Ownership & Control
1987

January - May.
FARM productivity is being scandalously hampered by bureaucratic and outdated import restrictions, according to farm consultants.

They say restrictions which curb the import of new, superior seed varieties and livestock strains are also responsible for rocking food prices.

In attempts to contain costs, farmers are using less of many inputs - 20% less fertilizer, 20% less crop sprays, and buying 5000 instead of 25,000 new tractors a year. But their efforts to produce more are thwarted by rigid - and what some experts describe as ridiculous - restrictions on the import of superior seeds and breeding stock.

**Isolation**

The editor of the independent publication Effective Farming, Symon Fiske, says isolation of SA farmers from the benefits of worldwide genetic research is "drift at the best of times".

"To do so now is doubly stupid. A conspiracy of short-sighted plant and livestock breeders has organized a type of self-imposed economic sanctions from within with the help of parochial bureaucrats," Mr Fiske says. "The response of those in authority, panicking to a small number of pedigree livestock breeders and an even smaller number of plant breeders - whose efforts are laughable by international standards - has been to cry that 'it is available locally' and 'extra competition would be a bad thing'."

"The result is that SA's crop and livestock yields are already low compared with all other Western nations are destined to fall further behind SA's dairy cows and pigs produce less milk and pork than those in Zimbabwe let alone those of Israel, Britain, the US or Denmark."

**Incredible**

John Harrison of SA Farm Consultants says: "Our wheat yields are low because the Department of Agriculture's small grain-breeding station at Bethelheim has insufficient funds to produce strains of wheat suitable for conditions ranging from sub-tropical to central European. But seed imports are prohibited."

"SA's soyabean yields are notoriously poor, but seed imports are allowed only for varieties already grown here."

Ned Kerr, technical director of Stanke Ayres Seeds, now part of the giant Pioneer group describes the regulations on seed imports as "incredible." "Should any overseas country wish to seed exports to SA, it could usually identify them because of the number of phytosanitary and other certificates required. More are required here than anywhere else in the world. Seeds have to be free of so many unknown and unheard of diseases that it is often not worth the sellers going to the trouble of trying to get certificates."

"New strains of plants can be imported - provided they meet rigorous health requirements - but they have to undergo several years of testing before being ruled suitable for SA conditions."

"Vested interests - such as co-operative seed company Samsko, or the Lucerne Seeds Control Board (LBC) - can ban imports if they think SA does not need them. To protect the few SA growers, this is what they usually do, say consultants."

"Many more farmers than usual wished to plant soyabean this year. Some are wheat growers whose harvests were delayed by heavy rains, making planting an alternative crop like more impossible. But there is no surplus soyabean seed in SA."

A farmer - but not a commercial seed company - may import seed of licensed strains for his own use, but not for sale. New varieties have to be tested over several years before import permits for general use are issued.

**Slim margins**

Mr Harrison says: "Because of cross stupidity SA loses the chance of closing the gap between demand and supply for oil cake."

"The seed trade contends that sufficient is known about several new varieties of soyabean, but that their profit margins are too slim to finance several years of testing."

Lucerne seed provides a good example of the fatuity of controls. A few ostrich farmers at Oudthoorn that 10% of the LBC has complete control of lucerne seed imports and sales in SA. Only SA common lucerne seed could be sold for many years - a variety which, not even a pure lucerne strain but is a bastardized production harvested by ostrich farmers in bad years. SA lucerne yields are notoriously low by world standards.

Grootfontein College at Middleburg, Cape, has been growing plots of improved lucerne strains for many years, but they were not allowed to be marketed. After decades of protection, five US strains, all aphid resistant, were allowed in two or three years ago and are being grown under license at a few sites in the Eastern Cape and Gordon."

**Eggs smuggled in**

Imports are still only allowed by the LCB when ostrich farmers make money and the growers are too lazy to harvest sufficient seed.

Apart from the LCB, others in the Lucerne Cultivar Evaluation Committee and the Lucerne Cultivar Advisory Committee, aided by some members of the SA Agricultural Union.

"It is hardly surprising that adventurous growers secretly import new plant cultivars."

The so-called "Herd immunity scandal" in the Cape involving wine grape varieties is a case in point.

According to Mr Harrison, the situation for livestock is "equality or unbelieveable. There is a virtual ban on the import of new breeds of livestock, including hybrids resulting from crossing two or more..."
PRICES AT A GLANCE

The expected stimulatory budget bill down the rate of company closures was another factor which would help slow cheaper money now available.

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GERALD REILLY

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Australian group to sever SA ties
Colonial Mutual
explores merger, independence

By AUDREY D'ANGELO
Financial Editor

THE AUSTRALIAN-BASED international insurance group, Colonial Mutual, is about to sever all ties with its SA operation.

In a carefully-worded announcement yesterday, in which the word "divestment" was not mentioned, Colonial Mutual's GM in SA, Doug Cleland, said it was "in the process of becoming an independent SA operation".

'Exploratory talks'

Answering questions, Cleland said that Colonial Mutual, which has its SA head office in Cape Town, was already having exploratory talks with several other "established SA organizations offering complementary strengths" with a view to a possible merger.

Possible partners would not necessarily be Cape Town-based.

Asked if the link-up could be with a building society, Cleland said "At this stage we don't know".

He said that any merger or other relationship would be considered as an opportunity for expansion, rather than rationalization.

Colonial Mutual is SA's second oldest life insurer. It employs 800 people in this country, where it has total assets of more than R500m and branch offices in every major city.

Although it is at present still part of an international group, it is officially recognized in this country as a South African insurer controlled by a local board.

All funds from SA policyholders are retained here and secured by investments in this country.

'Alternatives'

In yesterday's statement Cleland said that in anticipation of Colonial Mutual's parting from the international group and with the approval of the group board, the SA board and management were "investigating alternatives to strengthen the society's position in the SA market".

"It goes without saying that the traditions of the society will require that any decision we reach will take full and careful account of the interests of all those whom we serve — our policyholders, staff and business associates," Cleland said.
Big bureaus merge

TWO of SA's largest private computer bureaus have merged to form the new Otek Computer Bureau.

They are Precision Oakes and CICS, both established as Unisys mainframe users.

Joint MD (marketing and finance) Mike Bussey says between them, CICS and Precision have 35 years service to commerce and industry.

Joint MD (technical services) Norman Rock says the merger makes good business sense.
Dairy company to be wound up

Mercury Reporter

THE Supreme Court, Durban, placed a subsidiary of Creamline Ltd under a final winding-up order yesterday because of its debt of nearly R2 000 000.

Mr G. T. Graham, liquidator of Creamline Ltd, said in an affidavit that Kunek's Vanderbijlpark Dairy was one of a group of 20 companies known as the Creamline Group and because of financial difficulties several of these, including Creamline Ltd., were wound up in 1985.

Kunek was a wholly owned subsidiary and was indebted to Creamline Ltd for R1 829 000.

In addition it was indebted to another Creamline subsidiary, Jersey Melkery (Pty) Ltd, for R335 576, and it also had liability of R124 416 to sundry loan creditors and other companies within the Creamline group.

Kunek's only asset, he said, was a commercial property in Vanderbijlpark, valued at about R30 000, which had been vacant for some time and all efforts to let it had proved unsuccessful.
SA Bias shares rocket 85c

By GARETH COSTA

JOHANNESBURG — SA Bias shares rocketed 85c to 435c yesterday, fuelled by rumours that the company is to produce earnings about 50 percent higher and a dividend payout around 40 percent up for 1986.

The company's managing director, Mr Christopher Seabrooke yesterday said he could not confirm the rumours, but he added that profits were at least in line with the 30 percent prediction in the annual report.

He said SA Bias Bunding — one of the two major profit contributors in the group — was doing "very well" and that the 23 acquisitions made over the past four or five years were beginning to pay off.

"I expect a substantial increase in pre-tax profit for the company in 1987," he said.

Mr Seabrooke said Merhold, holding company for Merchant Shippers and Mertrade, would be listed some time in the second quarter of this year.

Merhold's nature was changing from a confirming house into financial services and trading.

"We have switched to a secondary banking operation where the risk is less than in confirming," he said.

Mr Seabrooke said Merhold had done some investment banking. It was one of the financiers involved in Macdams, Quality Tyres and Bearing Man among others, but was previously precluded from taking a stake in the companies.

However, he said "There are more comings, all with potential for involvement. We would like a portion of our operation to be similar to New Bernica."

Merhold is now helping in the restructuring of Dundee Industries. Dundee has also taken over the lease for the property where the loss-making Marathon Packaging was situated.

The property was costing the group some R600,000 a year, and Marathon has left behind an assessed tax loss which should keep the group tax bill down.

Mr Seabrooke said SA Bias Bunding was generating so much cash at the moment it does not need to raise additional capital through a listing, but one is on the cards within a year or two in line with group principle of listing the subsidiaries.

His personal holding of 10 percent of SA Bias, worth about R38-million, and which is held by a company called Cirolo, would be pyramided with a rights offer to SA Bias shareholders in the first half of the year.
THE Competition Board will submit wide-ranging reports on deregulation to government in the next six weeks.

The reports, to be submitted to Economic Affairs and Technology Minister Danie Steyn, will deal with the deregulation of:
- Black trading;
- Trade licensing and business hours;
- Health regulations;
- Industrial parks;
- Taxes.

Chairman of the Competition Board Stef Naude said yesterday in-depth consultations to secure the co-operation of government departments and local authorities had taken place since investigations began in August last year.

This was vital, Naude emphasised, to prevent subversion of the proposals the board would push hard to have implemented speedily.

He did not wish to comment on the contents of the reports but hinted that the import of the recommendations concerning black traders was "to lift restrictions on access and remove unwarranted obstacles".

Issues dealt with included trade licences and land usage, though apparently not the Group Areas Act.

A spokesman for the Small Business Development Corporation (SBDC) said the major concern of black traders — barring their exclusion from "white areas" — was regulations giving councils the power to allocate sites, to decide on whether a person could do business and to control business hours.

The report on business hours related to lifting restrictions on Sunday shopping. Naude said, while the proposals on licensing dealt with the need to facilitate business entry.

In terms of municipal ordinances a licence is required to open a business. The SBDC spokesman said this not only meant additional red tape but severely constrained the development of the informal sector.

Health regulations were also far too strict, Naude said.

As regards industrial parks, "substantial" deregulation on a limited geographical basis could occur if the board's report is accepted.

They would be exempt from a variety of laws and regulations in terms of the Temporary Removal of Restrictions on Economic Activities Act.
Protectionism slated

FARMING consultants are at odds with agricultural industry and government officials on the effect of import protection policies.

Consultants say over-zealous protection is stunting output and pushing up food prices. Officials say protection is no worse than overseas and that farmers must be protected from exploitation — particularly when dealing with sometimes extravagant claims for new livestock breeds.

But according to consultant Symond Fiske. "It's not government's role to stop idiots being idiots. If someone's going to lose money he will. And the sooner the better, so the money finishes up in the hands of someone who knows how to handle it."

Critics of import controls say they are bureaucratic and outdated. By keeping out — or delaying — seeds and livestock with a better yield than domestic strains, they impose enormous strains on the economy.

"It doesn't make sense in such a small economy as ours," says Fiske. "You have to concede at some stage that the cost of keeping disease out is too great in relation to the costs being imposed on the economy."

Andreas Cronje, assistant director of the Department of Agriculture's Directorate of Plant & Seed Control, says many overseas seed strains don't adapt to SA conditions.

"Any seed can come in if it has a suitable health certificate from overseas. It is the same world-wide. If it can fulfill requirements for diseases, we take it and test it."

Consultants say, however, there is no need to test such strains — nor should co-operatives or control boards be allowed to hinder their introduction.

"The only way to find out if something is suitable is to suck it and see," says Fiske. "Try it out and if it doesn't work, too bad."

Consultants are also critical of livestock breeders' unwillingness to import new breeds that could offer better yields than existing lines.

While accepting that some overseas breeds could help improve yields, Jan van der Walt, manager of the SA Agricultural Union's Red Meat Producers' Organisation, says farmers need to be protected from exploitation.

Natal-based consultant John Harrison says: "If the farmer brings in purple and yellow pigs and no one likes them, that's his loss. He doesn't need legislation to protect him."
Competition Board reports to Govt will be wide-ranging

Mercury Correspondent

JOHANNESBURG—The Competition Board will submit wide-ranging reports on deregulation to the Government in the next six weeks.

The reports, which are to be submitted to Economic Affairs and Technology Minister Danie Stryker, will deal with the deregulation of Black trading, trade licensing and business hours, health regulations, industrial parks on a geographical basis and taxis.

Chairman of the Competition Board, Mr. Stef Naude, said yesterday that consultations to secure the co-operation of Government, departments and local authorities had taken place since August last year.

This was vital, Mr Naude emphasised, to prevent subversion of the proposals which the board wanted to have speedily implemented.

He did not wish to comment on the contents of the reports but hinted that the main import of the recommendations concerning black traders was to lift restrictions on access and remove unwarranted obstacles.

Major concern

In respect with included trade licences and shop usage, although apparently not the Group Areas Act.

A spokesman for the Small Business Development Corporation (SBDC) said the major concern of Black traders – barring their exclusion from 'white areas' – was regulations giving councils the power to allocate sites, to decide whether a person can do business and control of business hours.

The report on business hours related to lifting restrictions on Sunday shopping. Mr Naude said, while the proposals on licensing dealt with facilitating business entry.

In terms of municipal ordinances a licence is required before a business can be opened. The SBDC spokesman said this not only meant additional red tape but severely constrained the development of the informal sector.

Health regulations, which also act to restrict entry into business, are far too strict with local authorities 'taking Government regulations to excess', Mr Naude said.

As regards, industrial parks 'substantial' deregulation on a limited geographical basis could occur if the report is accepted.

They would be exempt from a variety of laws and regulations in terms of the Temporary Removal of Restrictions on Economic Activities Act.

The recommendations on taxis have been incorporated into the National Transport Commission's White Paper on transport which is due to be tabled in Parliament at the end of the month.

The problem of deregulation is the cumulative effect of measures coming from several quarters. There is a general view that it merely involves a stroke of a red pen to abolish existing systems, but a new system has to be designed.

Aspects of the system which were cost-effective had to be retained and an alternative for the other aspects formulated.
SBDC calls for deregulation

Economist claims red tape increases black politicisation

IN A BLUNT criticism of Pretoria for dragging its heels in deregulating the economy, the Small Business Development Corporation (SBDC) says there has been a marked increase in the politicisation of blacks because they “cannot see any significant gain from active participation in the SA economy”.

SBDC economist Guy Woolford says he is “surprised the economy is so buoyant with all the regulations, licensing and high tax levels” discouraging the formation and growth of businesses.

He says despite the fact that government is dragging its heels in implementing its much-vaulted deregulation plans, an estimated 10% more informal businesses sprang up last year compared with 1988.

There are now more than 650 000 such businesses in the informal sector — defined as “unrecorded, unlicensed, mostly non-taxpaying and providing non-fixed salaried employment”.

Last year there was also a 10% increase in the employment provided by the informal business sector and these businesses contributed an extra 5% to GNP.

The SBDC attributes the increases to unemployed people trying to eke out an existence, “but the growth in small businesses and ‘invisable employment’ could have been much greater if government had been more enthusiastic about deregulation”.

The SBDC is calling for a freer economy with more visible gains from entrepreneurship.

Says Woolford: “You cannot expect business to be normal in a society in which movement, property rights and entry to markets are restricted.

“The deregulation seen to date has been marginal. Far more is required.” — Sapa.
Safren set to assume control of Makro

HAMISH MCINDOE

MAKRO shareholder Safren is set to assume control of the local operations of the Dutch-based wholesale group if it is forced to leave SA at the weekend.

Makro's owner, trading multinational SHV, has given the Dutch government until tomorrow to insure and protect its arson-hit Makro stores from terrorist attacks or it will liquidate its SA interests. This could mean the loss of 1 400 jobs.

A Dutch Foreign Ministry spokesman yesterday ruled out the possibility of state insurance for SHV.

The issue of state protection was still under discussion, but this was also unlikely, John Battersby reports from London.

"In the first instance, it is up to the owners of Makro stores to protect themselves. What we are trying to do is to find out who was responsible for the arson attacks," the spokesman said.

Safren Trading chairman Tony Bush said yesterday the group would "obviously welcome the opportunity to increase our Makro shareholding." But he made clear that no takeover talks were underway. "That would be premature."
**Moves to free trade**

The Competition Board says it will submit wide-ranging reports on deregulation to Government in the next six weeks.

Board chairman, Mr S T F Naude, says consultations to secure the cooperation of Government departments and local authorities have been in progress since investigations began in August last year.

The reports are to be submitted to the Minister of Economic Affairs and Technology, Mr Peter Dirembo. They will cover the deregulation of:

**Proposals**

- Trade licensing and business hours.
- Black trading.
- Health Regulations.
- Industrial parks, and
- Trade.

"Ailround cooperation is vital to prevent subversion of the proposals and allow them to be implemented speedily," says Mr Naude.

"He did not want to comment on the contents of the reports but suggested that the implementation of the recommendations on black trading is "to lift restrictions on access and remove unwarranted obstacles".

"The Small Business Development Corporation (SBDC) says the major concern of black traders — barring their exclusion from "white areas" — are regulations that give councils the power to allocate sites, to decide whether a person can do business and to control business hours.

"The report on business hours is reported as relating to the lifting of restrictions on Sunday shopping while the proposals on licensing says, Mr Naude, deal with the need to facilitate business entry.

"Under municipal ordinance a licence is required to open a business. The SBDC says this means not only more red tape but it also severely constrains the development of the informal sector.

"Regarding industrial parks, "substantial deregulation on a limited geographical basis" could develop if the Competition Board's report is accepted.

"These parks would then be exempt from a variety of laws and regulations in terms of the temporary removal of restrictions on Economic Activities Act — Sapa.

"IN a blunt criticism of Pretoria for dragging its feet in deregulating the economy, the Small Business Development Corporation says there has been a marked increase in the politicisation of black areas because they "cannot see any significant gain from active participation in the SA economy."

"SBDC economists Mr Guy Woolford says he is "surprised the economy is so buoyant with all the regulations, licensing and high tax levels" discouraging the formation and growth of businesses."
Argus, Caxton, Hortors spin Waltons web

Business Times Reporter

WALTONS Stationers, Business Times Top Company for 1986, may become further enmeshed in the control spiderweb connecting Argus, Caxton and Hortors.

Argus has 6% of Caxton, the magazine and suburban newspaper printer and publisher, and 50% of Hortors.

In December, Hortors warned shareholders to be cautious in dealing with their shares as negotiations which could affect their value were taking place.

