R37 when the FIM went to press, which makes sense for several reasons. PPC appears to be a core asset for Barlows. Barlows is not one to run from a fight, and finding a buyer may prove difficult now.

With regard to Natal Portland Cement, a company still owned jointly by PPC, Alpha and Blue Circle, Savage insists that there is no change as a result of the deals.

For Anglovaal, another issue will be what happens to Omnia Holdings, which is held through Alpha Savage won’t comment on Anglovaal’s plan, but one well-positioned source says the group is regarded as noncore in the greater Anglovaal group.

But any decision on Omnia is likely to be delayed until after the ruling by the Competition Board on Sasol’s proposed takeover of AECI.

So, for now, the informed view is that it is too early for AVI and PPC shareholdes to panic. If anything, it’s worth reconsidering the SA cement industry and taking a longer-term stake in PPC.

Stuart Rutherford

Kroondal Platinum

She Will Be Bonzer

Aussies finally reach the JSE

Tough market conditions have taken their toll on Australian company Aquarius’ plans for Kroondal but the platinum counter finally listed on the JSE last week.

Aquarius had initially planned to raise R225m through a private placing of shares at about R10 each. The end result was a placing of 19.5m shares at 750c each to raise only R14.65m.

The capital expenditure required to bring the mine into operation by November next year totals R265m with R140m to be spent in the first year meaning Kroondal faces a hefty financial shortfall — to be met through a facility of US$35m (R220m) being arranged by Aquarius, which retains a 46% stake in Kroondal — with two international banks.

As part of its private placing Kroondal offered one free option for every two shares subscribed for. A total of 17.7m options were issued at a strike price of 900c which would bring in another R16m if all are taken up. That, of course, will depend on stock market conditions and the company’s performance during the period in which the options can be exercised. That is up to end-August 2000.

Having gone through the pre-listing statement the FIM commends Kroondal on the choice of two of its non-executive directors — Bruce Sutherland and Richard Shead.

If anyone could claim to be the technical “Mr Platinum” in SA it is Sutherland who retired from the top technical post at Am- plus in 1994.

Shead has extensive experience in junior mining ventures through many years running exploration outfit Southern Prospecting and then East Daggafontein while he was also recently appointed CEO of Benguela Concessions.

Brendan Ryan

Financial Mail August 14 1998 59
Byproduct to be used for road building

Mzwandile Jacks

PREMAMIX, a mixture of mineral ash components said to be less expensive than other construction materials, will be used for the construction of Gauteng roads from the middle of next year.

Transportek research engineer Jeremy Lea said yesterday Premamix was produced as a byproduct at Sasol's coal-gasification processes in Sasolburg.

Lea said the product allowed for “faster and easier application” and that labour-intensive production rates using Premamix were about five times higher than some technologies being used at present.

In addition to meeting the standard material specifications, the product had also drawn attention of “many” consulting engineers, Lea said.

“Our target is to replace the use of natural granular materials in townships and regional roads.

“Despite interest from around SA, it is currently only viable to transport this material within the Gauteng region,” he said.

Testing has been carried out in 10 trial sections near Cullinan, Pretoria, after two years of intensive research.
Plate Glass warning shatters shares

Michael Read, the financial
director, confirmed that South
African losses were in that range
but said the group’s offshore
performance was better than
expected. “As far as we are con-
cerned the business has never
been in better shape (but) this
market is tough,” he said.

Analysts said the group was
also affected by a strike in the
motor industry, which is a large
consumer of glass products.

Read said glass sales to the
motor industry were also ham-
pered by the fall in tariff protec-
tion on imported components
and the rise in imports of fully
built-up vehicles.

In a cautionary released yest-
eryday, the group said results
would be hit by a significant dete-
rioration in trading conditions,
interest rates and the industrial
relations climate.

“While it is our view that the
market sectors in which the
group operates will recover over
time, any positive impact is un-
likely to be felt during the cur-
rent financial year,” it said.

Read said the group would be
helped by the fall in the value of
the rand, which would provide
some protection against imports
and assist exports. In the past fi-
nancial year the group reported
an 8 percent fall in headline earn-
ings to R656 million.

□ Business Watch, Page 2
Alpha makes offer to buy out its minorities

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — Alpha, the cement producer, said yesterday that increased competition from the break-up of the cement cartel, the globalisation of the domestic cement market and weak spending on fixed investment could put new pressure on industry volumes and margins.

In a notice to shareholders with a formal offer to buy out minority shareholders at R85 a share, Alpha said it would be in a better position to meet the challenges of the changed business environment if it was not accountable to minorities.

Alpha is 54.8 percent owned by Altur, a joint venture between Anglovaal Industries and Holderbank, the Swiss-based cement cartel. McGregor's, the directory of company ownership, indicates minorities include Old Mutual, with close to 5 percent, and Liberty Life, which holds 3.5 percent.

Acquiring the remaining shareholding would cost Altur just under R900 million at a 44.6 percent premium to the share price before the offer was first made public.

It also said the offer was at a 48.8 percent premium to the company's net asset value a share of R43.80 at the half-year at June 30.

But the offer is a little lower than what the net asset value would have been had Alpha not changed some accounting policies. At the time, when it changed the way it reported deferred taxation, its net asset value was listed as R64.59 a share. Restated in the last interim report, in June 1997 it was reduced to R55.86 a share.