It appears that Caxton is trying to buy Argus's stake in Hortors.

Hortors has 8% of the equity of Walhold and is part of the pool, including directors, which controls Waltons.

Waltons chief executive Frank Roberts admits that he has had discussions with Caxton.

It appears that the discussions concern the 8% stake Hortors already has in Walhold and stationery operations in Hortors and in CTP that Waltons desires.

Mr. Roberts will not be drawn, but says his management team and that of Caxton "get on famously."

Mr. Short, chairman of Caxton, says Waltons and Caxton have similar styles, have been similarly successful — and both have money.

But he will not be drawn on the precise direction of negotiations between Caxton and Waltons.

If Argus is prepared to sell control of Hortors to Caxton, it will have to be for cash.

Mr. Short says the directors, who have 51% of Caxton, are not prepared to dilute their interest to less than outright control.

R48m holiday resorts

DIK Foorie Trust, of Schweizer-Reneke, will develop a R48-million resort at Skysby, close to Kareedouw and the Yettiesi-kusna forest. The scheme comprises 100 holiday homes to be sold under the shareblock system. The trust is also developing an R60-million complex between Cape St Francis and Aston Bay.

Wits Business School

Academic and Professional Excellence
Three AECI plastic firms come together

By Don Robertson

AECI has set up a R200-million-a-year plastic company by pulling together three formerly independent subsidiaries.

- AECI Converters brings together Vynide, Duropenta and Sterkolite at a cost of R50 million.

The rationalisation in October last year was undertaken partly because of the poor economic climate.

The managing director of AECI Converters, Ted Maybery, who came in from Durapenta, says the three companies all convert PVC products.

Saving

The decision to combine them will make reporting to the board easier and will help iron out the cyclical nature of some of their activities, particularly in the agricultural and motor industries.

The company employs 1,300 people and is looking for turnover this year of R200-million, making it one of the largest plastic converters in SA.

The saving to AECI in personnel costs alone must be close to R5-million a year. The net effect of the change has not been calculated, but it is significant for the top listed company.

AECI Converters serves the automotive, fashion, industrial, building, construction, agricultural and specialty plastics markets and has on its list of priorities the expansion of these activities even more, but suffered as a result of the 50% overcapacity in the plastic pipe-making industry.

Mr Maybery says the company will produce new products which will be developed in SA with foreign technical assistance.

The company is investigating the possibility of expanding exports, but this will be possible only if the raw material in SA-based. Last year, combined raw materials purchases were about R10-million, of which half came from SA.

The company has lost a large part of its exports to America because of sanctions. A R2-million development to produce a million garden chairs annually is operating at only 10% of capacity.

The company hopes to export Vynide technology which includes a special technique in PVC slip casting and multi-plex illuminators which is used in the mining market.

Warning

Mr Maybery warns that growth in the next few years will be difficult to achieve and a three-year profit programme has been developed.

Short-term growth will be achieved by improving margins and cutting costs.

In 1978, Vynide—the only manufacturer of PVC in SA—produced a "sustainable performance", helped by protection against imports.

Sterkolite, however, suffered substantial losses because of its involvement in the agricultural and motor industries.

Duropenta, "broke about
SA Breweries a strong contender as... 1444 DAY

Sell-off of Coke's stake in ABI nears completion

NEGOTIATIONS for the sale of Coca-Cola's 30% shareholding in Amalgamated Beverage Industries (ABI) are at an advanced stage but have not yet been concluded.

Coca-Cola's SA spokesman Henkie Viljoen said yesterday that pre-emptive rights with present shareholders were still being negotiated, but a number of both individual and group black investors were also involved.

Viljoen would not comment further but speculation is rife that SA Breweries, which has a 65% shareholding in ABI, is a strong contender for a large part of the shareholding.

Viljoen said raw materials used in manufacturing the original product would have both a local and imported content, and steps would be taken to ensure a continued supply of these.

Coca-Cola has reduced its stake in ABI from 85% 10 years ago to 30%.

Negotiations with potential black investors are in line with Coca-Cola's intention to divest in such a way as to create significant multiracial equity participation in SA's soft drink industry.

Black Equity Participation (BEP), a new group formed by black businessmen and aimed at buying out companies and shares in companies pulling out of SA, would not reveal if it was among the bidders.

Chairman Richard Maponya, first president of the National African Federation of Chambers of Commerce and former president of Soweto's Chamber of Commerce, said BEP was involved in negotiations with several companies planning to divest.

He said negotiations were very delicate, and he would not comment besides saying several of the responses had been fairly positive and he was optimistic about BEP's success.

BEP was aimed at pulling black businessmen into an area long denied them, Maponya claimed.
Wooltru may get Pep in a huge deal

CHRIS CAIRNCROSS

ANALYSTS are touting Cape-based Wooltru’s expected takeover of, or merger with, Pep Stores as the biggest in SA’s retailing history.

It will, however, be some weeks before any sort of finality is reached in the negotiations between the two quoted retailing groups.

The move must, of course, be sanctioned by the Competitions Board.

Both parties are staying tight-lipped about the nature of the proposed deal until something definitive emerges from negotiations.

But there seems little doubt about the direction they are likely to take.

Negotiations were almost certainly started by Wooltru, whose directors have been looking for a retail springboard — separate in identity from the Woolworths chain — to penetrate the low-income, mainly black, market.

Obviously the group sees limited medium-term growth potential for Woolworths, which services the middle- to upper-income groups.

Company sources have stressed there is no intention to tamper with the Woolworths character in order to service other markets.

Analysts see newly-listed Pep Stores — which consists of 511 Pep Store outlets, 39 Ackermans outlets, seven manufacturing outlets, and a combined turnover of R23bn — as a highly suitable vehicle for Wooltru’s downmarket foray.

Coal trader price cut

CHERILYN BRETON

PRICE control of domestic coal is to be abolished.

Government is to deregulate the pithead price — that paid to collieries — for various grades of steaming coal from April 1, says the Transvaal Coal Owners Association (TCOA).

This is expected to pressure manufacturers to drop their prices, although the final delivery price paid by consumers is not expected to fall significantly.

“The pithead price is just one element in the final price paid by consumers. In the PWV area the pithead price accounts for just under half of the final price, with transport and retail distribution costs making up the rest,” says TCOA MD Les Weiss.

In the Western Province, the pithead price represents about a quarter of the final price.

While prices will be a truer reflection of supply and demand, they will be more

Tax plan sets t

DRAFT regulations to combat tax evasion in the liquor industry — estimated to be as high as R100m a year — have drawn mixed reaction from wine and beer producers.

The regulations — amounting to a two-stage GST system — have been put to industry and may be introduced in March, industry sources believe.

If approved, the system will require wholesalers to impose part of the 12% GST on retailers, who then pass on the full 12% to customers. Wholesalers and
37% of equity changes hands

R16,2m Joshua shares deal

From BRIAN ZLOTNICK

JOHANNESBURG. — In one of the largest deals put through the market in many a year, 37% of Joshua Doore’s equity worth R16,2m changed hands yesterday.

Tradegro, through stockbrokers Frankel Kruger, in a special deal sold 25,7m Joshua shares at 64c to several institutions.

The deal was struck at an enormous discount to the then ruling market price of 98c and the share finished the day unchanged at 98c.

Highest in a decade

In order to shift through the market such a high percentage of a company’s equity — thought to be the highest in more than a decade — the seller often has to accept a much lower price.

Outside the market Tradegro sold 4,3-million shares to the triumvirate of management, New Bernica and Lifegro, which already had a 25% stake and the option to acquire from Tradegro a further 25,1% at net asset value a share before March 1989.

Tradegro CE Meryn King points out that management control of the furniture retailer was in the hands of David Sussman and Arnold Witkin even though Tradegro via Rusfurn had 68,9% of the equity.

King said that besides the management control situation, the other major reasons for the disposal were to reduce Rusfurn’s gearing ahead of its listing later this year and because Joshua was the only stock in the furniture sector trading at a premium to net asset value a share.

The current net asset value is about 45c a share.

‘Totally independent’

New Bernica CE Arnold Witkin said “we are delighted with the new shareholders and opportunity to increase our stake. Joshua Doore is now a totally independent company with strong shareholders and a dynamic management.”

Joshua was brought to the market six months ago through a reverse listing into cash shell Consure.

Management expects turnover to pass the R100m mark and earnings to exceed the pre-listing forecast of 5,7c for the current financial year.

Own Correspondent

JOHANNESBURG. — Pep Stores topped the biggest-value list on the JSE yesterday with 510 000 shares worth R5,35m traded in six deals.

The deals were handled by one broking firm, reportedly on behalf of an institution. They might foreshadow a move in the proposed Wooltr/Pep group merger.

The stock gained 25c to a high of R10,50.
Tradegro in R16m selloff of J Doore

IN one of the largest deals put through the market in many a year, 37% of Joshua Doore's equity, worth R16.7m, was sold by Tradegro yesterday.

Tradegro, through stockbrokers Frankel Kruger, sold 25.7-million Joshua shares at 86c to several institutions in a special deal.

The deal was struck at an enormous discount to the then-ruling market price of 96c and the share finished the day unchanged at 96c.

In order to shift through the market such a high percentage of a company's equity — thought to be the highest in more than a decade — the seller often has to accept a much lower price.

In another transaction outside the market, Tradegro sold 1.3-million shares to the triumvirate of management, New Bernica and Lifegro, which already had a 25% stake and the option to acquire from Tradegro a further 25.1% at net asset value a share before March 1989.

Tradegro CEO Mervyn King said management control of the furniture retailer was in the hands of David Sussman and Arnold Witkin, even though Tradegro, via Rusfern, had 69.9% of the equity.

King said besides the management control situation, the other major reasons for the disposal were to reduce Rusfern's gearing ahead of its listing later this year and because Joshua was the only stock in the furniture sector trading at a premium to net asset value a share.

The current net asset value is about 45c a share.

New Bernica CEO Arnold Witkin said: "We are delighted with the new shareholders and opportunity to increase our stake. Joshua Doore is now a totally independent company with strong shareholders and a dynamic management."

Joshua was brought to the market six months ago through a reverse listing into cash shell Consure.

Management expects turnover to pass the R100m-mark and earnings to exceed the pre-listing forecast of 5.7c for the current financial year.
AECI, Triomf in R58,5m deal

Possibly one reason for the change is that it eliminates any question of claims by minority shareholders who will be left with nothing other than to ratify the sale of the assets, a move which the Competition Board does not consider against the public interest.

To Page 2

CHEMICAL giant AECI will pay R58,5m cash for the fixed assets and business of Triomf Fertilizer in Potchefstroom. In addition, AECI will also buy for cash its stocks as at January 31 1987.

At the date of the last balance sheet in June 1986, stocks on hand were valued at R30,8m. But they have probably changed since then.

This deal is somewhat different from that announced last December when UAL and Barclays Merchant Bank stated that negotiations were at an advanced stage for AECI to acquire the Triomf ordinary and preference shares held by Nedbank.

AECI in R58,5m Triomf deal

The two merchant banks, in a joint announcement today, state that when the agreement is implemented Triomf’s only assets will be cash and, in terms of the JSE’s regulations, will become a cash shell. Unless the company acquires viable assets, its listing will be terminated.

After Triomf’s preference capital amounting to R85m has been repaid – mostly to Nedbank – Triomf will be a cashless shell, with an intangible asset, an assessed tax loss of about R43,3m as at last June. The suspension of the shares on the JSE will, however, be continued.

Assuming that the sale eventually realises about R90m, Nedbank will recover the larger part of its overdraft and preference capital – but it will lose the R42,2m loan which has been converted into equity. In the last balance sheet, for the year to September 1986, chairman Owen Horwood said that the bank had provided R248m against its exposure to the Triomf group.

The other major Triomf debts involve Nedbank’s exposure to the Richards Bay company at present in provisional liquidation. Last night Nedbank said negotiations were in progress for disposing of this asset and a statement on the outcome of these negotiations would be made in due course.
Tradegro in R16m sell-off of J Doore

IN one of the largest deals put through the market in many a year, 37% of Joshua Doore's equity, worth R16.5m, was sold by Tradegro yesterday.

Tradegro, through stockbrokers Frankel Kruger, sold 25.7-million Joshua shares at 64c to several institutions in a special deal.

The deal was struck at an enormous discount to the then-ruling market price of 98c and the share finished the day unchanged at 98c.

In order to shift through the market such a high percentage of a company's equity — thought to be the highest in more than a decade — the seller often has to accept a much lower price.

In another transaction outside the market, Tradegro sold 4.3-million shares to the triumvirate of management, New Bernica and Lifegro, which already had a 25% stake and the option to acquire from Tradegro a further 23.1% at net asset value.

Tradegro CEO Meryn King said management control of the furniture retailer was in the hands of David Sussman and Arnold Witkin, even though Tradegro, via Rusfern, had 68.9% of the equity.

King said besides the management control situation, the other major reasons for the disposal were to reduce Rusfern's gearing ahead of its listing later this year and because Joshua was the only stock in the furniture sector trading at a premium to net asset value.

The current net asset value is about 45c a share.

New Bernica CEO Arnold Witkin said: "We are delighted with the new shareholders and opportunity to increase our stake. Joshua Doore is now a totally independent company with strong shareholders and a dynamic management."

Joshua was brought to the market six months ago through a reverse listing into cash shell Consure.

Management expects turnover to pass the R160m-mark and earnings to exceed the pre-listing forecast of 5.7c for the current financial year.

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Pull-out after threat of terror

DUTCH vinyl floor producer Frobo-Krommennie (FK) plans to cut ties with SA after receiving warnings from police of possible terrorist attacks, a company spokesman in Assendelft, Netherlands, said yesterday.

The announcement comes three days after leading Dutch trading company SHV said it was "conceding to terror" and would sell its Makro stores in SA.

The move will not greatly affect FK's Durban-based agents Krommennie Ltd, since the Hepburn-family-owned Industrial Investment Company bought FK's SA operation five years ago.

Krommennie MD Gavin Jeffrey said last night: "The FK product lines that we handle account for a very small amount of our business. The bulk of our flooring products are made locally."

Krommennie employs 500 people and has an annual turnover of R90m.
AECI to acquire Triomf's assets

JOHANNESBURG — AECI is to acquire the assets and business of Triomf's Potchefstroom factory rather than its share capital as originally negotiated.

On December 15 last year UAL Merchant Bank and Barclays Merchant Bank announced that negotiations had reached an advanced stage for the acquisition by AECI of the ordinary and preference share capital of Triomf held by Nedbank Group.

AECI has now decided to acquire the assets of Triomf rather than the share capital, and will acquire these and business owned and conducted from Triomf's Potchefstroom fertilizer factory for R58.6-million cash. The stock as at January 31 this year will be purchased by AECI at agreed prices and will also be paid for in cash.

The agreement provides for the name of Triomf to be changed on fulfillment of the conditions. The Competitions Board has agreed to the transaction.

After implementation of the agreement the assets of Triomf will comprise only cash and, in terms of the requirements of the Johannesburg Stock Exchange relating to listed companies, Triomf will deem to have become a cash shell, and will be subject to the normal JSE requirements.

Triomf will then have a period of six months in which to acquire viable assets which must conform to the JSE listing requirement, failing which the Triomf listing will be terminated. Triomf's net assets on implementation of the agreement will be materially less than the redemption value of Triomf's present share capital and accordingly the ordinary share will have no net asset value — Sapa.
High goodwill payments cast shadow over Global

Newcomer Global Mining, formerly Northern Free State Motors, is making its mark on the JSE although eyebrows could be raised over the high payments for acquisition of goodwill.

On October 1 1985 control of mining NPS Motors passed from UAL Merchant Bank to Danec (Pty) and its nominees. The nature of the group's business changed from motor dealerships and financing to the manufacture of materials handling equipment allied to the mining industry and mechanised mining equipment.

Change of control was engineered by Mr Dan Slabbert and Mr Neville Parry, both already successful with listed Daisets Diversifying, they have now acquired complementary engineering businesses supplying the mining sector and have consolidated them into a separate listed company.

Since comparisons are meaningless one must consider the group's performance against its forecasts, acquisitions, balance sheet reflections and the mining sector's prospects.

The chairman, Mr Slabbert, reported profits down R388,000 on original forecast earnings were 9c a share (forecast 10c). The dividend of 4.5c was on target and twice covered by earnings. The lower profit was not due to a deterioration in trading conditions or poor management, says Mr Slabbert, but rather the result of consolidating the premises of operating companies. The expense relating to this decision through both direct costs and under-recovery of overheads were around R640,000.

During the last year the following acquisitions were made: Feenex, Haskor and Horizon Engineering, the conveyor idler division of Osborne Coalquil — consolidating both led to the largest conveyor idler manufacturing group in the country. The Turnchiff Mining Group, consisting of a number of mining engineering companies. Conceal and Dunsut Engineering were later acquired, bolstering the heavy engineering capability of Turnchiff and increasing the group's exposure to the hard-rock mining sector.

After one year, Egalube (SA) (Pty), a major manufacturer of PVC cable ducting and conduit tubing and PVC mouldings for the electrical and construction industries, was acquired from its UK parent company for R2,2 million. Two other new companies were added, including Global Ground Control, which focuses on the strata control market, a segment of the mining sector not currently served by the company, and More Electric Marketing (Pty), in which Global has a 51% stake which manufactures the Tufflite range of underground haulage lighting.

For the year ended September 30 1986, operating profit totalled R7,15 million representing 8.66% of R80,2 million turnover. Profit after tax, preference dividends and minority shareholders' interests, of R1,21 million was achieved.

The balance sheet shows fixed assets at R6,34 million, net current assets a mere R202,000 with goodwill on acquisition of subsidiaries at a staggering R9,94 million. Goodwill represents 33% percent of total assets or 56 percent of net assets. Management's policy is not to write off goodwill.

Forecasts for 1987 are bullish. Rationalisation is still taking place, especially in the administration and marketing areas. Growth is expected to materialise from the continued high level of activity in the mining industry and from an increased level of import replacement. The customer base includes mining houses, Escom, Iscor and Sasol.

Major new export possibilities exist through Turnchiff after it exhibited at the international mining show in Las Vegas. The first export orders have already been executed. With the expected contribution from the new acquisitions, it is expected that the group will improve substantially on the past year's performance although Mr Slabbert gives no earnings or dividend forecasts.

The past year has not been easy. Integrating the diverse operations into a cohesive group was no simple task. The mining industry is the bulwark of the South African economy and must remain buoyant if the country is to survive. Based on the performance of Mr Slabbert and Mr Parry at Danec the group should grow even if they paid an extraordinarily high amount for the goodwill on acquisitions. In some cases goodwill is important to vendors achieving certain warrantied profits. In others, a reduction in the number of shares issued to vendors is covered.
Consgold intends to double its US construction interests

By Neil Behrmann

LONDON — Consolidated Gold Fields intends doubling its construction interests in the United States by buying Ohio-based materials company American Aggregates Corp for $242.3 million in cash. It already has options for 35 percent of the shares.

Consgold will also float its North American gold mining holdings on a US exchange some time this year.

American Barrick Resources, a Canadian gold mining company, has built up a 4.9 percent stake in Consgold. The UK Department of Trade and Industry is investigating the share purchases.

Consgold shares, after featuring strongly in recent weeks on the LSE, rose 10p to 750p on the news of the Aggregate purchase, suggesting the news was already discounted. In June last year, the shares were trading around 480p.

The UK mining company which holds 48 percent of the shares in Gold Fields of South Africa, owns ARC, an extensive building and construction business in the United Kingdom and United States.

Besides building materials, the company undertakes contracting work and is involved in waste disposal. It says it recently began to expand "vigorously" into property development.

In the US, the company is represented by ARC America Corporation. Its principal business is Hydro Conduit. America’s largest supplier of concrete pipes”, says a Consgold spokesman.

Profit contribution from the construction business was £70 million before interest and tax — 45 percent of the total in the year ended June 1986.

The Consgold spokesman said wholly owned subsidiary, ARC America Corp, had obtained options to buy about 33 percent of American Aggregates’ completion of the takeover, however, depends on acceptance from 60 percent of Aggregates’ shareholders.

American Aggregates, which mines and sells sand, gravel and limestone in Ohio, Michigan and Indiana, recorded net income of $14.4 million on sales of $95.5 million in the nine months to December 31, 1986. Net tangible assets at the end of 1986 totalled $31.6 million, including $20.2 million in cash.

The purchase should boost Consgold’s earnings in the financial year beginning July 1, the company said.
Squires in fast-food takeover

By Frank Jeans

The Squire's Loft restaurant group is moving into the Natal fast-food market through a reported R3.6 million takeover of an upmarket steakhouse chain in the Durban area.

Holding company, Squires Foods has bought the RJ group from restaurateur Errol Kaplan whose operation covers four top outlets — two in Durban, one at Umhlanga Rocks and the other in Pinetown.

Mr Kaplan remains as regional chief executive.

"The main object of the deal is that RJ will provide the ideal base for expansion in both the Natal restaurant and fast food business," says a Squires spokesman.

The group sees substantial growth prospects in the fast-food area in Natal and will be aiming at the market with its Captain Dorego and Longhorn brands.

RJ's bottom line profitability is said to be similar to that of other major competitors in the restaurant field.

The takeover now boosts Squires Loft outlets to 90 throughout the country.
PowerTech shares Rocketed

PowerTech bought 15 percent to I6c a share the cable maker's earnings per share have shot up from 79c to 1.10c in the past six months to 86c to over 1.20c after declining from below 8c a few weeks ago to over 1.20c after declining. However, yesterday the shares eased low to 1.0c due to some special charges, but PowerTech bought a 15 percent stake.

PowerTech, which makes equipment and systems for a wide range of electric and provides its own technical support, recently bought minority shareholders are to be taken over by Asea. Strömberg, whose parent company was taken over by Asea. Strömberg, 86c to 1.20c after declining. However, yesterday the shares eased low to 1.0c due to some special charges, but PowerTech bought a 15 percent stake.

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SWEDISH electrical group Asea's sale of its South African operation to Powertech puts the strategic power-transmission industry firmly under local control.

Asea will continue with technology updates and licensing agreements after Powertech's R11m buy-out of Asea SA earlier this week.

A spokesman for the Swedish Embassy in Pretoria yesterday warned, however, that a complete trade boycott against SA by the Nordic group of five countries may be enforced during the first half of this year.

Powertech now effectively controls 75% of Asea SA and intends buying the minority shareholdings of Amic and General Public.

Deputy chairman Neil Davies of Powertech's parent, Altron, said a R4/share offer or an exchange of Powertech paper would be made for their Asea holding.

Takeover talks had already started with Amic, while General Public still had to be approached.

Asea SA MD Murray Coutts-Trotter stressed no retrenchments would result from Powertech's acquisition of the company. He said, "But the move does open up opportunities for rationalisation and product development."

Asea would not comment on its reason for selling its 24.9% stake in the SA operation when it announced its withdrawal on Monday.

Davies said, however, political pressure was a factor.

He did not expect Stockholm to impose new anti-SA laws affecting licensing agreements and technology transfers.

There is no Swedish ban on technology transfers at present.
Curfin to oversee R48m new listing

JOHANNESBURG — Confirming strong market talk recently, the Curries Finance (Curfin) group says it is to oversee a R48m new listing on the Johannesburg Stock Exchange (JSE) via a share “freebie”

In the first deal of its kind since Abercom “gave away” Primrose shares in the early 70s, Curfin is to dish out shares in its 84%-held freight subsidiary, Safcor, to Curfin shareholders.

Safcor annual turnover has climbed to R300m, its pre-tax profit to R10.2m and its taxed profit to more than R5m.

For every two Curfin shares, holders will get one free Safcor share.

Also, Curfin will sell to Safcor its properties and to Currie Motors all its motor activities except those involving General Motors products. The transaction will reduce Curfin’s stake in Safcor from 84% to 51%.

Another bonus for Curfin holders is a 30c special dividend to be added to the 18c interim.

Curfin will “for the time being” become purely an investment holding company with two major interests — its controlling stakes in Safcor and in Currie Motors.

The company, which showed cash assets of R23m in its balance sheet at 30 June 1986, says it will now “be free to develop its investment policy into opportunities as they present themselves”.

When the group reconstruction is completed with Safcor’s listing (hopefully in April), the group will comprise three free-standing and independent listed companies.

Curfin: A finance and investment holding company under the management of Mackie Brodie as executive chairman.

Safcor: Managed by CE Peter De Silva.

Currie Motors: Managed by CE Harold Bromberg.

The main purpose of this reconstruction is to permit Safcor to enjoy its independence. Another purpose is to sharpen investor perception of Curfin as a major investment holding company with interests in freight, finance and leasing, furniture, property and motors.
Construction company liquidated

A construction company, Vaal Homes, was yesterday liquidated in the Rand Supreme Court. Director and shareholder Mr Michael Pearce said in papers that the company had done satisfactory business until June 1984.

DEMAND

But then demand for housing dropped and prices of materials escalated.

Now the company's liabilities of R537,000 exceeded its R256,000 worth of assets, he said.
Sage merger is approved

Finance Staff

The Supreme Court has confirmed the merger of the South African operation of the National Mutual Life Association of Australasia with Sage Life.

The link-up has created a new force in the life insurance industry, with total assets of £170 million and total annual income of more than £200 million.

The merger also gives added impetus to the integration and rationalisation of the activities of Sage Life within the broader Sage Holdings group which has been going on over the past 18 months.

A Sage spokesman says: "With its greatly expanded asset base, the group will have much greater investment strength and market penetration all for the good of policyholders."
Hudaco on takeover trail with R12-m cash

By TOM HOOD
Business Editor

A PICK-UP in the engineering business helped to more than double the profits of the Hudaco Industries group which is on the takeover trail with R12.5-million in cash saved in the year to November 30.

Some R7-million was spent on acquisitions, including the minority interest in Power Systems International and the R12.5-million on hand from a strong cash flow exceeds medium-term debt of R4-million.

“We expect to deploy all our cash and more in 1987 in attractive acquisitions and in additional investment in the organic growth of our existing businesses,” says managing director Mr B G McNees.

“We expect a good agricultural season and with a continuation of an improved level of demand, Hudaco should again show good earnings growth in 1987.”

Results for the year were better than expected, he says.

The “unduly cautious” earnings forecast of 96c a share turned out to be 44.2c. After an interim of 8c, a final dividend of 12c is being paid.

An upturn in demand towards the end of the year pushed up earnings to 26.2c a share for the second six months.

Total earnings were double those of 1986 and flowed from an improved performance from all businesses and significant gains in productivity.

Turnover of R155-million was 29 percent higher while net profit soared by 138 percent to R8.5-million.

ASSENG GOING STRONG

ASSOCIATED Engineering’s chairman, Mr Collin Hope, says the company’s results for the first three months are in line with last year.

The performance for the 15 months to end-December 1987 — the new year-end — will depend on many factors outside the company’s control.

However, operating profits are expected to continue at similar levels to last year.

Helped by favourable conditions for import replacement, the new streamlined and rationalised Asseng showed a R12-million turnaround in bottom-line profits with earnings for the year to September 30 at a record R8.4-million after four years of losses.

DAB PAYS 42.5c INTERIM

A 42.5c interim dividend is being paid by DAB Investments, which last year took over the share portfolio of JCI’s Free State Development and Investment Corporation.

The market value of listed investments soared to R90-million from R55-million. The book value is almost R12-million, showing an appreciation of R78-million (R62-million) in six months.

Major acquisitions were 50 000 Elsburg shares, while 75 000 Trans Natal Coal shares were sold.
Supermarket giants in inflation row

WILLY STERN

SA's supermarket industry is the most concentrated in the Western world — causing a major row among retailers as to whether this has caused prices to rise.

Checkers MD Clive Weil says the concentration of power has led to "structural inflation" from which return is virtually impossible. He points to the latest retail statistics compiled by A.C. Nielsen market research, which show SA's five largest traders today control a minimum 74% of total turnover, with a trend towards even greater concentration.

Meanwhile, Pick 'n Pay, and OK Bazaars admit the industry is highly concentrated but say vigorous competition and low margins have kept prices down. Weil, and smaller retailers, disagree.

A combination of price wars and a squeeze on suppliers has, they claim, "led inexorably to greater concentration and monopolies and near-monopolies in most product categories".

Nielsen says the concentration is a "two-headed sword", as competition has kept prices down but also forced suppliers into unhealthy cartel-like situations.

Several retailers say with increasing power in the hands of fewer players at the retail and supplier ends, the direct result has been a concentration of negotiating power, leading to strong inflationary pressures.

Although there are no plans to investigate further, if more information is uncovered or pressure applied, the CB will re-examine the supermarket industry.

Weil has little faith in the SA economy to set matters straight. He says: "This highly concentrated, pseudo free-enterprise capitalist environment has within itself a pent-up cost-push component which must in future lead to greater inflationary pressures."

Much of the concentration of power has come in the last five years. Who Owns Whom author Roban McGregor says what was once a healthy oligopoly at the retail level has unwittingly and unfortunately forced suppliers into a cartel-like situation, where prices keep being forced up.

Spar executive-director Sidney Matus says his chain of 464 independents is one of the last foils to total concentration. "Meanwhile, each recent retail price war has inevitably resulted in less competitive suppliers being forced out of business."

Grocery Manufacturers' Association executive-director Jeremy Heier says: "When one major customer can do 25% of a manufacturers' total business while accounting for less than 1% of that retailer's trade, there is a terrible imbalance of power in the negotiating situation."

MARKET SHARE OF TOP 5% OF GROCERY STORES

<table>
<thead>
<tr>
<th>Country</th>
<th>Share</th>
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<tbody>
<tr>
<td>South Africa</td>
<td>74%</td>
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<tr>
<td>France</td>
<td>72%</td>
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<tr>
<td>UK</td>
<td>68%</td>
</tr>
<tr>
<td>Japan</td>
<td>56%</td>
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<td>USA</td>
<td>43%</td>
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<tr>
<td>Germany</td>
<td>41%</td>
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<tr>
<td>Australia</td>
<td>40%</td>
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Revealed strong competition among the large firms

...
Firm valuations on the take-over trail

SA business is witnessing a large volume of acquisitions by corporations using their shares as investment currency rather than as cash.

A company enjoying a relatively high price earning ratio (PE) is able to acquire a company having a lower PE on a favourable basis.

Consequently the higher the industrial index moves, the more likely the chances are that security transactions will be used in acquisitions rather than cash.

There are many reasons for growing via acquisitions and these include the purchase of assets below book value, the purchase of assets undervalued on the balance sheet, securing a market position and acquiring proprietary products which would cost the buyer more to develop than to buy, and obtaining economies of scale or cost advantages.

Access to data concerning companies within an industry is important in the implementation of an acquisition programme.

A careful analysis of a limited number of target companies needs to be carried out on items like the extent and depth of management, products and services; market share, market growth and competition, five years of historical audited balance sheets, income statements and cash flows; five-year projections of income statements, cash flows and balance sheets; asset replacement values and condition; realistic liquidation values over a two-year time frame; and assets are not needed in the business and which can be turned to cash.

This analysis should provide for the buyer and his advisor sufficient information to help define firstly the present value of the target company; secondly, the value of the target company once combined with the acquirer; thirdly, an estimate of the downside risk by determining the liquidation value; and fourthly, the cost of reproducing the target business.

Looking at the high PE's determined by the market is one thing, but at the end of the day the investment banker must persuade his client the price bid for the target company is, in fact, realistic and one that will justify the necessary returns.

The application of one company's PE to another company can be too subjective. Consequently, the use of more objective devices such as the free-cash flow (FCF) model have become important in the analysis of the purchase price.

The FCF technique, in essence, values a company by discounting a stream of earnings at an appropriate rate. The application of the model by Rand Merchant Bank is:

The earnings stream is the "free-cash flow", defined as net operating profit after tax (Nopat), less the investment (I) required to provide for growth.

The FCF is discounted at the weighted cost of equity capital and debt and the effect of the current financial structure is eliminated by using Nopat, rather than net profit after tax in the FCF.

The value of the whole business is then estimated using a target debt/equity ratio, the value of the equity is obtained by subtracting the value of the debt from the value of the company.

Factors considered in estimating the FCF and discount rate include:

- Base earnings - consistent with previous years; historical pattern, accounting policies, extraordinary items.
- Growth rate - market growth, inflation rates, market conditions, profit
- Period - margins, working capital requirements, dividend policy, leverage and borrowing policies, management abilities; relative cost structure, relative market share, technological changes.

- Investment - capacity of utilisation, growth rate, working capital requirements, inflation rates, technological changes.
- Cost of - financial risk, business risk, inflation rates, market.
- Equity - returns; taxation policy.
- Cost of - current debt/equity ratio; projected debt/equity ratio.
- Debt - taxation rates.

The application of the model to companies on the JSE leads to the conclusion that certain companies have share prices which can be justified only by totally unrealistic assumptions, using these companies' PE ratios to value unlisted businesses would certainly lead to overpayment and possibly depressed share prices for the acquirer.

Companies in the same sector with different PE ratios can also be evaluated by the FCF model, which gives insights into differences in these ratios. The shareholders of a company being acquired should take care that the paper they received is fairly valued.

One only has to look at the price received by Rustem for Joshua to realise the quoted price on the JSE is not always a reliable indication of the value of the company.
New face in arena

ALLIED Building Society's recent acquisition of
French Merchant Bank highlights a trend in the
banking industry.

More and more, non-banking institutions are
becoming the new players in the banking arena,
leading to more competition between money mer-
chants for business.

A survey of banking trends over the next 10
years, carried out by Arthur Andersen & Com-
pany shows competition will be felt most strongly
in the corporate area.

The survey also shows the trend will be for banks
to reduce their number of
branches.
Santam Insurance, like many other short-term insurance companies, began lifting itself from the mire last year. It boosted net premium income by 34%, dashed its underwriting loss 550% to R725 000 and lifted its solvency margin above 20% for the first time in four years.

Corrective measures included the substantial and ongoing increase in premiums, more efficient underwriting and reasonably steady investment income. Still, compared with results achieved in the industry two or three years ago, insurers have a long climb ahead.

**Activities:** Underwrites short-term insurance risk, particularly personal lines

**Control:** Controlled by Santam

**Chairman:** C H J van Aswegen, managing director: C J Oosthuizen

**Capital structure:** 70m ordinary shares of no par value.

**Market capitalisation:** R84m

**Share market:** Price: 120c. Yield: 10.6% on dividend. 17.9% on earnings. PE ratio 5.6.

**Cover:** 1.65 12 month high, 135c; low, 90c

**Trading volume:** last quarter: 2,2m shares

**Financial:** Year to September 30, 1986

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<tr>
<td>Net premium income (Rm)</td>
<td>365</td>
<td>487</td>
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<tr>
<td>Underwriting profit/loss (Rm)</td>
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<td>(0.72)</td>
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<tr>
<td>Investment income (Rm)</td>
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**Performance**

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<td>Taxed profit (Rm)</td>
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<td>15.0</td>
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<tr>
<td>Earnings (c)</td>
<td>25.8</td>
<td>21.8</td>
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<tr>
<td>Dividends (c)</td>
<td>12</td>
<td>13</td>
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The increasing threat — in some cases the reality — of sanctions and shrinking capacity could make the climb even more arduous.

Last year's disturbing trend in theft and burglary was particularly bad for Santam because of its high concentration on personal lines business. It ended up paying out an average R2m a month in vehicle theft claims during the year. In real terms, premium income increased by about 14%, outgrowing claims by a reasonable margin, despite loss of income from third party insurance business. Management expenses increased at about the same rate as net premium income — another worrying trend.

Although Santam's capital base was boosted by a R44m rights issue after its 1984 results, it maintains a small asset base relative to the size of its premium income. As a result, investment returns are smaller and it has less to fall back on during lean times. This is not too serious because personal business does not require the same strength in reserves as commercial and industrial risk. It also limits the cost of servicing the asset base.

The share price, which a fortnight ago had climbed 50% to 135c from last June's low, has retreated to 120c. As with the rest of the sector, its future remains vulnerable to outside pressures, although improved health coupled with giant Sanlam's backing provides an element of stability.

— Isay Lambert

FINANCIAL MAIL JANUARY 30 1987
Merger Talks

A favourite talking point in Sandton at the moment concerns the future of the prime-located Balalaika Hotel. Commercial Union’s (CU) option over the property still has more than a year to run — and there are renewal options thereafter.

CU also owns two contiguous properties. One, bought for R2.5m, hosts the Sandown shopping centre and the other was custom-developed by CU as the Rebel Group’s HQ.

With such a valuable assembly to play with, is a major redevelopment of the L-shaped site off Rivonia Road in the wind? Assistant GM Roger Wanless points out that there are many factors to consider and no quick decision can be expected. He says, has commissioned a feasibility study which is unlikely to be ready for at least six months.

He concedes there is pressure from the Balalaika owner and tenant for a buyout but, especially under current market conditions, he says CU will not be rushed.