Analysts said they were recommending that shareholders accept the offer on the basis of its premium to the current share price, but warned cement stocks were presently pitifully undervalued.

"The premium Lafarge paid for Blue Circle and the premium Holderbank is offering tells me they see great potential in this market two or three years down the track," said one analyst.

Measured against the cost of two new cement kiln capacity, Alpha's controlling shareholders were gaining half a cement company at less than the cost of a single new cement plant. Alpha closed 60c up yesterday at R50.59.
Masonite feels the pinch

RAVIN MAHARAJ

Durban — Blunted consumer demand, made worse by market turmoil, resulted in disappointing earnings from Masonite, the timber products company, for the half-year to June 30.

Earnings a share fell to 6c, from 32c in the previous half-year. The company passed its interim dividend.

Operating income came in at R23 million, from R33 million in the previous period.

Alan Wilson, the chairman and managing director, said poor business conditions during the first half had resulted in a reduction in turnover to 97 percent of that achieved during first-half 1997.

Echoing statements in the 1997 annual report, Wilson said volumes had been lower and prices had been under pressure mainly because of the Asian currency turmoil, where the cutback in the demand for commodity board had resulted in world market oversupply.

Wilson said the weakening of the rand in June had come too late to influence these results, and the full benefit would only be felt from October onwards.

Masonite has traditionally had a better second half, he said.

Masonite exports a third of its products to Asia, Europe and the UK, but has not as yet felt the benefits of hard currency earnings from these markets.

In addition, Wilson said borrowings had increased by R16 million, with capital expenditure the major item. Borrowings were expected to be reduced by the end of the year, he said.

On the credit side, Wilson said manufacturing and forestry operations had performed at a high level of efficiency and the installation of the new large capacity computerised saw at Estcourt, KwaZulu Natal, had been completed on time and within budget.

Shares finished unchanged at R6,50.
Dip in demand hits Masonite earnings

Nicola Jenvey

DURBAN — Lower volumes and pricing pressures in the wake of the Asian crisis, coupled with less demand for commodity board, saw building and construction group Masonite (Africa's) after-tax earnings fall to R438 000 from R1,3m in the six months to June.

Net earnings a share crumbled to 6c (1997 32c) and the interim dividend was waived (8c).

Turnover dropped 3% to R107,7m, hampered by the poor business conditions and the oversupply of commodity board on the world markets.

Chairman and MD Alan Wilson said yesterday the fall of the rand in June came too late to influence the half year results and the benefits arising from exports would filter through only from October.

Borrowings rose R18m to R23,3m as Masonite invested R6,8m into capital expenditure projects. These borrowings were expected to have reduced significantly by December.

However, Wilson said the manufacturing and forestry operations had performed at a high levels of efficiency and installation of the new large capacity computerised saw at the Estcourt mill was done on time and within budget.

Wilson said since the six month period, trading had improved with July being "encouraging". This boded well for the remainder of the year and was expected to continue.

On Year 2000 compliance, he said the Masonite parent firm in the US had set up a high-level task force to spearhead the millennium project and was providing aid to the SA subsidiary.

The group was also trying to ensure that its critical suppliers were geared for the new millennium.
Ceramic Industries eyes exports

Johannesburg — Ceramic Industries, the country's largest manufacturer of ceramic tiles and a manufacturer of sanitaryware, was seeking to expand its market penetration overseas. It would be producing half of South Africa's 22 million square metres of tiles by March next year, Battista Errera, the chief executive, said yesterday.

Operating in parts of Africa, Mauritius, Seychelles, Dubai and Australia, the company was looking for distribution mechanisms in the US, predominantly in the southern states. It expected future opportunities in the US, which it said was 10 years behind South Africa in terms of tile usage. Errera said the UK also held potential.

Ceramic was seeking to export sanitaryware as its facilities were geared to produce 800,000 units a year of South Africa's total consumption of 1.1 million of that product. At the beginning of this year, Ceramic's exports accounted for only 1 percent of the company's turnover; it now stood at 7.5 percent.

Errera said Ceramic's financial results were due out next week Thursday and were expected to be satisfactory. Johan Bouver, the company's financial manager, said profits had been growing at about 30 percent a year over the past six years since listing.

The company was forecasting earnings of R24.1 million in the current financial year from R19.08 million in the previous year, which ended on July 31, 1997.

Operating profit was expected to exceed projections as market share improved, because Highlands Ceramics and Pilkington Tiles had closed down during the period and because of the high cost of imported products.

Ceramic had been granted a tax holiday on one of its factories. This reduced group corporate tax from 35 percent to between 12 and 15 percent.

Ceramic Industries finished 100 weaker yesterday on the JSE at R17.
SA's largest tile maker reports better days after six-week strike

Tax holiday boosts Ceramic Industries

Adrie Shevel

Johannesburg — A four-year tax holiday to its factory in Babelegi had spurred a 59 percent increase in attributable income to R20.5 million for Ceramic Industries, the country's largest tile maker, the company said yesterday in its results for the year to July 31 this year.

Battista Errera, Ceramic's chief executive, said Betta Sanitaryware had turned the corner, achieving break-even results for the year despite a six-week strike during the second half.

Workers went on strike in April last year. The high court later ruled the action illegal, but Betta lost R4.9 million. The company also lost about 45,000 to 50,000 saleable pieces.

Johan Bouwer, the company's group financial manager, said the pressed tile division had contributed about 70 percent of the group's total profit through two plants. The intention was to improve the other divisions' contributions.

Management intended for Betta Sanitaryware to improve profit to the group. If successful, it was expected that operating margins would reach 16 to 17 percent from its existing 14 percent. The company's aim was to achieve operating margins of 20 to 22 percent.

Headline earnings shot up 56 percent from R104.4c a share in 1997 to R167.4c a share. Turnover of R215 million was up 18.6 percent. The company met forecasts with a 30 percent increase in operating income to R31.2 million.

Export sales comprised 25.5 percent of group turnover, more than triple the 2 percent of the previous financial year.

Errera said the weaker rand augured well for export sales and import replacements.

A final dividend of 16c a share was declared, bringing the total dividend for the year to 28c from 21c in 1997.

The company said dividend cover remained high in order to retain funds to finance capital commitments.

A new plant manufacturing pressed floor tiles has been commissioned in Babelegi.

In the next 18 months, the remaining R52 million of the R51 million expansion programme approved by directors in March this year will be invested in a new plant at the pressed wall division and in further capacity at Betta Sanitaryware. All projects will be funded from internal resources.

Shares closed unchanged yesterday at R17.

Business Watch, Page 2
The industry was hit hard by high interest rates, which were not just a temporary phenomenon, according to industry experts. This was compounded by a downturn in the housing market, which led to a decrease in orders for bricks. The industry, which had been experiencing growth, now faced challenges. To cope with these difficulties, companies had to increase their production capacity to meet the demand for bricks. In addition, the cost of raw materials also increased, putting pressure on brick manufacturers. The outcome was a decrease in profit margins for many companies.
Buy-out of Blue Circle to benefit consumers

Sibonelo Radebe

THE acquisition of SA’s largest cement producer, Blue Circle, by French multinational Lafarge will bring greater competition to the domestic market and ultimately benefit consumers, analysts said.

However, absorbing Blue Circle would not have an immediate effect on market share — “Lafarge has probably taken a long-term view and would definitely be rewarded in the long run,” one analyst said.

Lafarge bought Blue Circle from industrial holdings group Murray & Roberts for R1.5bn in July.

Lafarge SA GM Naudé Klopper said the official renaming of Blue Circle, which took place last week, was intended to bring Blue Circle in line with Lafarge’s international corporate identity.

This was part of a bigger plan to reinvigorate Blue Circle as an international competitor.

The loss of the Blue Circle name — the second most prominent SA cement brand — was balanced by the advantages to be gained from operating under the brand name of the third largest building materials manufacturer in the world, he said.

Brand names such as Build Crete and Wall Crete would be maintained to retain the local customer base established over the past 84 years.

Klopper said the group might also bring in new cement and concrete brand names soon.

The top managerial structure of the group would remain the same, with the addition of only three French directors, including new chairman Jean-Claude Hillemeier.

Klopper said the international expertise available from Lafarge would turn the SA operation into the most efficient and supportive company servicing local customers. An aggressive campaign had been launched to market the new name both locally and internationally.
SOLID PPC's managing director John Gomersall

PHOTO JOHN WOODCOCK

PPC chalks up a 7% earnings rise

ADELE SHEVL

Johannesburg — Pretoria Portland Cement (PPC), South Africa's largest cement producer, withstood depressed trading conditions to chalk up a 7 percent increase in diluted earnings a share for the year to September 30, the company said yesterday.

John Gomersall, PPC's managing director said modest price increases and improved operating efficiencies combined with improved margins contributed to the rise in earnings.

Analysts had forecast an average of 540.7c earnings a share. They came in at 519.6c a share on an 11 percent increase in pretax profit to R243.8 million for the year under review.

Nolan Menachemson, an analyst at Barnard Jacobs Mnel, said there were no surprises in the results. He expected that the forthcoming year could potentially be difficult given that growth forecasts were down and interest rates were still punitive.

Gomersall said the results were pleasing in the difficult trading conditions. Demand for cement and lime remained virtually unchanged while PPC Transport achieved a turnaround in profitability after incurring a loss the previous year. This was because of increased utilisation of the existing fleet and lower operating costs achieved through operations rationalisation and the replacement of older and less cost-efficient units.

The company lifted turnover 6 percent to R1.8 billion and operating profit 8 percent to R335 million in the face of virtually static national demand for cement and lime. The operating margin of 17.3 percent was in essence unchanged from the previous year's 17 percent.

Gomersall said the company's key strategy over the past two years had been to become and remain globally competitive. PPC's capital expenditure on upgrading the Dwaalboom factory and several other plants, together with expenditure on the Saldanha project, increased long-term liabilities to R291 million and cash, net of short-term debt, declined to R11 million. As a result, interest paid increased to R23.6 million (R11.2 million) leaving pretax profit up 1 percent at R335.1 million.

The company declared a dividend of 32c, a 7 percent increase from the previous year. PPC said increased earnings from its investment programme would only be realised with resumed economic growth. Cash flow is expected to be fairly strong because of a lower level of capital spending.