Even so, there are factors which suggest that the decision should not be delayed for too long. The recent purchase of the Sandown shopping complex, Wanless admits, has caused some uncertainty about the future of the hotel. But, he points out, there are other problems which make the redevelopment of the entire site problematic.

Rebel’s lease over the third property, for example, still has 10 years to run and is currently being renegotiated. One option, therefore, will be to redevelop the other two only.

CU’s caution, however, is understandable in the light of the beating it took with its Pellmeadow scheme in Bedfordview and the headquarters building it put up for BBDO in Eastgate Extension.

Pellmeadow has been on the market for years and is still no more than 20% full, while the problems at local BBDO has left the Eastgate building standing empty.

The good news, however, is that “delicate negotiations” are now in hand to find another tenant.
control of the domestic coal market over the last 18 months is nothing short of remarkable, considering that two years ago the Department of Mineral and Energy Affairs (DMEA) was trying to impose a system to regulate price at the pithead, wholesale and retail levels and was also attempting to allocate sales quotas and marketing regions to the various coal trading companies.

The DMEA lost two Supreme Court actions over its regulations to protecting independent coal trader Alchem/Reef Coal. But these were merely red rags to the DMEA bull – it kept pushing for more restrictions. But this created concern in the entire coal industry and convince other producers to oppose official policy.

Sanity eventually prevailed after proposed legislation was stonewalled in the tri-cameral parliament's Standing Committee. Finally, a workable arrangement was reached between the coal industry and the DMEA, which resulted in the dropping of price control at wholesale and retail levels.

"The DMEA claimed that without their proposed laws, there would be coal shortages and that retail prices would soar," says Alchem/Reef Coal director Paul McNaughton. "Instead, with the deregulation of the industry, there is now a coal surplus on the domestic market and retail prices have fallen."

Pointing to the benefits already coming through, he says two years ago he was dealing with only two or three independent collieries. Now there are at least 12 suppliers.

While some see the latest government action as recognition of the efficiency of the private sector, one more cynical observer reckons the government has put itself in a win-win situation with an election coming up.

"If the move works out well, government can claim the kudos for its foresight in going for privatisation. If it does not work and coal prices shoot up, then the politicians can happily berate the private sector for messing up the system," he says.

Neither McNaughton nor Transvaal Coal Owners Association (TCOA) MD Les Weiss expects coal prices to jump, but there is going to be some readjustment of prices of the various grades of coal which the industry believes have been kept too close together because of price control.

Currently, a grade pea-size coal with a thermal content of between 27.5 MJ and 28.5 MJ sells for R23,12 a ton, B grade (26.5 MJ to 27.5 MJ) for R21,54/t, C grade (25.5 MJ to 26.5 MJ) for R20,21/t, and D grade (24.5 MJ to 25.5 MJ) for R18,88/t.

South African coal is generally low grade and A grade coal is scarce and both Weiss and McNaughton believe it will rise in price once control is dropped. But, they point out, the cost of D grade coal could well fall.

The TCOA controls some 75% of the South African domestic market after excluding Natal and major users such as Iscor, Escom and Sasol — which either mine their own or have independent supply contracts. Weiss says a common price structure will apply to all TCOA members but, he says, competition from independent collieries will exercise an effective discipline on domestic coal prices. The TCOA, he adds, has lost market share to the independents over the last year.

The removal of pithead price control will benefit Escom, which has not been allowed to exceed the controlled price it pays to collieries tied to supplying power stations. The problem is that these collieries are paid on a formula structured to cover production costs and an add-on profit margin.

In the early stages of a colliery's life, production costs often run ahead of the controlled price. The reason is that although the bulk of the infrastructure to produce at full output is installed, the new power station may need only 25% of maximum output because only the first generating sets are operating.

Under these circumstances, Escom currently pays the colliery the controlled price and puts the balance in escrow to be paid out later when colliery costs fall below the controlled price as it reaches full output. This complication will now fall away.
Mixed fortunes

Activities: General engineering and contracting, which includes mining contracting, mechanical and civil engineering, foundry work, valve reconditioning and ventilation equipment manufacturing.

Control: Trafalgar House Construction owns 49% of the equity. E L Bateman has 31.5% stake.

Chairman: R T Shaw

Capital structure: 8,6m ords of 50c. Market capitalisation: R26m

Share market: Priced at 380c. Yields: 6.8% on dividend; 11.7% on earnings; PE ratio: 8.5; cover: 2. 12-month high, 555c, low, 340c

Trading volume last quarter, 43 000 shares.

Financial: Year to September 30

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Performance:

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<td>Pre-tax margin (%)</td>
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<td>4.6</td>
<td>5.8</td>
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<td>Dividends (c)</td>
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<td>Net worth (d)</td>
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<td>731</td>
<td>610</td>
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It has been a year of mixed fortunes for cementation Africa, with traumatic losses in its civil engineering division partly offsetting burgeoning profits from its mining operation. Pre-interest profits rose impressively to R13m (R6m); but these gains were prevented from reaching the bottom line by spiralling interest charges, which rose to R6.3m (R1.9m), and tax charges of R2.4m (nil). Earnings and dividends, stagnant over the past few years, dropped to 44.6c and 22c respectively.

Rising capex, mainly in the mining division, resulted in an increase in interest-bearing debt to R46.7m (R40.1m), resulting in a further deterioration of the debt/equity ratio. In a bid to cut its main losses, Cemenaco is closing down its entire civil engineering division, which lost R6.9m last year, and not just certain of the branches as stated in its financial report. The mechanical engineering operations fared better, and according to chairman Ron Shaw, it “maintained a fair level of activity.” He notes, though, that the group experienced a steady deterioration in the demand for tracklaying and track equipment.

On the credit side, the Gold Fields cementation mining division again posted extremely good results, with its shaft sinking and exploratory drilling operation doing particularly well.

Shaw predicts “real long-term growth” in this area, with “a great deal of prospect drilling” coming through. Capital expenditure totalled R22m, of which 50% was in
Turning to gold

Activities: Mining Holding Company deriving bulk of its income from sales of bituminous coal, anthracite and asbestos. Holds a 36.5% participation in Eastern Gold Holdings which receives 85% of the profits of the Erfeild section of Freegold Gold Mine. Also holds a 26.8% participation in a new venture on ground adjoining the north-eastern section of Freegold.

Control: Lonrho PLC has control through group companies WPH Investments, which holds 57% of Duiker. Twofontein United Collieries, which holds 22.5% and Witbank Consolidated Coal Mines which holds 11.9%.

Chairman: T A Wilkinson

Capital structure: 14.2m 35c Market capitalisation: R390.0m

Share market: Price: 2.750c Yield: 1.7% on dividend: 5.4% on earnings: PE ratio: 28.4, cover: 1.9, 12 month high: 2.800c, low: 1.300c. Trading volume last quarter, 48 000 shares.

Financial: Year to September '80

Performance: '83 '84 '85 '86

Turnover (Rm) 67.2 68.1 97.7 110.3
Operating profit (Rm) 24.6 26.4 37.8 31.2
Earnings (c) 81.0 80.4 107.2 93.4
Dividends (c) 44 44 48 48

The shares have boomed over the past year from a low of R13, where some considered them overvalued, to the current R27.50. The rising follows Duiker's transformation from coal to a coal producer, to a gold investment company.

This year sees the start of mining operations at the Erfeild section of the world's largest gold mine, Freegold. Duiker will benefit through its effective 30% interest in Erfeild's profits, derived from a 36% stake in Eastern Gold Holdings (EGH), which in turn receives 85% of Erfeild's profits.

Duiker's price began firming last year as the date of Erfeild's start-up drew nearer, but what really set them off was news that it would participate, through an effective 25.5% stake, on development of a 3 000 tpd adjacent to the north-eastern sector of Freegold. A company similar to EGH will be set up to fund development of this area. Its name has not yet been announced but, as the area is north of Freegold, Northern Gold Holdings may well be a logical choice.

Mining company chairmen are a conservative breed who tend to play down new developments, but Duiker chairman Wilkinson, in his annual review, describes this latest project as: "an exciting new venture ... with the potential of becoming another major Free State gold producer."

More music to shareholders' ears is Wilkinson's statement that he does not believe Duiker will need to contribute "substantial loan funds" to the new venture.

Since the initial announcement (Fox October 1986), which said R11m will be spent over the next three years on drilling the area, after which a mining lease over all or part of the area would be applied for, no further details have been released. Initial mining will take place from the new Freemont No 1 shaft (named the Free State Gedul No 10 shaft prior to the Freegold merger) at present being sunk close to the boundary of the venture area.

The new venture company will not be required to contribute to the cost of No 1 shaft or pay any fee for its use, which limits Duiker's exposure to the initial costs of opening the area.

Duiker's move into gold is well-timed, coming when the outlook seems bleak for its coal, anthracite and asbestos fronts, which together contributed 76% of operating income last year.

Although turnover in the year to September rose 13% to R110.3m, operating income was 18% down at R31.2m while taxed income fell 12.5% to R13.27m. Wilkinson cites increasing pressure on operating margins in the coal and asbestos markets as the main reasons for the slowdown.

The volume of bituminous coal sold last year remained unchanged at 2.6m tons. Working costs, however, were pushed sharply up as a result of buyers — who currently hold the upper hand — demanding improved grade of product. Consequently, greater amounts of lower-grade dull coal have needed to be separated from the higher-grade sales product. The stuff cannot be sold at present and is being stockpiled.

Apart from having to battle in oversupplied coal export markets, South African producers are under additional pressure from a government that threatened sanctions which may make it less attractive to South African suppliers, particularly to debtors which increased from R116.9m to R276.9m.

It is too early to evaluate the new gold venture with Freegold but Wilkinson's comments are bullish.

Brendan Ryan

New mine?

Activities: Investment holding company with portfolio of gold and mining finance shares and mineral rights in the Potchefstroom, Klerksdorp and Dalmes Districts.

Control: Anglo American Corporation holds 45.7% of the equity.

Chairman: M W King

Capital structure: 1.8m 50c Market capitalisation: R106m

Share market: Price: R50. Yield: 2% on dividend: 2% on earnings, PE ratio: 50, cover: 1.0, 12 month high: R177, low: R36. Trading volume last quarter, 10 000 shares.

Financial: Year to September 30.

'83 '84 '85 '86

Portfolio

Book Value (Rm) 1.7 1.7 1.7 1.7
Market Value (Rm) 21.5 25.2 33.2 53.6

Performance:

'83 '84 '85 '86

Investment income (Rm) 1.4 1.4 1.7 2.2
Earnings (c) 76.7 76.4 93.1 115.9
Dividends (c) 76 76 83 119
Net worth (c) 1 298 1 428 1 863 3 043

While New Central Witwatersrand Areas (NCW) benefited from its sound portfolio of investments in the year to September, as chairman Mike King points out at the beginning of his review, that performance is of academic interest in the valuation of an NCW share.

51
TRIOMF/AECI/NEDBANK

AECI takes the assets

The deal has been done and AECI now owns Triomf’s Potchefstroom plant, its stock and the Triomf trademark. Though this was seen as an albatross around Nedbank’s neck after it took 75% control, AECI’s share price has increased from R14 to R16.50c since announcement of talks on the sale. AECI management believes it has a good deal. The price put on the plant is R59m, but the stock, valued at R35m in June, is still being assessed. Executive director Chris von Solms points out that to build the plant now would cost substantially more than AECI paid and “we shall be keeping it for the purpose it was designed for as we have faith in agriculture.”

Plant rationalisation

The intention is to rationalise and incorporate the plant into AECI fertiliser division, Kyoch, extending that operation and its marketing. “We want a bigger stake in the agricultural market and don’t have a manufacturing base in the western part of the country. This is our opportunity to obtain it,” says Von Solms. With no plans to close the plant the over-supply in the fertiliser industry will continue, but Von Solms sees this as “temporary and we are not worrying about the short term. We should break even at Potchefstroom Triomf had other problems.”

Payment will be in cash and Von Solms dismisses the financing as “not such a massive amount. It will go into our normal bank financing packages” (The long-term liabilities at end-1985 were R553m).

Other producers say that rationalisation was needed, but the only real impact for the industry is that there are now four competitors instead of five. The deal is not expected to have much effect on prices. Any improvement in this area will result from the fact that the industry has already lost so much money that the producers will eventually be forced by commercial considerations to re-

ratified at a general meeting. With Nedbank holding about 77%, there is little doubt that the sale will be ratified. He maintains that liquidation is not considered at present and considerable sorting out is required as the enterprise was sold as a going concern. Whatever is sorted out, ordinary shareholders in Triomf will not be getting anything — so the minorities are the real losers in the episode.

Pat Kenny

HUDACO

Bearing up

It is no mean achievement for a company when its share price appreciated by almost 120% in a year. When the attributable profit growth of a similar magnitude accompanies that share’s appreciation, there is double cause for celebration.

Hudaco Industries, the engineering group listed in November 1985 following a management buyout, has recorded the faith of investors who pushed the share to a five-year high, the second highest in the engineering sector, with a 138% increase in attributable earnings and a 96% increase in earnings a share for the year to end-November. The peak sinks to a more mundane 13 and the dividend yield to 3.5%, and the share is poised to continue its upward trend, as management expects good earnings growth again in 1987.

HUDACO BOUNDS ON

Year to November 30 .. 1986 1985
Turnover (Rm) 120.3 186
Pre-tax profit (Rm) 7.0 16.3
Attributable earnings (Rm) 3.6 8.6
Earnings (c) 22.8 44.2
Dividends (c) n/a 20

The strong growth up to now has come principally from efficiency improvements. MD Bruce Molman and his management team have restructured and rationalised the group, evident in the operating margin which improved from 7.9% in 1985 to 10.5% in 1986. The group also turned financing costs of R2.5m into financing revenue of R58 000, thanks to surging cash — some R24m cash flow originated from operations during the year and at year-end net cash deposits totalled R12.5m Long and medium-term loans dropped from R85m to R4m, and short-term borrowings were eliminated.

In 1986 Hudaco spent R7m on acquisitions in the transmission sector and on acquiring Reunier’s minority interest in Power
Wooltru and Pepkor deal in trouble?

By AUDREY D'ANGELO

THE Wooltru-Pepkor deal, which would have created a new retail and manufacturing giant, appears to be in trouble.

Although Wooltru CEO Tony Williamson insisted yesterday that he was "absolutely confident" that the merger would come off, and said an announcement was likely next week, there are strong rumours that it has fallen through.

Reliable sources say negotiations have run into trouble, mainly because of the widely differing corporate cultures and philosophies.

Separate

Williamson yesterday said there was no distinctive Wooltru culture because the group was made up of companies which had quite separate cultures and identities of their own.

"So there should be no difficulty in achieving a merger with Pepkor on that score."

Stockbrokers and investment analysts, however, are convinced that there will be no deal, and intimations from the Pepkor camp confirm the scepticism.

Sentiment so far is that Pepkor is well poised after a turnaround a year ago, when it was battling against foreign exchange losses and a steep drop in the spending power of its target market in the lower-income groups.

"It is in the expanding black consumer market and should do well," commented a stockbroker.

"I would be quite happy to live with that share. Wooltru, on the other hand, is up-market where there is not much prospect of growth."

Another said "Obviously, Wooltru would be the big boys in any merger and they have enough to worry about with Truworths.

'Faith'

"If we rather be with Pepkor than with Wooltru, it is down-market where the growth is and I am sure Christo Wiese is going to get it right. I have a lot of faith in him."

"He has got a good concept and I would stay with him. I don't think Pepkor will go down the chute."

Niall Brown, analyst with Simpson, Frankel, Stern & Strong, commented: "Pepkor are coming right anyway. They have listed off Shoprite and Pep Stores and are showing shareholders some value.

"Pep Stores" is trading reasonably well. It does not seem there is a problem."
Ovenstone in mess, says new chairman

By TOM HOOD
Business Editor

AN OVENSTONE will no longer be at the helm when shareholders of the long-established Cape fishing and industrial group are called to a special meeting on February 20.

The new chairman will be Mr Tony Bloom, chief executive of the Premier Group, the controlling shareholder, and he can expect to face a stormy meeting before the shareholders are asked to vote on a deal to sell off Ovenstone's non-fishing interests to a consortium of former directors.

Mr Andrew Ovenstone resigned as chairman last month when heavy losses were reported by Ovenstone Investments (Oii) and Ovenstone Group (Ovgroup).

A revolt is threatened by minority shareholders, who see the sale of the property and construction subsidiary Ovdeco Holdings as a serious blow to the net asset value of their shares, which could be about 19c (they were worth 120c five years ago).

And Mr Bloom could be confronted with appeals to buy out the hundreds of minority shareholders - at around 180c a share, they hope, the price they say Premier paid for its controlling stake.

But Mr Bloom confirmed today that the only matter on the agenda will be the directors' recommendation to approve the Ovdeco sale, the proceeds from which will reduce Oii's borrowings by R38-million.

"Some people's dreams are going to be shattered if they imagine they will be offered 70c or 90c a share," he said.

"After all, I have the interests of Premier's shareholders to consider."

After a boardroom shake-up last month, five Premier directors replaced five former Ovenstone directors.

Mr Bloom disclosed today two of the new directors were overseas, looking after the group's offshore fishing interests and two other directors were at the Cape Town head office.

"We moved in only in December," he added. "You can write off most of that month for holidays so that effectively we have been there only this month.

"From this short time it is clear the business is in a mess and we could be looking at a couple of years before things are straightened out."

Minority shareholders have said they were shocked by the extent of the group's borrowings, disclosed last month when borrowings were consolidated for the first time in the interim report.

Total borrowings, including offshore liabilities, were reported at more than R100-million - beyond the group's capacity to finance.

These would be reduced by R38-million from the proposed Ovdeco sell-off.

But even if the sell-off is approved, some shareholders are worried that the group will still be lumbered with R70-million of debt which would consume at least R10-million a year in interest.
Woolworths—an old dear in need of pep

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<td>Full Year Earnings (Rm)</td>
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<td>Attributable Earnings (Rm)</td>
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| Shares in Issue (m) | 34.1 | 34.1 | - | 34.1 | - |
| EPS (c)             | 86.1 | 102.0 | +18 | 120.0 | +18 |
| DPS (c)             | 52.0 | 52.0 | - | 56.0 | +11 |
| Cover (x)           | 1.7 | 2.0 | +18 | 2.1 | +5 |
| Operating Margin (%) | 8.7 | 9.3 | +7 | 10.0 | +7 |
| Tax Rate (%)        | 48.5 | 48.5 | - | 50.0 | +3 |

How stockbroker Max Pollack & Fremantle, in its exhaustive retail report, sees the future for Woolworths

How stockbroker Max Pollack & Fremantle, in its exhaustive retail report, sees the future for Woolworths

Money standards are as high as ever, but they are strangely reluctant to market. That is a strategy in a television age.