The share closed 17.5c down today at R4.25.
Ppc looks good despite static demand environment
PLATE GLASS

AND SO IT'S NOT QUITE SHATTERPROOF

But share price resilience suggests change may be in offing

When CEO Ronnie Lubner said short-term performance would be sacrificed in favour of future globalisation rewards, he wasn't joking. Interim results to September show earnings down 58% and the dividend passed.

Changes to the basis of accounting render historical comparisions difficult. US automotive glass company Vistac was merged with Safelite in December 1997, the combined 44.6% holding now being equity accounted. But two things are clear: Losses in SA and a high level of gearing have taken their toll.

Bison, which is dependent on the building and furniture sectors, lost R11.5 in financial 1998. Glass SA was already under pressure in 1998 with taxed profit down 19% at R61m. Bison's interim loss has increased to R16m with Glass SA falling precipitously into a R12m loss. Both divisions face worsening conditions as the negative impact of higher interest rates gains momentum.

No wonder management warns they "will be hard pressed even to maintain current trading results."

Then there's the gearing. Over the past three years R1.2bn was expended on new investments and R1.0bn on operational expansion. In the process gearing jumped from 37% in 1996 to 212% at present.

Aggressive foreign expansion is the main reason for the increased gearing. The results, in terms of market share at least, are impressive. PG now covers 15 countries with a combined 66% of the world's car population. Total repair work is estimated at 36m units/year, of which PG's share is about 18%.

"Significant market share growth" is expected. It is of interest to note that full consolidation of Safelite would have boosted interim turnover to R6.1bn.

For now, no dramatic improvement on the international front should be expected. International operating company Belron is reported to be facing more complex merger and acquisition problems than expected. These stem primarily from the closure of 150 of Safelite's 850 branches.

Financial director Mike Read says it has absorbed much of management's time as well as undermining staff morale.

Belron's cash flow is being channelled into debt reduction. But it will take time. Group cash flow at an annualised R375m before capital expenditure remains dwarfed by the R1.9bn debt mountain. Fortunately the average interest rate is only about 9%.

The resilience of the share price to the interim figures suggests other strikings at PG SA. Breweries, which holds 68% of PG, is involved in discussions Belron on its own appears to be a company more suited to SAB's globalising profile.

A foreign listing of Belron has been on the cards for some time. This would unlock value and speed up an otherwise painful debt reduction process.

Could part of the R1bn SAB set aside for investment write-offs be earmarked for the disposal of PG SA?

Stafford Thomas
Shape up to SABS tests or get out, cement blenders told

Sibonelo Radebe

CEMENT blenders that failed to meet SA Bureau of Standards (SABS) requirements should quit the industry, says Frans Stapelberg, the owner of cement blending company Mega Super Cement.

Stapelberg's comments followed a complaint by small and emerging cement blenders about the bureau's stringent new requirements.

Legislation introduced in July requires all blenders to carry the SABS mark on their products, which have to undergo tests before qualifying for the stamp.

Sources within the sector complained that the tests were too complicated and expensive.

Although the small blenders were experiencing financial pressure as a result of the depressed conditions in the market, they were still expected to put their products through complicated and expensive tests.

"This will drive us out of business and reinforce the current monopolies," the blenders said.

They said the SABS should consider introducing two sets of specifications — one for small-scale building projects like housing and another for large projects.

The current tests were appropriate for major blenders whose cement was used for large construction projects like skyscrapers and bridges.

Joe Motsi, the production certification senior manager for the SABS, agreed the tests were expensive and required advanced technology. But he said that they were necessary in order to protect consumers against being "ripped off by unscrupulous blenders."

He said demands for two specifications could prejudice the small consumer's chances of getting good product.

Motsi said the technical difficulties posed by the tests to small blenders was discussed in several meetings of the industry players, the Cement and Concrete Institute and the SABS.

He said although the issue of standards featured in many agendas, there was no other option with regard to the tests.

Other major cement blenders said they were comfortable with the SABS standards as they ensured safety and security.
PF, Triangle dispute over glass imports not over yet

BUSINESS DAY Thursday December 15 1996

NATIONAL
Manufacturing - Non-Met. Min. Products

1999
Brick industry calls for government aid

Johannesburg — Tough economic times have taken their toll on brick companies, a number of which have been liquidated and more are expected to follow, according to industry participants.

The clay brick industry is "bleeding," said Vincent Wood, the executive director of the Clay Brick Association.

He said the industry was suffering from a lack of government spending and a high interest rate environment.

The association represents companies that produce 70 percent of clay bricks in South Africa. Representative companies include Corobrik, Crammix and Ocon. Sales of clay bricks have dropped 30 to 40 percent from the previous year, said Wood.

But others felt it was not so severe. According to a recent study, the industry has not raised its prices for the past two years.

The industry is aggrieved that nothing much is being done to change its plight and the association has applied to the government through the department of trade and industry to put up R1 million in a project that would improve the industry.

Wood said there would be no demand for bricks until the government accelerated its RDP programme.

"Government spending will be the biggest stimulus for the industry."

Corobrik, the largest producer of bricks in the country, has closed down about five of its 30 factories over the past few years. A number of other companies have also closed down outlets in the past year, with more expected to follow.

Wood said that every factory closure meant the loss of about 150 jobs. In the bigger companies, about 300 to 400 people lost jobs.

Wood said: "The institutions used to spend money in the country before they were allowed to take money offshore. Now that they are able to invest elsewhere, the building industry has been badly hit. The institutions were among the biggest spenders in non-residential building."

Nico Blake, the chairman of the Claybrick Association in the Eastern Cape, one of the regions most severely knocked, said high interest rates and uncertainty around the election contributed to the tough environment.

A number of factories in the region are only producing bricks two or three days a week.

Peter du Treveau, the managing director of Corobrik, said the industry as a whole had the capacity to produce some 6 billion units a year but was operating at about 70 percent capacity.
Ceramic Industries earnings up 26.7%  
Moses Miangeni

CERAMIC Industries, the tile and sanitaryware manufacturer, exceeded its budgeted profits for the six months to January thanks to a new production line at the pressed floor tile plant.

Headline earnings rose 26.7% to 98.5c a share, while income attributable to ordinary shareholders was 27.2% higher at R18.1m on a 26.5% higher turnover of R136m. The interim dividend was 50% up at 13c a share.

The Ceramic Industries group consists of Samca Tiles, Betta Sanitaryware, National Ceramic Industries and Tilecor.

Last year the group set aside R51m for the installation of seven casting plants at its four companies over two years. CEO Battista Errera says retailers have been discouraged from importing ceramic tiles because of the weak rand, which has boosted Ceramic’s market share.

The benefits of new casting plants at Betta Sanitaryware would only become evident in the next financial year.
High import costs boost die-making profits for Ceramic Industries

COMPANY NEWS
Govt urged to cut duty on Indian glass

Triangle Glass has called on government to suspend immediately a 200% provisional antidumping duty on Indian glass imports, alleging that the ruling was based on "invalid and unverified" documentation.

The company claims that to "use a hastily written, unverified quotation as evidence of dumping is totally irresponsible."

It also alleges that the investigating officers from the Board on Tariffs and Trade, government's antidumping authority, misled the board's members.

Triangle says the investigators said in their official report that the dumping duty was based on an invoice from an Indian company.

Leora Blumberg, the deputy chairman of the board, confirmed the board had received the complaint from Triangle.

"A final decision on the substance of this investigation has not yet been taken. The board will take all parties' formal representations into consideration before making a final determination," she said.

She said the board would never initiate an investigation without "acceptable documentary evidence."

To determine dumping, the allegation that the exporter is selling his goods at prices far lower than those charged in domestic markets, the board would use information submitted by the exporter, rather than rely on information submitted by the petitioner.

"If the parties do not respond or do not co-operate fully with the board in the investigation, the board has no option but to use the 'facts available' in accordance with the WTO (World Trade Organisation) rules."

She stressed, however, that the board prefers to operate with the support and co-operation of exporters.

Triangle Glass wants the duty suspended until the disputed document has been verified by the Indian consulat-general.
Plate glass firm explores options out of its slump

PGSI can only improve

Ann Croity

Johannesburg - The only positive thing that can be said about Plate Glass and Shatterprufe Industries (PGSI) in the light of the latest results is that it is very difficult to imagine how things could get worse.

In the 12 months to March 31 headline earnings plummeted 74 percent to 160,5c a share from 624c a share in the previous period. The balance sheet reflects a continued erosion of shareholder wealth, with ordinary shareholders' funds down to R629.6 million from R786.5 million.

At the end of financial 1987 the group had shareholders' funds of just over R1 billion.

No dividend has been declared yesterday the PGSI share price shed 3c to close at R54.20 if management's optimism is appropriate, the share price should move ahead from here.

Management is not only having to do battle on the trading front but is also dealing with SAB's pending sale of its 40 percent stake in the group.

To this end an agreement has been reached in principle for the sale of PG Bison, PGSI's 75 percent-held board manufacturer and distributor, to US-based Formica.

Management states that if the sale is completed, a net loss of R190 million will be incurred.

In what appears to be an attempt to clean out the balance sheet ahead of SAB's disposal of its stake, management has made full provision for the R190 million net loss.

If this loss is included in the earnings calculation the headline earnings figure becomes an attributable earnings loss of 340.1c.

Management notes that positive effects of the disposal of PG Bison include a reduction in borrowings from the expected proceeds of the sale of R28 million and a possible profit gain of R35 million.

The balance sheet reflects a continuing erosion of shareholder wealth.

These benefits will be reflected in the financial 2000 figures.

The trading results justified the profit warning issued by PGSI in February. At that time management warned that tough trading conditions would hit annual results harder than initially thought.

In its review of operations, management notes that "as suppliers of commodity materials to the automotive, furniture and building sectors, Glass SA and PG Bison were directly subject to the vagaries of the economy."

The high interest rate environment weakened activity, although both achieved market share gains at the expense of margins.

Belron International continued to report a growing contribution, but it was not sufficient to counter the decline in South African earnings.

Ronnie Labinn, the chairman and chief executive, said that assuming the disposal of PG Bison was finalised and first-quarter improvements in the economy were sustained, "group earnings would show a significant recovery, and overall gearing would be reduced in the year ahead."