Truworths markets aggressively, but not Woolworths. Institutions are sticking by Woolworths. Thanks to lower interest rates, consumers' mortgage bond repayments have become lighter.

Total consumer debt has fallen. One can expect more attempts to stimulate the economy through consumer pockets.

New cars have moved beyond most consumer incomes, so spending on less-expensive consumer durables is expected to soar. Clothing and Woolworths should be beneficiaries.

At 1558c, Woolworths yields 3.4% and is on a PE of 17.3. The outlook is for earnings and dividend growth of 20% this year, so the share is not as expensive as it looks.

It would certainly go a lot higher if the company improved its marketing and its communication with shareholders.

SA relish for Taiwan

By Don Robertson

IN may not be long before South African achar is available in Toino, Taiwan and Tennessee. Monate Foods, the largest South African producer of the mango-based condiment, has received inquiries from Europe, the Far East and America after winning an award at the world's biggest food show in Germany.

According to a company spokesman, Monate Foods has received a bulk order for the export of achar to Taiwan. Export has become possible because a new, high-tech preservation method introduced by Monate using gamma radiation. It gives the achar a shelf-life of eight months compared with four to six weeks when using conventional preservatives.

A problem, however, is the limited production of high-quality achar in South Africa, which holds 80% of the SA market, produces 4 000 tons a year.
THE amalgamation of National Mutual and Sage Life went through unopposed in the Rand Supreme Court this week in spite of threats by certain policyholders to oppose the deal.

The same National Mutual will disappear from the SA assurance scene and Sage Life will acquire 30,000 policyholders - catapulting it from being SA's 12th-largest assurance in terms of total assets to No. 9. Assets now exceed $377 million, with annual income of more than $200 million.

Although the deal negotiated with National Mutual's Australian parent involves the issue of preference shares to the vendor, in terms of which it will be entitled to preference dividends, Sage Life managing director Ian Sage says the size of the dividend will not be determined until Sage has run the business for some time.

Untrue

Mr Solomon says "It is untrue to suggest that the surplus on the non-profit fund will be apportioned off to Australia. To the extent that there is a dividend, it will be paid only after providing fully for policyholders in terms of their expectations."

These expectations are supported by professional reports placed before the court. They were compiled by an independent actuary appointed by the Registrar of Financial Institutions to ensure policyholder protection.

Mr Solomon says there are two broad categories of policyholders:

- With-profit policyholders, who receive bonuses every year at the discretion of the board. These policyholders were sent letters by National Mutual stating that "it is intended that in the first three years at least, additional bonuses equivalent to between 25% and 30% of existing bonuses will be declared."

- A broader group with immediate annuities, term assurance, pensions, along with individuals receiving bonuses over and above their guarantees. Mr Solomon says their expectations of a bonus are "as good if not better" as a result of the merger. He says the larger organisation will introduce economies of scale leading to expense savings.

Benefit

The actuary's report said that policyholders' interests would in no way be prejudiced by the deal.

Mr Solomon says "There is irrefutable evidence that all policyholders can expect to be better off. At the end of the day the only real benefit of any policy is the money that flows to the holder."

Mr Solomon says National Mutual in Australia decided to look for an SA partner because it saw its operation here as "too small and isolated and lacking in the ability to form the necessary associations in an increasingly competitive environment."

They realised that to have remained isolated would have meant losing market share. "National Mutual wanted to merge with a company that was not merely going to swallow it up. Sage Life was seen as the company with the right size and the necessary financial stature."

GM's Smith backed

NEW YORK - Pension-fund portfolio managers have rallied behind General Motors chairman Roger Smith in his decision to oust computer wizard H Ross Perot from the car-maker's board with a $500-million pay-out.

A meeting of institutional investors, including Government pension funds, backed Mr Smith who argued that Mr Perot had to go if GM was to carry out its plan to improve productivity and re-capture its share of domestic car sales.
Con Gold share plan kept from GFSA director

GFSAs Share Purchase Still Puzzles Analysts

Conference there was never any real thought given to enuf study at all. But this does explain the situation. It is going to be a definitive act by GFSA Directors to keep those who are not ready to buying for the guard. Case can be seen and good. We consider the fact that the $50 billion is just the same thing as the GFSA's. We did not even get it in after GFSA's action. Although GFSA's are different from the other GFSA's, there is no difference in the price. Share price was not good because of the post-inflation. Gold fixed on the GFSA (GFSA) kept one of the directors in the dark about the plan to buy out the company.
Syncom’s schools plan is ‘misdirected’

Educationist Leon Benade challenges the private sector’s think-tank on the issue of privatising education. He says Syncom is naive if it thinks the Nationalists are going to forgo the privilege of controlling what is taught in schools.

Now while enlightened teachers will agree that many syllabi (the content of specific subjects) are stagnant and/or static, it is another matter to speak of stagnant curricula (various ‘packages’ or groupings of subjects into courses).

What Syncom calls for is curricula which will reflect the ‘information age’. Presumably then, any subject area which does not fit the bill should be excluded from the curriculum.

This must by definition include areas such as languages, literature, history and the various arts — all of which must be superficial in an information age. This kind of ‘rationalisation’ must be a spin-off of Syncom’s loyalty to profit-seeking.

No sensible educationist will advocate that schooling should follow a specialty course regardless of the cost. However, at some point educational criteria will need to predominate over economics. Syncom does not intend that local communities control the content and process of schooling (as the title of its report suggests) but that big business does so.

Syncom wishes to eliminate a State bureaucracy, only to replace it with a capitalistic one. In this way, big business will be guaranteed the kind of worker it desires to ensure continued profitability, and be damned with the educational implications of such a move.

Syncom’s ambitions are not limited to schools. It is claimed that universities (should?) no longer exist in their present form, due to the ‘increasing obsolescence’ of knowledge. ‘Knowledge’ will be re-negotiated by employers, who will become involved in ‘syllabus design and teaching’.

Syncom seems to wish to curtail the autonomy of universities, thus denying them their function as centres of society. Arrogantly, Syncom assumes the universities that ‘academic freedom and research can no doubt be accommodated’.

Syncom’s solution is misdirected. By all means, give control of schooling to local communities and smash the bureaucratic stranglehold of the ubiquitous ‘departments’. This effort needs, however, to be directed by a combination of educational and economic motives, and not purely economic ones.

Syncom’s alternative will further destroy any possibility which may exist to turn schools into places of education.

The writer, a Johannesburg lecturer in educational studies, stresses that this article was submitted in his private capacity.
GOVERNMENT is aiming to totally remodel existing transport laws and structures in order to deregulate the sector as much as possible.

Notice of this is set out in a White Paper tabled in Parliament which details government's response to recommendations made by the National Transport Policy Study group, appointed to formulate a new transport set-up for the country.

Spearheading the legislative programme is a draft Bill, published yesterday, which is designed to provide for the early establishment of a new umbrella Transport Advisory Committee (TAC) to advise the Minister of Transport Affairs.

The Bill proposes the TAC should consist of 36 members, 22 drawn from the public sector and 14 from the private sector (including the chairperson who is also to be the chairman and is from the public sector.

This Bill will be followed by the establishment later this year of an "interim"

CHRIS CARNICROSS
Independent Transport Tribunal, whose primary function will be to implement the new transport policy, investigate problem areas and solve disputes.

The thrust of next year's programme, which government intends to have passed by June, is to consolidate all transport legislation into only four separate Acts: the Road Transport Act, the SA Transport Services Act, the National Road Act, and the Transport Act.

The legislation will be aimed at reinforcing the following guiding principles:

- Economic decisions should, as far as possible, be left to the market to make. In practice, this means the market should determine what is moved, how it is moved, at what price, from where, to where destination, at what level of service, and by whom.
- Financial inequities, such as the degree of cross-subsidisation required from

Revamp for transport laws

SA Transport Services (SATS) and the exemption of licence fees for SATS road vehicles, to be removed.

- Public safety should be protected through the introduction of a strict on-the-ground enforcement programme.
- The reasonable quality of the transport service should be enhanced as far as possible.

In practice, government has agreed to provide the following new deals, some of which are to be phased in before any of the enabling legislation is published:

- The introduction of a new freight transport policy, providing for easier entry into the road transport market, more scope for private initiative and greater encouragement of small business development.
- The abolition of the road freight permit system, expected to save the country in excess of R250m a year in direct expenditure related to the cost of applications.
- The phasing out of cross-subsidisation within SATS.
- Payment by all road users for the

provision and maintenance of roads. It is estimated that an additional R250m must be collected annually. This will be achieved by increasing licence fees and the levy on diesel.

- All operators, whether companies, individuals, or semi-state or state-owned organisations, will have to pay the same level of GST on fuel and other inputs such as licence fees and excise duty.
- Regional Services Councils will in future be responsible for passenger transport decisions.
- Vehicles which can carry up to 15 passengers are to be allowed to operate as taxis. Local Road Transportation Boards are to be told to issue public permits for taxi service vehicles on merit, providing the vehicles concerned adhere to technical requirements on roadworthiness and road safety.
Toti bomb led to hotel's crisis

An application for the provisional liquidation of Toti Heights, which operates under the name of Lagoon Hotel and Lagoon Liquor Store, was brought by Roy Goldin, sole shareholder in the company which owes him R80 000.

In an affidavit, Goldin said Lagoon Hotel would have had its electricity supply cut off today had it not been placed under provisional liquidation.

He requested that it be placed under provisional liquidation so that he could approach the company's landlord, banker and the municipality to make interim arrangements to keep the hotel going until the business could be disposed of, preferably as a going concern.

Goldin said the hotel relied heavily on beachfront trade which had been bad in 1985 because of a drop in the tourist industry after the bomb blast on December 24.

He said last year's trading was destroyed on December 24 because of racial incidents on beaches in the immediate vicinity of the hotel. He said 12 of the 49 hotel rooms were vacated immediately by frightened guests and others left shortly afterwards.
Superfreeze’s business frozen

A MANUFACTURER of fridge components, Superfreeze Industries (Pty), with debts of R1.5m, was provisionally liquidated yesterday after allegations of “hopeless mismanagement”.

Superfreeze is a subsidiary of Durofur (Pty) Ltd.

The application for liquidation was brought in the Rand Supreme Court yesterday by Trident Steel (Pty) Ltd which has a R74 409 claim against the company.

Trident Steel credit manager

Company liquidated

A COMPANY whose only assets are loans to two of its directors—one of whom is insolvent—was provisionally liquidated with debts of R1.6m in the Rand Supreme Court yesterday.

Original Design and Development Company (Pty) Ltd was provisionally wound up after an application by the joint liquidators of Dofri Foods (Pty) Ltd, Neil Bowman and Christopher Peter van Zyl. Dofri Foods has a R48 150 claim against the company.

Van Zyl said in an affidavit that the estates of three of Original Design and Development’s four directors, R Hurwitz, P Shevell and H Naccan, were sequestrated last year. An application for the sequestration of the estate of the fourth, E Cohn, is pending.

Van Zyl said the company’s assets consisted of a R131 530 loan to Cohn and a R49 951 loan to Hurwitz.

The provisional winding up order was granted by Mr Justice le Grange.

The return date is March 3.

AIRLINE MOVEMENTS

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Cape Town to Johannesburg

| **Dep** | **Arr** | **Flight** | **Dep** | **Arr** | **Flight** |
| 0650   | 1015    | SA300      | 0630   | 0230    | SA306      |
| 0800   | 1055    | SA304      | 0635   | 0235    | SA306      |
| 1415   | 2130    | SA310      | 0735   | 0335    | SA305      |
| 1710   | 2045    | SA316      | 1100   | 0730    | SA305      |
| 1745   | 2120    | SA322      | 1330   | 0900    | SA303      |
| 1800   | 1955    | SA326      | 1330   | 0900    | SA303      |
| 1930   | 2125    | SA328      |        |         |            |
| 2100   | 2235    | SA348      |        |         |            |
| 2345   | 0140    | SA358      |        |         |            |

Johannesburg to Port

| **Dep** | **Arr** | **Flight** | **Dep** | **Arr** | **Flight** |
| 0900   | 1200    | SA305      | 0900   | 1200    | SA305      |
| 1200   | 1500    | SA306      | 1315   | 1615    | SA306      |
| 1400   | 1700    | SA305      | 1500   | 1800    | SA305      |
| 1700   | 2000    | SA306      | 1700   | 2000    | SA306      |

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Old Mutual gets slice of Imperial

Business Day Reporter

Old Mutual has acquired a meaningful stake in the about-to-be-listed Imperial Group. O/Dlry

The insurance giant has bought two million shares, representing a 14% interest, in the diversified industrial group, ahead of Imperial's listing.

At an issue price of R27c a share, this means Old Mutual has committed R5.5m to Imperial.

The R21bn-a-year-turnover group will be listed on Wednesday, February 18.

According to merchant banks to the issue, Barclays and UAL, the offer has been well received.

The offer closes on Friday.

On the issue price of R27c the shares yield 12.8% on forecast earnings of R2.1c a share and stand on a favourable 7.8 price/earnings multiple. Forecast dividend yield is 6.3%.

Imperial is expected to make its debut at about R32c, analysts say.
No relief in sight, says analyst

Liquidations in SA running at 'a record high'

MICK COLLINS

WITH liquidations running at a record level, the monetary battering taken by small business and the man in the street continues.

Latest statistics released by a leading commercial credit information bureau indicate that until such time as the economy stabilises, no let-up is in sight for the private individual.

Kredit Inform MD Ivor Jones says that in 1985 the monthly liquidation rate was around 100. This rose to 1060 in January 1986 with a slight dip towards year-end (see graph).

"Individuals, sole proprietors and partnerships have had a far more difficult four years than larger companies.

"The growth in the number of insolvencies of private individuals is because sole proprietors are being followed up more strenuously in respect of monies owed by their businesses."

Another major factor causing the crisis, says Jones, is that more companies are now calling up personal sureties on the brighter side, indications are that larger company liquidations are starting to slow down after the high points over the past three years.

The number of summoned insolvency cases against business was down 30% for 1986, compared with 1985.

Jones says these are indications fewer companies are reeling on their commitments, which is a sure sign of improved liquidity and confidence in the business sector.

"It is true that liquidations do slow down towards the end of a recessionary period because the lack of business forecasts makes creditors want to hold on for a turn and only liquidate companies with reduced staff and inventory levels."

However, Jones says, a major problem area develops at the beginning of any upturn - with many businesses having drained their resources.

"This renders them incapable of financing growth that is required when the economy starts to improve."

Referring to industry, Jones says textiles and building - considered as leading economic indicators - are beginning to show signs of a resurgence.

"Textile manufacturers are making profits for the first time in a number of years.

"Overheads at 20% are still at unacceptable high levels but this is an improvement over the 30% high in 1985."

The latest available figures show that overheads in the building industry are at the 18% level, which is the lowest since 1984.

"Despite a 30% drop in the volume of business, the overheads are very much in proportion and a good indication of the quality of credit management in the industry."

SA turning to fast-foods

A WILLY STEYN

ADD together working women, a slowing economy and rising disposable incomes among blacks - the result is a boom in fast-foods.

Fednas figures show industry-wide turnover of R100m last year - up 20% over inflation of 1985.

Fednas operations director Fred Thomsen says people are eating out just as often but are moving from up-market restaurants to fast-food outlets.

"We can't open enough," says Squires food chairman Costa Terenas, operator of Rakes, Squares and Captains Doc.

The industry has passed from two new markets - blacks and the family and working women.

At Spur Steak Ranches, turnover jumped 45% last year over 1986 MD Allen Amber says family lifestyles have altered over many years. "The tradition of the family sitting at a table with the father 'off eating a long meal prepared by the wife' is no longer relevant."

"Winny Restaurants MD Vince Hoyt says youth, encouraged by maroon gaggles and other responsibilities, has played a role in the boom."


Private Insolvencies

Insolvencies per month

1982

1983

1984

1985

1986

0

30

60

90

120

150

180

210

240

270

300

330

360

390

420

450

Private Insolvencies

Insolvencies per month
Transport policy raises ire

Government's new draft national transport policy has aroused such anger within the private sector that it has caused the major road hauliers to withdraw all co-operation with the National Transport Policy Study group (NTPS) and future plans to implement official policy.

A major confrontation is now looming between the Public Carriers Association (PCA) — representative body of more than 70% of the major private transport operators — and government.

This will come to the boil in Cape Town next Monday when PCA executive members meet with new Transport Minister Eh Louw and Transport director-general Adriaan Eksteen.

The urgently convened meeting was requested by the PCA, which intends to express its extreme dissatisfaction with government's White Paper on national transport policy, tabled in Parliament this week.

PCA president Deon Bignaut said the White Paper was laudable only ins far as government had accepted the principles of less government involvement in transport and fair competition.

But, he said, the industry was extremely upset with the main thrust of the policy document: Government and the NTDS had failed to address and resolve several vital issues that were critical for a successful new transport dispensation.

The PCA's decision to precipitate confrontation by refusing to co-operate further with the NTDS is to forcibly demonstrate the industry has lost patience with government and will no longer tolerate the way it persists in ignoring those issues seriously affecting the viability of the transport sector.

PCA's chief executive Ian Moss said for more than two years government had had chapter and verse, in writing and verbally, on matters about which the private sector is deeply concerned.

"But nothing of real consequence has been done. The announcement (White Paper) of plans for changes in existing regulations contains nothing of major significance, and hardly begins to address our main points of concern."

The issue raising the most ire is the ongoing involvement of government and the Sats in road transportation.

Bignaut said Sats involvement had to be eliminated as a pre-condition before the process of deregulation was embarked upon.

He said "Sats confrontation in the marketplace with the private sector cannot be tolerated any further."

Moss said the problem with the White Paper was that it gave the impression of being laudable, but it had produced no hard facts on how the implementation programme was to be tackled.
Take-over saves factory and jobs

Labour Reporter

ONE of Pinetown's largest clothing factories will resume production today after a take-over of the company, which has saved the jobs of hundreds of workers who faced retrenchment.

Mr Lloyd Spendiffl, a spokesman for the liquidators of Park Lane Shirt and Clothing Manufacturers, told the Mercury yesterday they had concluded negotiations with new owners who would take over the Swanfield Road factory today.

"As many people as possible out of the original workforce of 300 will be employed," he said.

Gloom

The factory closed on Monday and the workers were sent home and told to return this morning when they would be officially told of the change in ownership.

An air of gloom and uncertainty hung over the factory on Monday as the shocked workers pondered their future. Many had spent up more than 25 years working in the factory.