C
Higher interest, depreciation to affect second half

PPC’s sales knocked

ROY COKANE

Pretoria – PPC, the cement, lime and related products producer, yesterday reported a 22 percent decline in operating profit to R116.2 million in the six months to March 31 as a result of lower sales volumes.

John Goemersall, the group managing director, warned that increased depreciation and interest charges would negatively affect the results in the second half. He said earnings for the year would be lower than last year.

The interim dividend was reduced by 11 percent to 85c a share against 95c last year.

He said lower sales volumes had taken a toll on most of the business units although transport revenue increased because of an expanded fleet and improved vehicle utilisation.

Earnings as a share declined by 4 percent to 22.5c on increased shares in issue following the capitalisation award in December last year, while turnover rose 3 percent to R882.6 million from R859.5 million last year.

DOWNTREND John Goemersall, group MD of PPC, reported mixed results based on lower sales.

He said high real interest rates continued to reduce the level of domestic and fixed investment expenditure.

The declining trend of sales in the cement and lime industries was showing no sign of reversing at this stage.

“Any general improvement in the domestic economy is unlikely to materially affect demand for cement and lime in the remaining months of the financial year,” he said.

PPC’s net profit attributable to shareholders, excluding exceptional items of R3 million, increased by 1 percent to R106.4 million from R105.8 million last year.

Goemersall said sales volumes of domestic cement had declined because of the lower building and construction activity in the country.

This decline, coupled with reduced export margins and higher depreciation charges, resulted in operating profit of the cement division dropping by 19 percent to R90.8 million from R112.6 million last year.
Outlook gloomy for PPC

Sibonelo Radebe  

PRETORIA Portland Cement (PPC) posted a 4% decline in earnings, to 221.5c a share, in the six months to March, citing high interest rates and poor economic activity as the reasons for the poor performance.

"The depressed state of the economy is clearly reflected in the 22% decline in operating profit from R148m in the first half of the previous year to R115m," said PPC MD John Comersal.

An analyst said the decline in earnings was expected given the economic conditions which prevailed during the period under review, but said the drop in operating profit was surprising.

"A 22% decline is worse than expected and could be a sign of worse things to come in the second half of the year to end-September," the analyst said.

The group's profit after tax rose 8% to R113m (R105m) and Comersal attributed this to a decrease in the company tax rate from 35% to 30%.

Turnover rose slightly to R883m from R859m in the first half of the previous year.

The PPC share price dropped 140c or 3.2% after the publication of the results to end at R42 on the Johannesburg Stock Exchange yesterday.

PPC's main product — cement — suffered a dramatic decline in demand last year due to a corresponding lack of activity in the construction industry. The group's figures reflect a drop in national cement demand of 6.5% for the period under review compared with the previous six months. Limes, the company's other product, suffered the same decline.

"These statistics of basic commodities demand reflect the extremely fragile state of our economy," Comersal said.

The results had also been badly affected by the combined effect of a R15m increase in depreciation charges and a R14m increase in interest paid, relating to major expansion investments that have not yet delivered anticipated growth in operating profit.

"The outlook for the second half is not encouraging, but we continue to make important strides in reducing cash costs through our global competitiveness programme," Comersal said.

"Thus, together with lower anticipated interest rates, the elections behind us and a better economic scenario from next year onwards, bodes well for improved earnings in the future," he said.
PPC feels effects of struggling industry

Sibonelo Radebe (1999)

CEMENT group Pretoria Portland Cement (PPC) looks set to report reduced earnings in the year ended September as the construction industry struggles to make headway amid weak economic conditions.

Barnard Jacobs construction industry analyst Tabani Duff forecast a 24% drop in earnings for the full year.

In the six months ended March, PPC posted a 4% decline in earnings, to R221.5c a share. The group's profit after tax rose 8% to R113m (R105m), largely due to a decrease in the company tax rate from 35% to 30%.

Duff said the interim earnings decline could have been 27% down, excluding the deferred tax adjustment.

PPC MD John Gomersal attributed the group's poor performance to the depressed economy. His expectations for the year are not good.

Duff agreed with several other analysts who indicated PPC was a victim of circumstance. The group's primary product is tied to the construction industry, devastated by last year's market turmoil.

The damage to PPC is reflected in sales figures released by the Cement and Construction Institute. They show a 2.1% decline in cement sales volumes for the first three months of this year. During the 12 months to April, sales suffered a 5.5% decline.

Analysts say the industry will react to the decline in interest rates in the second half of next year.

However, the group's share price has shown resilience. Despite losing 6.5% or 300c in 30 days, the share held on to levels above the year low of R30.50, closing on Friday at R40.00.
Corobrick Workers Given 50pc Shares

By Sami Mohsen

Corobrick Workers Given 50pc Shares

SOWAN Thursday May 20 1999
Small traders win long struggle

Dumping duty eased on Indian building glass

RAVIN MAHARAJ

Durban — Smaller independent traders in South Africa’s R350 million-a-year building glass industry have won their fight to reduce the 200 percent dumping duty imposed on Indian building glass.

Cyril Gebhardt, the managing director of Triangle Glass, one of the largest independent glass distributors, said the Board on Tariffs and Trade (BTT) indicated it would reduce the dumping duty imposed on Indian building glass from R25,18 a square metre, to R7,30 a square metre.