Some said they would 'pray hard' that the factory would reopen so their jobs would be saved.

Mr Frankie Hansa, general secretary of the Garment Workers' Industrial Union, said he was very pleased.

The workers' prayers appeared to have been answered.

"If it had shut down, we would have meant 300 more people joining the ranks of the unemployed. As it is, we are battling to find jobs for the thousands of clothing factory workers retrenched in recent months."

At one stage there were about 20 clothing factories in the Pinetown area employing 5,000 people. Now there are about five employing 600 people."
Stamcha takes action over allegation of impropriety

...
Conflict over liquidation of 2 ’Toti hotels

Own Correspondent

DURBAN — There were conflicting views yesterday over an Amamntophane hotel owner’s claim that racial conflict on the town’s “open” beaches at Christmas, coupled with the 1985 Toti bomb blast, played a major role in his hotel going into provisional liquidation.

His hotel, the Lagoon, and the neighboring Beach Hotel are the only beachfront hotels.

But Town Clerk Mr Dave Ongley said yesterday “We don’t believe the bomb blast or the incidents on our beaches had anything to do with the provisional liquidations.

“The country has been in an economic downturn for a long time and this has affected the hotel industry dramatically.”

A spokesman for Sanlam, which leases out the hotels, said: “The leases still have some years to run and we think the hotels can be run economically and viably.”

A spokesman for the Beach Hotel said the hotel had a fantastic Christmas and a much better January than last year. He blamed the business’s problems, forcing it into provisional liquidation, on the fact that it was part of a group experiencing difficulties.

However, Mr Johan du Plessis, manager of Stella Maris, the resort’s biggest holiday block of flats, said that bookings from January through to April were right down on last year and he blamed the beaches issue.

“Many people have come to me or written to say they are not coming back to Toti,” he said. “I have a whole batch of letters here which I am sending to our MP, Mr George Bartlett.”

He said, however, that a number of other factors such as the recession were also hitting business and it was difficult to say just how much the “open” beaches issue was to blame.
Shipping line to boost service

UNICORN Lines announced in Durban yesterday that it had bought two big roll-on, roll-off (ro-ro) vessels for R30 million to boost its coastal service.

The ships will enable the line to increase its number of sailings from two to three a week. Cargo is expected to reach its destination almost twice as fast.

The line plans to woo shippers by simplifying documentation by computerising, introducing a "door-to-door" cargo system and launching the ro-ro service.

Ro-ro vessels are so called because cargo can be rolled straight on deck or into the holds by way of a ramp which swings down to the quayside.

The ships -- to be named the Barrier and the Border -- will carry 275 containers, 110 cars and mixed cargo. They are identical at 12,000 deadweight tons.

They are on their way from France where they were built in 1980. The Border is due in Durban on February 22. They will replace the coasters Kowie and Naboob.
of freedom

no commercials are allowed. It can allocate this virtually as it pleases, with no guarantees of audience levels. M-Net, in contrast, sets rates according to viewing levels. If these are not achieved, advertisers are compensated.

Brian Butler, media director of Ogilvy & Mather, Elmhurst, says the decision to increase rates is obviously an attempt to discourage agencies from over-subscribing to prime slots and to spread demand.

This may sound like the manipulation of the market. But Media Shop MD Dick Reed points out that no one is forced to buy into prime slots. And he says it may be in the interests of viewers that media buyers will be forced to look for cost-effective alternatives.

Nevertheless, Bates Wells' Dave Kelly says, a good advertising budget increase is 25% this year, while prime time rates for the first four months have increased more than 200%. For example, in January, it cost R5 380 to reach 1 000 viewers in the Thursday 9 pm to 10 pm slot, but the cost of 1 000 in April will be R12 560.

Where clients demand a high-reach figure, agencies are going to keep buying into prime TV slots at premium rates. Which is bad news for other media, because funds will have to be diverted to cover the TV increases. Print is likely to be the biggest loser.

However, the SABC itself may also lose out. Clients who have already set budgets for the year will probably find themselves running out of money towards mid-year and cut back severely to keep something in hand for pre-Christmas campaigns.

TRANSPORT DEREGULATION

Getting nowhere

There were few surprises in this week's White Paper on the road transport industry. Deregulation is thus further off than many expected and the private sector is showing signs of impatience.

The hauliers' body, the Public Carriers' Association (PCA), has finally made good its threat to pull out of the National Transport Policy Study (NTPS) in protest at what it sees as government procrastination on competition from Sats.

The NTTPS is still discussing issues like the fuel levy and road construction, and PCA input will be sorely missed.

Sats doesn't compete on an equal footing with the private sector and the PCA is keen to see a swift end to cross-subsidisation, if not the privatisation of its road transport activities.

Government says "economic decisions should be left to the market," yet Sats' cross-subsidisation will be "phased out" rather than abolished. And this, industry sources reckon, will take at least a decade.

In the meantime, there is no prospect of the long-promised abolition of the permit system, which regulates what can be carried and where.

Deputy GM Gill Hols says Sats would be happy to see deregulation - provided there's full compensation for losses on socially motivated services and as long as private sector hauliers are prepared to pay their share of road maintenance.

But as new PCA CE Ian Moss (see People) says, the industry does not want anything less than immediate action.

The PCA meets Louw on February 9 and there's still a chance differences can be resolved, particularly as the minister has strongly supported the private sector in the past.

WATER SUPPLY

Waste not, want not

The drought may have broken, but the debate over the efficiency of SA's water strategy is far from over. The Department of Water Affairs is coming under mounting criticism from a number of organisations - notably the Free Market Foundation (FMF) and the South African Borehole Association - for some of its basic policies.

The dual pricing system for water has been attacked most severely. Currently, industry and commerce, which generate 95% of GNP, use less than 50% of the country's water resources while agriculture, which produces only 5% of GNP, uses most of the balance at much lower prices.

The disproportionate share of the resource is understandable, of course, but all the same FMF chairman Michael O'Dowd describes this system as "highly undesirable." For one thing, he says, there is no incentive for farmers who have irrigation rights to conserve water. "Water rights are sold with the land," he observes, "but under normal circumstances the water cannot be used for non-agricultural purposes or sold to a third party."

Efficient irrigation schemes of the type which exist in Israel are hardly used in SA, according to O'Dowd. He says if excess wa
Compared with other types of electronic systems, the computer is the most powerful and versatile. It can perform a wide range of tasks and is used in many different fields. The computer is a machine that processes data and information. It can be used for a variety of purposes, such as playing games, writing reports, or analyzing data. The computer is an important tool in many industries, including business, medicine, and science. It is also widely used in education, where it is used to teach and learn. The computer is a versatile tool that can be used for a variety of purposes. It is an important part of modern society and is used by people of all ages and backgrounds.
PRIVATE road hauliers are up in arms the over Government's national transport policy which was presented to Parliament this week.

The Public Carriers Association (PCA), which represents about 70% of independent operators, has distanced itself from the findings of the National Transport Policy Study Group and intends to make its views known to the Minister of Transport, Efi Leou, tomorrow.

The National Association of Private Transport Operators (Napto), although supporting the draft for a new freight transport policy, says the recommendations fail to address major issues. Napto represents 110 000 commercial vehicles operated by private companies and parastatals, such as Escom.

Among the recommendations in the White Paper are the scrapping of the permit system, leaving transport open to market forces, improving operator quality and safety, phasing out cross-subsidisation in South African Transport Services and the equal payment by all users, including Sats, for the provision and maintenance of roads.

The recommendations also call for the establishment of a transport advisory committee, made up of 12 members of the private sector and 12 from the public sector.

But the crunch, says Deon Blignaut, chairman of the PCA, is that the role of Sats in a deregulated transport system has not been properly defined.

The PCA will ask Mr Leou to place a moratorium on expansion by Sats in road transport. It wants Sats road operations to be privatised in two years.

**Issue avoided**

Mr Blignaut says private operators have lost business to Sats because it undercut them through cross-subsidisation.

"We co-operated with the steering committee of the National Transport Policy Study Group for the past two years, but each time we brought up the role of Sats in a deregulated system, it avoided the issue. We agree with the principles of the draft, but they cannot be implemented with Sats as it is," Andre Jacobs, chief executive of Napto, fears that the deregulation rec-ommendations will involve his members in even more regulation in terms of the proposed road quality system.

It will mean that operators moving goods within 100km or within exempted areas of their premises will have to submit vehicles for tests each year. Their drivers will have to obtain professional driving permits after medical checks and theory tests. In addition, it is proposed that drivers' hours of work be monitored.

Transport companies operating in these exempted areas are not subject to these requirements. The proposed regulations could affect 500 000 vehicles and a million drivers.

Mr Jacobs is also worried because the proposals require the introduction of infrastructure for, among others, enforcement of road quality matters before the permit system is scrapped. This will add to the cost of transport.

Napto has challenged the White Paper on its requirement that road hauliers be made to contribute to the provision and maintenance of roads by an increase in licence fees and other levies to raise an estimated R53 million.

Mr Jacobs says roads are a service to the community and money for them should come from central coffers.
New era of the computer giants

By Lyn Smerczak

A SHAKE-OUT has occurred in the South African computing industry, acquisitions and mergers becoming commonplace especially in the second half of last year.

Among the major deals was the acquisition by computer giant ICL of the South African subsidiary of Psion, giving it a major foothold in the personal computer (PC) market.

PC dealers Micromethods and Micro Computing Systems merged to form Sequel. The MDS-Computer Shop chain bought Datatnet at the beginning of December.

Then came software distributor Punch Line's acquisition of Sing Software. Earlier in the year, Punch Line, which is owned by Fintech, took control of South Continental Devices.

Off to the JSE

In December, PC dealer Joffe Associates merged with Mercedes Datakor, giving founder Joan Joffe a place on the company's board. This is the first move towards Mrs Joffe's R16-million-a-year company being listed on the Johannesburg Stock Exchange.

Another major PC dealer, Businessland, was bought by listed company Computermatic.

Consolidation and rationalisation are a symptom of the state of the industry internationally, says Paul Bladergroen, managing director of General Business Systems.

"Economic pressures and the way the industry is evolving mean that it can no longer afford so many players "In the international arena Unisys (formed when Burroughs and Sperry merged) wants to establish itself as a major alternative to IBM."

Many small SA computer companies, particularly PC dealers are being bought by allied firms in computer or communications. This broadens the range of in-house expertise, and gives them a wider and more financially stable base from which to attack markets.

The name of the company born of IBM's South African subsidiary will be

Paul Bladergroen . . . too many players in the field

announced at the end of February. The company was bought by management after the US parent withdrew. The new company will market IBM products.

McCormack & Dodge, which markets mainframe-based financial software, has joined the Concom group, which is 20% owned by Liberty Life.

Battle won

Mr Bladergroen says these moves "show a maturing of the industry towards computer companies which offer proven communications abilities, sound financial management and commitment to customer support. The battle for standards has by and large been won. Computer systems are sold more on their architecture than their brand names now."

"The architecture in the mainframe computer area is IBM's. The minicomputer standard is settling down with

the Unix operating system, and among personal computers the MS-DOS standard is established."

"Hardware is becoming a commodity, and it no longer matters who makes it as long as the standards are adhered to."

In South Africa this is particularly true as political pressure is forcing computer companies to disguise the pedigree of their products. Companies which previously relied on the name of their foreign supplier to add weight to their sales pitch now have to stress their own expertise, and ensure continued supply as well as technological advances.

"Buyers will pay more attention to continuity and support than origin of supply, and they will come down on the side of those whose strength is in getting the different suppliers' hardware to communicate. Networking technology is where we are going."

Expensive

Mr Bladergroen sees the price of computerisation increasing as access to original suppliers becomes more expensive. Indirect sourcing of computers will make computers more expensive and will give an impression of short-term growth in the industry.

Trying to camouflage company connections by management buyouts will not cool the political heat many international companies are feeling because of their SA links.

Cynics say that changing a company's shareholding is a short-term measure. In many cases it causes the anti-apartheid groups to look more closely at what is going on.

Mr Bladergroen says "Disinvestment was the issue three years ago. But now the demand is for foreign companies not to do business with SA - and that means stop selling goods to this country."

"Pressure groups are not interested in the cosmetics of ownership. Many computer users are unaware of the dangers confronting the market."

A prospective buyer owes it to himself to look beyond all the euphoric announcements of new-found independence and establish whether critical issues have been successfully addressed."
The Board of Executors has been authorised to advise that the merger negotiations between Wooltru Limited and Pep Stores Limited have been terminated by mutual agreement.

Joint statement by Messrs David Susman (Chairman of Wooltru Limited) and Christo Wiese (Chairman of Pepgro Limited and Pepkor Limited).

Cordial negotiations covering an extensive range of alternative schemes have taken place over the past weeks between the two groups. These negotiations have been called off as agreement could not be reached on an appropriate structure for the merger other than by Wooltru Limited acquiring the entire issued share capital of Pep Stores Limited. While the Board of Pepkor Limited was prepared to pursue a possible merger, it did not consider it in the best interests of Pepkor Limited shareholders to dispose outright of its Pep Stores subsidiary.

Cape Town
Falconbridge sells 'at half-price'

Lonrho snaps up big stake in Wesplats

CANADIAN mining group Falconbridge has sold its 49% stake in the profitable Western Platinum (Wesplats) mine to majority shareholder Lonrho for £75m — thought by analysts to be half its present value.

The deal, which has been on the cards for about a year, was signed on Friday night, a reliable source said.

Lonrho, the London-based multinational, which held 50.44% of Wesplats shares before the acquisition, had the right of first refusal over any bid for Falconbridge’s stake and picked it up for a bargain.

Investment analysts believe that on the conservative basis of 14 times earnings, Lonrho should have paid £150m. The current price/earnings ratio on the JSE for platinum shares is 15 times earnings.

At Friday’s financial year-end rate of just under 40, the price of £75m values unlisted Wesplats at around £670m.

That Falconbridge was willing to sell off its interests so cheaply is seen as evidence of disinvestment pressure to get out whatever the cost. The Canadian government has been applying pressure on Canadian companies to withdraw from SA.

To finally wash its hands of SA, Falconbridge is to co-ordinate its mining interests in Southern Africa from Zimbabwe.

Falconbridge’s SA representative, Chris Beatty, yesterday refused to comment, referring all inquiries to the company’s Toronto office.

Falconbridge has been planning to sell its Wesplats shares for about a year and in November bought out Mobil’s 24% shareholding because it and Mobil had received an offer — reported at the time to be £24.5m — for their combined interest.

Falconbridge chairman Bill James said at the time the purchase had also been made because Mobil was “selling it too cheap”.

Wesplats, a producer of platinum group metals, gold, nickel, copper and cobalt, showed record results for the year ended

Lonrho grabs Wesplats’ shares

ing September 1986 and is Lonrho’s biggest Southern African earner.

Group after-tax income rose 75% to R66.2m (R37.9m) on a turnover of R241.2m (R167.2m). Capex rose to R32m (R20m) and retained income increased to R76m (54m).

While the purchase at fire-sale prices must benefit Lonrho’s earnings prospects, it could lead to some political difficulties for the corporation elsewhere in Africa. Among its diverse interests elsewhere on the continent is the Beira-Mutare pipeline and refinery, which is crucial to Zimbabwe’s efforts to reduce its economic dependence on SA.
Finance firm in takeover

NE of SA's oldest trade finance house, Goode Durand and Murray, has increased its asset base with the acquisition of Kuper Confirming and Finance.

A spokesman said yesterday the takeover of Kuper had resulted in the company acquiring a further select portfolio of clients.

MD John Cowper said the company had maintained a low profile over the years but today financed international trade worth more than R125m a year.

"Our client base is spread across both trading and industrial companies. Ours has always been a conservatively financed company with its gearing pitched at about three times shareholders' funds, which is lower than the norm for the industry."

He said the group decided to look for a partner as it was not prepared to overgear the business and wanted to maintain its financial ratios.

"Now UAL Merchant Bank has come in with us and has injected R3m into our business by way of the issue of redeemable convertible preference shares.

"We are delighted with this new partnership and are now in a position to aggressively seek more business. With our conservative gearing this extra capital puts us in a position to increase our turnover by 25%," Cowper said.
Susan Russell
Court Reporter

NATIONAL ice-cream franchisees Carvel SA (Pty) were placed in provisional liquidation yesterday after an urgent application in the Rand Supreme Court.

In papers before the court supporting the application, it was submitted that all Carvel directors had resigned and all company-owned outlets had been closed.

Carvel also has franchised outlets in the country.

Mr Justice Gordon granted the provisional winding up after an application by Dengil Investment (Pty). Dengil Investment, which trades as Gillian Gamsy International Public Relations, had a claim against Carvel for work done from March 1985 to April 1986.

A company director, Gillian Gamsy, said in an affidavit the company had been granted a default judgment for the money.

A writ of execution was issued but the deputy sheriff had been unable to make attachments.

She said she had read on January 26 about litigation pending, arising out of the dispute over the sale of Carvel shares.

Gamsy said the application was urgent because the company had closed its outlet containing valuable machinery and equipment.

She said it was reasonable to assume, in view of the dispute between the sellers and purchasers of the company, that adequate steps had not been taken to protect those assets.
Privatisation plan delayed

THE uncertainty caused by the deregulation of public transport has seriously hampered the SA Development Trust Corporation (STK) in the past year.

In his annual report, chairman Cornelius Human says the transport sector's poor economic, social and operating environment has also delayed STK's goal of privatising its bus services.

"STK is obliged to give serious attention to the changing political and economic environment in which it finds itself.

"In the socio-economic sphere, the corporation stresses the need for consultation at both the community as well as the government level."

Human says that, in the light of present socioeconomic changes, it can be expected that the number of requests for development inputs will exceed the capacity to provide such inputs.

MD Jacobus van Marle says the year was characterised by price increases and difficult climatic conditions.

"The higher input costs had adverse effects, particularly for transport companies and agricultural projects. The continuing drought conditions also adversely affected all agricultural projects.

"On the other hand, the depreciating rand benefited the export achievements of various agricultural products."

The total gross investment in STK's agricultural division, as at the end of the financial year, was R87.2m, leaving a profit of R4.9m before transfer to reserves was realised.

The corporation showed a consolidated net profit for the year of R28.7m (R43.3m), of which R11.2m (R20.5m) went towards interest on loans and depreciation.

After shareholders' profit, R17.1m was available for allocation, of which R15.9m (R16.2m) was transferred to reserves, leaving R1.2m consolidated accumulated profit.
Deregulation only way

Buthelezi

Business Day Reporter

Deregulation was the only way in which the competitive conflict between black and white small businessmen could be beneficial, Chief Mangosuthu Buthelezi said in Johannesburg yesterday.