The assault began earlier this year when glass traders throughout South Africa sent protest letters to the BTT vehemently opposing the imposition of glass duties, which they said favoured the glass monopoly to the detriment of smaller traders, making trading conditions almost impossible.

The independent traders said the duty had not been based on commercial calculations but on emotive issues.

Triangle used to import glass at R12 a square metre.

This price had increased to R36 a square metre since the imposition of the duty. The ramifications for smaller traders were far worse.

PFG Building Glass, the sole manufacturer of building glass in South Africa, petitioned the BTT for dumping duties after it claimed its market share, profit and sales had declined because of imports.

Triangle Glass and other smaller players have about 20 percent of the local building glass market.

The BTT imposed provisional duties for six months on imported float and sheet glass from India last December, effectively stopping any Indian glass from entering South Africa.

The volume of building glass imports rose to 3.5 million square metres in 1997/98, from 475,000 square metres in 1996/97.

Imports were valued at R38 million in 1997/98, up from R6 million in 1996/97.

Yesterday, Gebhardt said the independent players welcomed the move, which would boost competitiveness and help level the playing field.

However, he said the duty would still effectively block distributors from importing Indian glass as the landed cost was now comparable with the cost of glass produced by PFG Building Glass.

Triangle had switched its Indian glass imports to Indonesia and Malaysia, which imposed the normal 10 percent import duty.
Metal Box to close Durban glass plant

Shirley Jones
KwaZulu Natal Editor

Durban – Metal Box has been forced to close its glass bottle manufacturing plant in Durban because the weak regional economy, unemployment and AIDS had hit beer sales in KwaZulu Natal, the company claimed yesterday. This had resulted in poor demand for beer bottles from its main market, SAB.

However, David Williams, a spokesman from SAB, said beer sales had shown slight growth in the past year and there had certainly been no significant decline in KwaZulu Natal.

In minutes from a meeting with unions, Metal Box management cited these as the reasons for plans to shut down the plant in October.

Last week, however, Metal Box announced that the closure would be brought forward to the end of June, resulting in the loss of 90 jobs. Llewellyn Bonnelle and Jay Muckethoog, shop stewards for the National Employees’ Trade Union (Netu), said:

They said Netu, which together with the Chemical, Paper and Allied Workers’ Union, had declared a dispute with the company over the closure of the glass plant. The issue would now go to arbitration. The unions were determined to claim damages running into millions.

Sipho Ngidi, Metal Box’s group human resources manager, said it had proved impossible to keep the plant open until October, as originally planned. However, employees would be compensated as if the factory had remained open until then.

He said the reason for the closure was the drastic shrinkage of the glass market in general, which had made rationalisation unavoidable.

Muckethoog said a more likely explanation for the fall-off in demand was that SAB had transferred its orders to Corseol, after repeated quality and delivery problems.

He said the union believed Metal Box’s restructured furnace at Roodekop in Gauteng would take over Durban’s production. However, workers had been given no transfer options, and no attempt had been made to find them alternative employment.

Although Metal Box Glass had planned a R60 million rebuild of the glass furnace in Durban over the next 18 months, plans were cancelled when the plant’s profits hit an all-time low last year. The plant faces a R2.4 million loss for 1999.
Cement sales continue to slip downward

Sibonelo Radebe

CONCRETE and cement sales are continuing their downward trend in SA, reflecting one of the worst crises in the construction industry for years.

Sales were down 8.5% in the year to July from the previous year, according to figures from the Cement and Concrete Institute (CCI).

However, export sales rose from 247 378 tons to 383 575 tons.

Since the beginning of the year, domestic cement and concrete sales totalled about 5.6-million tons compared with 5.6-million tons in the same period last year.

An analyst said the cement and concrete sector suffered major setbacks as a result of last year’s market turmoil.

He said the outlook for the rest of the year remained bleak despite the expected economic recovery and continued lowering of interest rates. This was because of the lag effect in the construction industry.

The slowdown in the SA economy led to reduced construction work and cement and concrete production volumes.

This was aggravated by the cut in public sector infrastructural developments.

The Building Industries Federation of SA said because of the crisis, the industry stood to shed about 30 000 jobs this year after losing 20 000 last year, amounting together to 25% of the industry’s workforce.

The industry expects to see 450 company liquidations, compared with 350 last year.

An analyst said the cement and concrete sectors were badly affected by the economic conditions.

He said the extent of the crisis was reflected in the decline of earnings growth at major cement blenders like Pretoria Portland Cement and Alpha.

Small blenders stood to suffer most as they did not have massive resources to survive under such conditions, said the analyst.

Cracks in the sector emerged in 1997 when domestic cement sales dropped 1% from 9.3-million tons in 1997 to 9.2-million tons last year.
Downturn hits local cement sector like a ton of bricks

Only three big groups may survive, writes Sibonelo Radebe

"SURVIVAL of the fittest" is a perfect description of the situation taking place in the cement and concrete sector, which has been badly hurt by the economic downturn.

The broader construction industry has almost been brought to a halt by high interest rates and, subsequently, a dramatic decline in new building contracts.

As a result, business confidence in the industry last year declined to its lowest levels since 1990, leading to the cancellation and shelving of plans for new construction.

To make matters worse, government slashed its budget for new infrastructural developments.