He said, "Without de-regulation the conflict will assume racist and party political connotations which will further polarise our country."

Black business as a force for change was all too frequently ignored by theorists and party-political thinkers. Black businessmen had emerged because they were survivors whose acumen carried the hue and colours of aggressive opposition to restrictions.

Buthelezi said black businessmen had the role of linking informal settlements to the central cash economy. White businessmen tended to try and encourage black consumers out of their shanty towns and slums rather than penetrating them.

There were now great prospects for black-white business partnerships, but not "the old exploitive practices where many apparently affluent black businessmen were no more than front men for white and Indian entrepreneurs, particularly in the townships". 
Some 483 South African companies were liquidated in December — 53 percent less than in December 1985. This has been revealed by the Information Trust Corporation (ITC), previously Dun & Bradstreet, recently sold to local management and staff.

ITC says the December decrease reflects the continuing downturn in company failures towards the end of last year. According to ITC’s managing director, Mr Paul Edwards, total liquidations in 1986 were 2,733 — 11 percent down on the 1985 total of 3,061.

Looking at personal insolvencies, he says October’s 391, while well down on July’s record 423, indicated “that individuals were still having problems servicing their debt commitments.”

“This is mainly due to shrinking disposable income characterized by high inflation levels, modest salary increases and the increasing tax burden,” Mr Edwards said. — Sapa
Power concentration 'fuelling inflation'

"Despite the valiant efforts of the Competitions Board, this concentration of power limits competition and lessens cost-consciousness, causing considerable distortions of free-market principles and preventing the consumer from participating in the price-making process."

Referring to the second major influence on the inflation rate, Trust Bank says that as far as the rand is concerned, the monetary authorities now seem to be in control again. They note that the rand has firmed in a controlled manner recently.

Outlining possible methods of controlling inflation rate, the bank says "Money supply has been kept in check from 1985 up to the most recently released figures, yet despite this control the South African inflation rate reached record levels in 1986."

They add that this does not, however, prove that rapid monetary expansion has little effect on inflation. "It just seems that monetary control is not really relevant in the current high inflation scenario in South Africa."

In the long run, however, it could become very important."

Concluding their analysis, Trust Bank say they expect the inflation rate to be lower again for January, although this decline will be mainly statistical, as the sharp rise of January 1986 will then fall away from the index."
Wine and beer prices are far too high because a giant liquor industry monopoly keeps out competition and fixes prices, claims Pick 'n Pay chairman Mr Raymond Ackerman.

The national supermarket chief also accused Government of supporting the "cartel".

Mr Ackerman has complained to the Department of Trade and Industry. He added: "There is so much surplus wine in this country because sanctions have cut exports — yet prices remain high."

He said Cape Wine and Distillers (CWD), in which KWV, South African Breweries and Rembrandt had shares, was, in effect, a cartel. Not only did it fix prices among suppliers and retailers, but, he claimed, it was "the power behind" a law passed three years ago preventing retail firms holding more than 36 grocers' wine licences.

He added: "This law was passed after the CWD was formed and, just coincidentally, 36 was the exact number of Pick 'n Pay stores which had licences to sell wine at the time."

After CWD's inception, special discounts from producers "suddenly stopped".

Government overruled a Monopolies Commission recommendation the CWD be dissolved, which "means vested interests are being protected," said Mr Ackerman.
winding-up of "the short-term business" of an insurer, not the company itself.

Says liquidator Mick Connolly "This could mean that shareholders' funds fall outside the creditors' pool. However, at the date of liquidation liabilities were substantially in excess of assets, so in theory shareholders' funds would already have been absorbed."

Connolly says that the bankruptcy of AAMI was attributable to "foreign risks written; the effect of the rand's depreciation on these risks, an under-rating of domestic business, and the fact that the company was clearly over-traded."

He can't give a date for final settlement of creditors, though matters may be clearer by the end of the year.

So far AAMI's assets have been established in excess of R100m. Most will be realised by the end of this year. Assets would be liquidated in respect of:
- Collection of outstanding premiums,
- Sale of the 27 Dragonal Street head office by tender, and of other premises,
- Possible refund of brokerage commissions,
- Sale of computer equipment, motor cars and furniture,
- Recovery of staff mortgages,
- Sale of the remaining shares, and
- A refund of certain redeemable preference shares.

Another possible asset would be AAMI's previous investment in AA Mutual Life, sold as part of the overall deal with Federated Insurance. "The liquidators have taken steps to protect their interest," says Connolly.

The redeemable preference shares in AAMI were owned by the Kirsh Group and the Automobile Association but were sold back to AAMI, again as part of the Federated deal. Some R7,6m of capital and dividends is involved. The liquidators believe that the seller will have to repurchase the shares since the original sale took place when the company was already insolvent.

In outlining liabilities, Connolly says that the main problem is establishing claims from overseas reinsurance treaties. "To deal with this," he says, "we could establish a final cut-off date for claims, agree a final settlement, or reserve a satisfactory amount for the future claims."

Almost 1 000 treaties are involved and a strategy along one of these lines will have to be agreed. This would also take the rest of the year to sort out.

Liabilities include:
- A few general trade liabilities,
- Domestic claims,
- Claims from foreign reinsurance inwards, and
- Claims from managing agencies.

There are 97 000 files of domestic claims. The cut-off date for reporting is June 24, 1987. After this, a "liquidators' claim form" will be issued to each claimant for signature and will then be entered on a creditors' list.

For each reinsurance treaty a statement must be provided of the premium held in reserves for future claims, claims paid so far and estimated outstanding claims.

Managing agencies overseas were appointed by AAMI to write business on its behalf. Apparently "substantial claims are outstanding which still have to be proved," says Connolly.

Meanwhile, clients are locking up interest on the R8m outstanding premiums at the rate of 20% a year. This runs from 60 days after the month-end in which individual policies began.

As for brokerage commissions, Saiba apparently is "not accepting the matter lying down," as Alston puts it. Another contentious point is that liquidators are claiming that brokers must repay pro-rated commissions on cancelled AAMI policies, based on their attorney's legal opinion of regulation 30 of the Insurance Act.

But, says Alston "We are putting the matter to our counsel for opinion and will then discuss the matter further with the liquidators."

This could also be the subject of a test case.
One small step?

It may sound a little far-fetched, but one could describe the decision to put the long-term lease of Cape Town port's grain elevator out to tender as a slow start to Sats privatization. But a more likely reason for the call to the private sector to take it over is that Sats cannot make it pay (Business News, November 21, 1986) because of the policy decision to route all maize exports through either East London or Durban.

The last time the Cape Town elevator was used for maize exports was in 1980. Since then, it has been used only by importers for the temporary storage of grains such as rice and barley.

Although Sats was grateful for anything it could get, the income was not sufficient to warrant the upkeep of the facility. Indeed, maintenance costs were so high last year that Sats called on the private sector to suggest ways to help.

In the process, it found that several grain-handling concerns were interested in leasing the elevator. The thinking now is that several importers, acting as a consortium, could make it pay as a storage depot for imported grain and grain products.

Kallie Haupt, manager of the Cape Town port, says a minimum of a 15-year lease is being offered.

The elevator is 62 years old, but Haupt avers that Sats has maintained it in good condition. Its 96 tubes of varying sizes have a combined capacity of 28,000 t. It can comfortably handle an intake of 750 t/h and discharge at a rate of 1,000 t/h.

As an integral part of the Sats network, its rail facilities would be hard to beat. Also, road access to the 6330 m² site on the corner of Duncan and South Arm roads is also good, and the facility is totally electrified.
The morning after

A hangover from the depressed rand has hit the Gilbeys liquor group and major surgery has been done on the group's import division, World Wines & Spirits (WW & S).

The formerly independent operation has been integrated with the group's wholesale division Gilbeys Distillers and Vintners (GDV) to form a new sales arm of W & A Gilbeys.

MD Bill Husband says WW & S was badly hurt by the low rand/dollar exchange rate last year. "In the first half of the year we had stock we could sell at old prices. But the price of new imports jumped at least 30% and this had to be passed on, leading to greater market resistance from consumers."

During the last quarter of 1986, WW & S was bleeding badly, and Husband admits that losses were considerable. He says the year-end season, which traditionally accounted for 40% of sales, came nowhere near meeting expectations last year.

The downturn, coming so quickly after WW & S had shown compound growth of 30% in the previous four years, called for swift action.

In addition, the liquor market has shown little growth in the past 12 months with the exception of the beer and vodka sectors, which are taking market share from import-
FARMING IT OUT

It had to happen. Franchising is moving into SA's rapidly growing computer field. Marketing innovator Microness is to put out two of its four existing stores in Johannesburg to franchise holders in the next few months and another five franchises are due to be established before the year end.

MD Bernhard Liebhammer says Microness will also enter into a partnership to run a Pretoria store, expected to open in May.

The existing stores, says Liebhammer, have been kept under company management until now so that administrative methods could be developed and the company could secure supply lines and set up a manufacturing facility.

The existing stores have also been the proving ground for his theory that each store should specialise in certain kinds of computer products.

For instance, the Plein Street store deals in microcomputer hard- and software for the bottom, or first-user, end of the market, Kerk Street specialises in networking and computer solutions for the corporate sector, Rissik Street in laser equipment for desktop printing operations and the Hillbrow store in accounting systems.

The last two are to be franchised in June, or shortly thereafter, and the company is to seek five more franchised outlets either on new sites or through acquisition. In the latter case, management of the store would be given first option on a franchise agreement with Microness.

Franchise fees will vary, says Liebhammer, according to the profitability of each store, while annual royalties will be 3%-5% of profits. Franchisees will receive administrative help, training and substantial discounts on Microness' own products.
The morning after

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In addition, the liquor market has shown little growth in the past 12 months with the exception of the beer and vodka sectors, which are taking market share from imported whiskies and liqueurs. Husband estimates that beer now accounts for more than 50% of every rand spent on liquor.

Logically, perhaps, Gilbeys looked to GDV, which has continued to gain market share among suppliers in the last four years. It was decided, says Husband, that the ailing WW & S might benefit from the same management expertise.

"I felt it would be as well to perform major surgery quickly," he explains, "rather than attempt to control a number of smaller problems as they occurred."
83% of JSE now owned by ‘Big Four’

SOUTH AFRICA’s “Big Four” conglomerates now control 83% of the Johannesburg Stock Exchange, says Robin McGregor, compiler of Who Owns Whom.

This compares with the 71% control which Anglo, Sanlam, SA Mutual and Rembrandt exercised in 1983.

And, says McGregor, these four plus the Liberty group control 43% of the 70 new companies listed on the JSE over the past year. Directors only command 31%.

He was announcing the findings of the seventh edition of his book, which will be available next month.

The number of companies on the JSE increased by 15% with these new listings and the market capitalisation (R1.5bn) by 2.6%. Total JSE capitalisation is about R250bn, McGregor says.

Anglo’s control over JSE shares increased from 54% last year to 69% this year and, according to McGregor’s figures, it now has under its control 70 listed companies and about 3,500 unlisted companies in SA.

Monitoring disinvestment reveals that there are 2,522 subsidiaries of UK companies and 225 of European companies still in SA.

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**PRICE MOVES AT A GLANCE**

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**KEY MARKET MOVEMENTS — FEBRUARY ’11 to FEBRUARY ’12**

- **Johannesburg Stock Exchange**
  - Latest:
    - All Gold BD Index: 1047.1
    - BD Industry Index: 1663.1
    - JSE Ov’All Index: 2085.0

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SCHEDULED TO BE SENT TO CONGRESS ON APRIL 10TH

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THE ECONOMY

Big 4 munch another side of ISE cake

SOUTH AFRICA, BEE CONControl

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SAA and its domestic and international routes were up for grabs if anyone in the private sector could come up with acceptable proposals, Transport Minister Eli Louw confirmed yesterday.

He said SAA was a definite "applicant for privatisation", but doubted whether, in the current political and economic atmosphere, there would be any takers.

The decision to relinquish State control of SAA apparently flows from recommendations made by Wim de Villiers, a previous chairman of Gencor, who was appointed in 1985 to investigate Sats's financial and organisational structures, and propose a new strategy for the organisation in a deregulated transport market.

Stressing government's commitment to deregulation and freer competition within the transport sector, as set out in the White Paper on National Transport Policy released in Parliament last week, Louw said Sats's present intrusive role in road transportation was to be reversed.

"In accordance with government policy regarding privatisation Sats has decided not to expand its existing road transportation services any further," said Louw.

He stressed that it was not realistic to expect Sats summarily to withdraw from road transportation. But its role will almost certainly be reduced as the private sector became more involved.

In tabling the Sats mini-budget in Parliament, Louw revealed that the organisation's financial performance had been greatly transformed.

Indications are that instead of a working deficit of R99m, a surplus of R139m, reflecting an improvement of R237m, will materialise.

Asking for an appropriation of R6bn to tide Sats over until its main budget is presented on May 28, Louw indicated that account would be taken of this improved performance in determining future tariff, salary and pension adjustments.

CHRIS CAIRNCROSS
Pyramid to be formed

Seardel delivers top performance

By CHRIS CAIRNCROSS

THE Cape-based Seardel group has produced the best results in its history, with earnings for the six months to December 31 rocketing by a remarkable 154.1% from 75c a share to 190c a share.

Releasing the figures yesterday, a very pleased Aaron Searll, Seardel’s chairman, maintained that second half results are likely to be as impressive — forecasting year-end earnings of between 225c and 275c a share, compared to the previous year’s 84c.

Dividend boost

The results have enabled the group to boost the interim dividend by 150%, from 8c to 20c, while maintaining a dividend cover of 9.5.

Seardel’s massively improved fortunes are the result of:

☐ A 17.6% jump in turnover, from R209.3m recorded in the comparable period in 1985 to R246.1m last year, which were accompanied by a sharp increase in margins;

☐ A 33.1% reduction in finance charges, from R6m to R4.2m, which helped to boost pre-tax earnings by 86.6%, from R7m to R13.1m; and

☐ A complete turnaround for 14 associated companies, including Sharp Electronics, Charmfit and Dubin, which translated an attributable loss of R348 000 into a profit of R216 000.

Pyramid listing

Searll announced yesterday that Seardel is to form a pyramid listed company, to be called Seardel Consolidated Investments, as a means of consolidating his control of the group and to forestall any threat of a predator attempting a takeover bid.

Approval has already been obtained from the JSE and the formation of the pyramid will be accompanied by a one for one share split, effectively quadrupling the Seardel shares on issue.

Searll said this would boost his control from a current 25% to 51%.
From GARETH COSTA
Johannesburg — With more than 85 percent of the shares on the Johannesburg Stock Exchange in the control of four conglomerates, South African business can only be riddled with monopolies and cartels says Who Owns Whom publisher Robin McGregor.

The resultant collusion, bureaucratic inefficiency and lobbying of State, he adds, is a major cause of our inflation.

The might of Anglo American has also shown a significant rise from last year's 54.1 percent to a staggering 66.1 percent control of all the shares on the market.

COLLUSION CLAIM

Next biggest is Sanlam with 10.7 percent, SA Mutual with eight percent and Rembrandt Group with 4.3 percent.

In supporting his collusion claim, McGregor says that analysis conducted by his company, McGregor Research Services, shows that of the 150 listed companies that reported results in the past three months, 107 increased their profits and all the results showed an average growth of almost 30 percent.

“The country's growth rate for 1986 was one percent, the inflation rate was 18.6 percent and the rand/dollar exchange rate strengthened over the period — so there is no weakening rand to account for it.

“The economic climate in the country in 1986 was the worst for many years, consumer demand was low and liquidations were high.

INCREASING CONTROL

“Now, I would like to know, if it wasn't price fixing among cartels, were nearly 80 percent of those listed companies able to lift their profits so significantly under these deplorable conditions.”

McGregor's inflation views are backed by Trust Bank in its Economic Report published this week: “We are concerned about the progressive concentration of power in the private sector with large groups increasing their control of certain sectors of the economy.

“This limits competition and lessens cost consciousness, causing considerable distortions of free market principles preventing the consumer of participating in the price making process.”

Another disturbing factor raised by McGregor is that of the 76 new companies to reach the boards of the JSE last year, the big five already control 43 percent of them, with directors only in command of 31 percent.

“So instead of spreading control and the country enjoying the benefits of more entrepreneurship, these new listings are merely making more of the private sector vulnerable to takeovers by our very few top groups.”

The solution says McGregor, is some self-governing laws that in practice in most of the free enterprise countries such as the UK, US and Australia.

“In terms of British law, immediately a shareholder has 30 percent or more of a company, it has to make an offer for the balance of the shares”

EFFICIENTLY

This situation is well portrayed by the highly topical Anglo American/Cons Gold scenario, where Anglo holds 29 percent of Cons Gold through its overseas arm, Miniero.

If the holding went to 30 percent, Anglo would have to underwrite an offer of £1.25-billion for the rest of the shares.

“That very effectively keeps them under 30 percent, and that is exactly why the law is there. It prevents precisely what we have in this country — an enormous spread of control from a comparatively low capital outlay.”

McGregor says that if the law were introduced here, and in the unlikely event of everybody accepting an offer from Anglo in all the companies it controls, Anglo would need R40-billion.

These are drastic measures, and some argue that certain “grassroots” operations would have to be exempted from this. A phase-in period would also be necessary, but the time must come.

McGregor says he put the case to Finance Minister, Mr Barend du Plessis in May last year, but afterwards nothing had happened since.

He argues that the laws are easy to promulgate and to police, and are not restrictive by nature.

The result would be that huge amounts of money would be ploughed back into the economy to start new up new operations that would create many new jobs and spread the wealth in the country, instead of it being locked up in shareholders.

Sceptics with vested interests will scream and shout about the impracticalities of the new legislation, but as McGregor points out, the situation is getting worse, not better.

Some other interesting facts have been produced by the McGregor's rapidly expanding database, which is one of the most comprehensive in business in South Africa.

SHOCKING STATE

He says that there are still 2222 subsidiaries of UK companies in the country, 225 of European companies and 689 US subsidiaries.

McGregor looked into buying a local data company that was disinvesting, and found out that many of them are financed by loan capital and not equity, with the result that their balance sheets are in a shocking state, and generally were quite inefficient.

In directorships, Anglovaal's Basil Hersov and SAC's Michale King top the list with 22, followed by Zac de Beer with 21.

The number of women directors has risen from seven in 1989 to 15 last year, while there are 16 black directors and no black women directors.
Seardel: Ripe for the plucking

By Chris Friedman

When he announced spectacular interim results in Cape Town this week. Mr. Searl, chairman of Seardel Investment Corporation, for wanting to keep control of his company through the formation of a pyramid.