These conditions had a knock-on effect on the cement and concrete sector, sales slumped as did production volumes.

The effects of these harsh conditions were reflected in the financial results of several major cement and concrete companies like Alpha and Pretoria Portland Cement (PFC).

Their earnings tumbled

PPC is expected to post a 24% drop in headline earnings a share in the year to end September. This after interim earnings dropped 4% during the first half of the year ended March.

The group attributes the poor performance to general harsh economic conditions and to high interest rates.

More bad news

Industry players expect conditions to get worse in the current year despite a decline in interest rates and signs of gradual economic recovery.

Latest figures of the Cement and Concrete Institute (CCI) suggest that sales will drop about 8% this year compared to a 1% drop last year.

Figures released in July showed sales for the year to date coming in at about 5.6-million tons compared to 5.8-million tons during the same period last year, reflecting an annual decline of 8%.

CCI executive director John Sheath expects the decline to remain at about the 8% level for the full year.

He and several other players in the sector expect a gradual recovery by the second half of next year given the lag effect suffered by the construction industry.

Unlike other parts of the construction industry, which have managed to offset local losses with exports, this is not a viable option due to high transportation costs.

The industry has met this crisis with a string of rationalisation programmes within the sector, with companies trying to minimise the effects of the harsh trading conditions on the bottom line.

The MD of the concrete and aggregates unit of Lafarge SA, Des Eriksen, says the only way to survive under such conditions is to focus on cost reduction.

Lafarge SA is part of the French-based international cement and concrete company Lafarge that came to SA last year through the purchase of the former Blue Circle for R1,53bn from Murray & Roberts.

Lafarge SA recently commissioned a restructuring programme which saw the group divest its cement and concrete and aggregates division into two operational entities.

The group said this was meant to produce more focused approach on each product.

"The emphasis on the product line in the highly competitive construction materials market will enable the group to have a clear focus and responsibility for each unit's profit performance," says group CEO Elmor Leo.

PPC's MD John Kommersals says the company has embarked on a programme to attain global competitiveness.

He says the group used international standards as a benchmark, which enabled it to reduce costs.

The programme includes developing new manufacturing facilities with more efficient systems.

While large companies were hurt by last year's market turmoil, smaller and medium-sized companies were devastated and a large number went to liquidation.

Given this situation — and stringent conditions set by the SA Bureau of Standards for cement blenders — the sector has little or no room for newcomers.

The industry will continue to be dominated by three large groups: Lafarge, Alpha and PPC.
Cement firm a casualty of poor domestic demand

Sibonelo Radebe

CEMENT group Pretoria Portland Cement (PFC) was another casualty of last year’s high interest rates and poor economic conditions, reporting poor results for the financial year ended September.

Turnover declined by 22% to R242m compared to R311,8m in the previous year and earnings a share tumbled 25% to 391,1c from 519,4c.

Dividend a share lost 28% to 270c compared with 325c during the previous year.

The group said the financial year under review was difficult mainly because of the reduced demand for cement. Domestic demand declined 7% this year.

However, the group was successful in increasing exports to minimise the impact of weak domestic markets. Total exports rose 53% to R150m.

PFC said the downturn in demand further accelerated the need for a rationalisation programme. The rationalisation process carried out last year improved efficiencies, but resulted in a once-off cost of R13,2m.

Given a stable interest rate environment, the group said, it expected modest volume growth and it was well posed to take advantage of any sustained improvement in market conditions in the future.

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PPC looks for concrete recovery

Adele Shevel

Johannesburg - Pretoria Portland Cement (PFC), the cement and lime company, yesterday reported a 25% drop in headline earnings per share to 391,1c in the year to September 30.

This was below analysts’ expectations of 396c, according to Barra, an independent research agency.

John Gomersall, PPC’s managing director, said “it was a difficult year and the results mask the solid foundation of investment, cost reduction and rationalisation steps that have been taken over the last few years. However, these cost savings and others will come through in the year ahead”.

The company said reduced demand for products caused by declining fixed investment, combined with non-recurring costs, resulted in operating profit falling 22 percent to R242m million.

Gomersall said the recent drop in interest rates and a more positive mood in the building and construction industry made the company optimistic for the second half of next year.

Turnover increased 5 percent to R1,86 billion.

The downturn in demand had accelerated the need for rationalisation and steps were taken to rationalise production and improve efficiencies. This resulted in once-off costs of R13,2m.

The staff complement was reduced by 14,4 percent which, added to the previous year’s reduction, represents a decrease of 20 percent over the two years.

The Jupitar plant was mothballed as part of the cement production rationalisation.

A final dividend of 185c a share was declared, which, together with the interim dividend, gave a total of 270c for the year.

Thane Duff, an analyst at Barnard-Jacobs Mallet, said earnings would have been harder but had it not been for the reduced tax rate. The group’s effective tax rate dropped to 12 percent from 27 percent, thanks mainly to a reversal of deferred taxation, worth R30 million, in the first half.

Cement demand declined by 7 percent because of higher interest rates and limited public infrastructure investment. Lime turnover dropped 6 percent on weakness in world steel markets, which led to lower domestic steel output. The packaging and transport division’s operating profit increased 56 percent.

PPC shares closed unchanged yesterday at R44,60.
Corborb builds a fleetboat suited to prevalent business conditions.