The formation of the pyramid company will ensure that Searl retains control of Seardel. He will hold 50.1% of the shares in the pyramid, which will in turn hold at least 50.1% of Seardel.

If the pyramid is not formed, Searl's share in Seardel will drop to an unacceptable 25% within three years when preference shares become convertible into ordinary shares.

Searl says he feels compelled to take the risk of losing control of his "fine company" and placing all the "wonderful people" who work for it at risk.

He says that as a group, all divisions in Seardel performed well in the six-month interim period and sales were up across the board.

Group secretary, Mr. Jacobson says while Searl is not currently aware of anyone intending a take-over but if control is not re-established, there are always predators about.

"With the shares trading at well below net asset value, we would be ripe for it, and so we decided to get on with forming the pyramid company. The major institutional shareholders are happy with the move," he says.

From page 15

The pyramid will only earn dividends from Seardel and any offer to the top company will be made to the bottom company as well, he says.

Commenting on Seardel's outstanding interim results, Searl says the group had been cruising along for four years with reduced profits, tight margins and a heavy interest burden.

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Breaking chains that hinder business
More flexible liquor licensing sought for food chains

"Vigorous representations" have been made to the Liquor and Competition Boards to have "restrictive" liquor licensing legislation either relaxed or abolished for food retail chains, says the Associated Chambers of Commerce (Assocom).

Assocom chief executive, Mr Raymond Parsons, says the chamber has urged the Liquor Board to convene a meeting of "all interested parties" to work towards more flexible liquor licensing.

At Assocom, the major Food and Retailers' Technical Committee — which represents most of the country's large food chains — has been tackling the issue of licensing for the past five months.

Pick'n Pay last week lodged a complaint with the Department of Trade and Industry against the "collusion among liquor producers and wholesalers which serves to protect their vested interests in bottle stores and the hotel industry".

Committee member Mr Herbert Mabin said the ceiling of 36 liquor licences imposed on food chains "placed a significant limitation on competition and did not promote the growth of sales and output".

He criticised the legislation for not taking account of a company's size, turnover or number of branches.

Responding to an Assocom memorandum addressed to the Liquor Board's chairman in December, Mr Mabin said he believed it was gathering views from other interested parties.

Liquor Board chairman Mr Tom Vorster and Competition Board chairman Mr Stef Naudé were not immediately available for comment.

An East London report says that draft legislation completely revising the Liquor Act had been completed.

The report says the new bill is now with the Department of Trade and Industry's legal advisers, but the Federated Hoteliers Association of SA (Fedhsasa) says it is doubtful whether the legislation will be passed before the close of the current session of Parliament.

Fedhsasa director Mr A Brock says the Act is "all-embracing," but he declines to comment on what recommendations his association has made. — Sapa
Dow Chemicals to sell to Premier

DOW CHEMICALS is to sell its R140m-a-year SA pharmaceutical operation — Mer-National — to Premier Milling's Twins Pharmaceutical Holdings.

The company's American chairman, Paul Oreffice, said Dow regretted the need to sell the plant, which registered $60m in sales last year.

Poor SA business conditions and pressure from US anti-apartheid lobbyists prompted the country's largest producer of analgesics to quit.

Dow 'wanted to stay to promote change'

The switch in control to Premier puts Dow into the already massive Anglo American/JCI/SAB/Edgars/OK Bazaars/Amalgamated Retail stable.

Mer-National has an annual turnover of between R22m and R25m. Its biggest product is the locally developed Syndol, an analgesic which recorded R11m in sales last year.

Oreffice said he wished Dow could have remained as part of the process for change in a "white-led nation".

Dow employs about 200 people in SA, about 125 of whom worked for Mer-National.

About 75 employees, most of whom work in sales, would remain on Dow's payroll, said the SA company. A Sunday newspaper reported that there were to be no retrenchments for a year without a payout under an agreed severance package.
Local colour.

Yet another effect of US disinvestment could be negated if retail chain Clicks and the CNA conclude a deal to take over the multinational's local film processing laboratories. It would also ensure that some of Kodak's 500 local staff keep their jobs. The market has it that such a deal is in the

offing — and both Clicks and CNA spokesmen say they have been talking around it, although they are not prepared to divulge terms.

CNA's James Mackness says the issue is sensitive because competitors in the photo agency business might think Clicks and CNA are using their hefty market share to cut competition. "This is not so. We are simply trying to keep the facilities going."

Clicks and CNA, with dozens of outlets throughout the country, are the major users of Kodak laboratories in the Transvaal. These have around 35% of the photo-processing market. Chief competitor, with around 25%, is SA Photoclab, which took over the 3M laboratory in the province and has the Budget Foto outlets. The balance of the market is accounted for by the "one-hour" machines usually operated in-store by independents.

In the Cape and Natal the market is divided between Kodak and 3M laboratories, now operated by independents — with Clicks and CNA again dominant among the agencies.

Eastman Kodak was the first sizeable US company to announce its intention to disinvest completely from SA, with no option of a management buyout. Chairman Colby Chandler said in November that no foreign subsidiary would be allowed to supply Kodak products to SA after April 30, that the staff was to be retrenched and that the company's assets here were to be sold.

And local MD Richard Ferris wrote to clients saying there was a possibility that the photo-finishing laboratories and equipment service organisations would be sold to operate as separate businesses.

A Clicks-CNA deal would follow moves by other companies to fill film and equipment needs. Johannesburg-based ETA Audiovisual, which sold Kodak equipment in SA for 15 years, now has the dealership for the compatible Elmo range of equipment from Japan. SA-controlled MGX was quick to substitute Agfa micromagery film and equipment from West Germany for Kodak products previously used in the computer industry (Business December 12).

And the film multinationals have been quick to move in on the hole in the market left by Kodak's departure. Ciba-Geigy subsidiary Ilford, for example, expects to capture Kodak's estimated 40% share of the R800 000 a year black-and-white film market. Fuji and Agfa are confident of the major share in the R55m a year colour film market, while they and Du Pont will probably share demand for industrial X-Ray film.
The information as a whole contains incorrect or misleading information. For example, on the page, it states that "The Minister of Justice" is responsible for certain actions, which is not the case. The Minister of Justice has no authority over the actions described in the text. Additionally, the text contains grammatical errors and punctuation mistakes, which further undermines the credibility of the document.
ANOTHER company in the Caesar group, Caesar Consolidated (Pty), was placed under final liquidation in the Rand Supreme Court yesterday with liabilities of R1,3m.

Other companies in the group, Caesar Construction, Forum Investments and Panther Construction have already been placed in liquidation.

The application for the liquidation of Caesar Consolidated was brought by the Legal Trust Corporation (Pty) which has a R16 000 claim against the company.

A Legal Trust director, Joan Griffin, said the money was advanced to Caesar Construction and Caesar Consolidated had stood as surety and co-principal debtor.

The claim had been ceded to Legal Trust by the original claimant.

Griffin said that as at October 31, Caesar Consolidated had assets consisting of immovable property worth about R250 000 and liabilities of R1,3m.
Producers untouched — retailers

Govt gets no cheers over ‘liquor cartel’

GOVERNMENT has come under fire for its intention to deregulate liquor retailing while leaving the producer cartel untouched.

Angry liquor retailers say this will do nothing to solve the industry’s problems.

A Department of Trade and Industry spokesman said draft legislation — scheduled to be tabled in Parliament this year — would rewrite the Liquor Act and was intended to promote effective competition.

He said deregulation could entail granting additional retail liquor licences, but the new Act would not tackle the existing producer cartel or the concentration of power in the liquor industry.

He said “Liquor is a product that requires regulation and we are trying to reconcile liquor legislation with competition.”

KAY TURVEY

Competition Board chairman Stefan Naudé said “There is a cartel in the liquor industry, but we are not busy with another investigation into the concentration of power.”

However, Federated Hotel, Liquor and Catering Association of SA (Fedhasa) president Mike Kovensky said granting additional liquor licences would not increase competition, nor would it solve the sector’s problems.

He said fierce competition already existed at the retail level and if it was increased it would become destructive and business failures would follow.

The flare-up followed criticism of Cape Wine Distillers (CWD), jointly owned by SAB, KWV and Rembrandt, which surveyed a 1983 board recommendation that it be dismantled.

MICK COLHINS reports that Kovensky told a Fedhasa conference in Cape Town that Assocom was pandering to big business in the liquor industry.
Truckers face bankruptcy

The heavy transport industry is in serious financial difficulties and a number of companies are facing bankruptcy, the Public Carriers Association (PCA) said yesterday.

PCA executive director Ian Moss said the problems arose after a Supreme Court judgment against the vague wording of certain transport permits.

Moss said a White Paper tabled in Parliament to declare government policy on transport showed the system was no longer in line with economic realities.

Quoting from the Paper, Moss said some points of intent included:

- Reduction of administration costs and
- Prorision of employment opportunities for all.
- Encouragement of small business development.

He said at the request of the Minister of Transport Affairs, the PCA is at present giving the matter urgent attention.
Privatisation gets the official nod

 PRIVATISATION has now been accepted as official government policy despite bureaucratic action at local level.

 While government’s commitment to change has become apparent with the establishment of a central office to handle day-to-day problems, some sectors of commerce and industry are still to be convinced that it is functioning.

 They claim a lack of understanding at local authority level is still seeing black entrepreneurship harassed and stifled and add that privatisation must be preceded by deregulation.

 Legal adviser to the Small Business Development Corporation (SBDC), Johan Naude, says with the creation of the office, government signalled its intentions to hand over to the private sector.

 “But it is important to continually monitor the actions of the authorities. To watch anything that could restrict entrepreneurs.”

 While the implementation of the policy rests with Economics Minister Danie Steyn, the new office, headed by chief director Jimmy Vermaak, is supposed to monitor the effects of government’s drive.

 “All government departments have been instructed to examine existing and new legislation within their own sphere of responsibility.”

 Vermaak says, “My job is to see that these instructions are carried out.”

 He says all legislation applicable to economic activity is being measured against the principles of equal opportunity, minimum standards and minimum control.

 “Local authorities are looking at their own affairs. We are here to assist them. Our programme consists of special investigations in conjunction with the Competition Board. Black entrepreneurship is one of these areas.”

 He says an investigation into the public services has been under way for some time.

 “The report should be due anytime now. Other corporations that are topical are Sats, Posts and Telecommunications, CSIR and certain investigations in the Atomic Energy Corporation.”

 Naude says, “All interest groups or organisations that are in a position to point out the burdensome effects of local legislation should be invited to make an input.”

 Vermaak says his office has invited the private sector to come forward and help with deregulation.

 “We are receiving input from individual chambers of commerce, the Law Society, Assocom, the AH and the FCI and we will be surveying areas where their members operate.”

 In the meantime, he says, the Department of Transport will investigate the granting of permits for black-taxis while the Department of Health has been instructed to undertake the deregulation of the Health Act of 1977.”

 MICK COLLINS
GOVERNMENT is prepared to review its refusal to accept a Competition Board (CB) recommendation four years ago calling for a dismantling of the liquor producer cartels.

This was confirmed by Economic Affairs and Technology Minister Danie Steyn in an exclusive interview with Business Day this week.

"If the decision is reversed it will reflect a significant shift in Cabinet attitudes until now government has refused to contemplate any action which might upset supporters in the Boland wine constituencies."

It has been unmoved by consumer anger over the concentration of power and lack of healthy competition in the producer segment of the liquor industry.

Now that the Liquor Act is being completely overhauled with a view to eliminating unnecessary red tape, simplifying licensing procedures and permitting easier entry to the industry by new participants, the climate appears conducive to taking another look at the CB's old recommendations.

Steyn, who has responsibility for orchestrating government's privatisation and deregulation promises, said there was no reason now why concentrated structures at the producer end of the liquor industry should not be looked at again — if a request was received from the private sector.

He said: "I have a completely open mind on the issue."

This makes a refreshing change from his predecessor, Dawie de Villiers, who spearheaded the Cabinet's rejection of the CB report in 1995 in response to appeals from the powerful wine lobby.

Hotel owners and liquor retailers have again recently been voicing strong criticism of the cartel which is permitted to exist in the guise of Cape Wine and Distillers (CWD) — a partnership between SA Breweries, Rembrandt and KWV.
Debt trauma for Ovgroup

SHAREHOLDERS agreed to sell Ovgroup's property and construction interests to a new company, Ovel, headed by Owenstone, for R23 million after new chairman Tony Bloom told them there was no other way Ovgroup and Ovi could survive.

Bloom said that without the sale Ovi's interest-bearing liabilities would total R121 million of which R72 million was in long-term borrowings, R36 million in short-term borrowings and R13 million in bank overdraft.

He said that if Ove resa debt was included, the total debt was R163 million of which R88.2 million was interest-bearing debt and the rest current business transaction debt.

"It was only because of the support they were receiving from the Premier Group, which held 49.6% of the shares, that Ovel and Ovi were holding a general meeting to consider the sale instead of "sitting at a creditors' meeting."

They could continue to exist only by selling off either their fishing or their property and construction interests.

Telling shareholders that they were "lucky that there is a company of the stature of Premier willing to take up the reins and steer them out of that mess", Bloom said there had been no full disclosure of the amount of assets to the board or to the balance sheet.

Oversea debt had not been consolidated with South African debt, to appear on the balance sheet even though some of it had appeared as a possible contingency.

Debt crept up on the Ovstone Group (Ovgroup) and Overstone Investments (Ovi) "like an anaconda from behind", former chairman Andrew Owenstone told about 200 shareholders and their representatives at a meeting at Cape Town yesterday.

Bloom said that since the sale was done, the gearing had been reduced to a "very considerably lower" level and no other buyer had shown any interest.

"He said he had tried to interest a building institution and another prospective buyer, without success."

Bloom disclosed that the Board of Executives had difficulty in the private placing of sales in Ovel, the company formed to take over the property and construction interests, and members of management were "brought in and topped up."

Discussing future prospects, Bloom said there was "still a good deal of cleaning up to be done and a long haul before the group is re-levered to reasonable profitability."

He thought that would take five or six years."

The trading operations themselves were in reasonable shape and those in South Africa would be strengthened by the acquisition of Southern Seas Fishing Enterprises (SSFE) for R15 million.

Premier had held 16% of this company for 10 years and the Dutch-controlled shareholders decided to sell in August last year.

Bloom said SSFE ended the 12 months to December with taxed profit of R1.6 million. The current value of its assets was far higher than the book value of R5.6 million.

The Owenstone fishing interests in South Africa were being budgeted for a reasonable profit in the current year provided quotas would be maintained. "The international supply group has a modern and well-equipped factory in an area where the resource is reasonable and well managed."

"Its profitability depends on, world fishmeal prices and, of course, the presence of fish."

"In a normal year profit should also be produced in Chile."

Bloom continued "Both in South Africa and Chile we have well-trained, experienced and competent line management."

"The group's problem, therefore, does not lie in the operational lines but in the level of borrowings which, even after the Ovel sale, is still too high."

"There is also an imbalance between domestic debt and foreign debt, the latter being preponderant."

"The offshore debt has been serviced from the Chilean cash flow and even if there are reasonable earnings shareholders must accept that dividends from Chile will probably not flow for five or six years."

"The available cash flow must be used to pay off the bank."

He said a rights offer might help to finance the acquisition of SSFE but could not be used to repay overseas borrowings.

"No one in their right mind would take up a rights offer knowing the cash flow would flow out of the country in financial mists."

"Bloom warned that a "significant" loss would be posted for the current financial year, no ordinary dividend will be paid and the group does not have sufficient distributable reserves to pay the preference dividend either."

"Net asset value could be below R10 per share by this year end."

Andrew Owenstone, who sat among shareholders, told them that as former chairman he accepted full responsibility.

Serious losses made by Premier Wine in Cape Town had been "the last straw for me" as to Bloom.

He had not consolidated overseas borrowings with those in South Africa because the debt statement had made this difficult.

The Chilean operation had been carried on "in a hostile environment with the world price of fishmeal dropping" and had become a matter of survival.

The sudden weakness of the rand meant that $10 million became R30 million."

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Cape looks at private beaches

Winnie Graham

Pressure is building in the Cape for beaches to be privatized, according to Captour chairman Mr. Louis Kramer.

"He said developers planning a project facing a beach were to be invited to apply for private beach rights — provided the beach was not a popular one such as those at Sea Point, Clifton or Muizenberg.

Private beaches — and in some cases pay beaches — are being discussed more since seaside lolliganism during the Christmas holidays.

Mr. John Bang of the Association of Southern African Travel Agents (ASATA) said yesterday the private sector was in a position, to make beach amenities available at all levels.

Beach privatization, he added, would stimulate tourism if inland people knew they were guaranteed a peaceful holiday and a choice of beach clubs or facilities.

"Those who wish to wear designer-bikinis, sip 'champers' and munch crayfish for lunch to the strains of Mozart in an Italian-tiled tavern should be entitled to exercise their option, just as should those wishing to brain wars on the beach."

Mr. Leon Louw, head of the Free Market Foundation, believed privatization could be the only peaceful solution to rowdism on the beaches. It was nonsense to state, he said, that all beaches belonged to the public — it was as absurd as thinking all mountains, rivers and waterfalls belonged to "the people."

"Do they belong equally to the people of Botswana, Lesotho and other land-locked nations? People have as much right to visit beaches as they do casinos."

"If beaches were to belong to anyone, it should be to the local community."

WEEKEND!

Young readers!

Win electronic typewriters, microcomputers and wildlife helicopter trips!

Pages 10/11
JOHANNESBURG—Kodak and Teltron Associates, Trimark Agencies, confirmed yesterday they expect to conclude a deal early next week whereby Trimark will acquire Kodak laboratories from Kodak’s disinvesting US parent.

Trimark chairman, Mr. Hymie Hochman, said reports of a possible deal were substantially correct but “unfortunately included some conjecture which is wide of the mark.”

The deal, which has been agreed in principle, comes after Eastman Kodak’s decision late last year to pull out of South Africa for political and economic reasons. Kodak said it hoped to have fully withdrawn by the end of June.

Kodak will not comment on reports that it has lost heavily on the sale of its operations because of its rush to withdraw and the piecemeal basis on which its operations are being sold. But a Teltron spokesman says these rumours are substantially true.

Trimark will take over Kodak’s nine colour laboratories in major centres countrywide. Teltron, part of the Premier stable, recently acquired a 60 per cent stake in Trimark Agencies.

Kodak’s head office building on Black River Parkway in Cape Town has been sold for R2.45 million. A large part of the building will be let as offices, said a spokesman for Brouwer and Associates, who negotiated the deal.

The buyer is a Cape Town businessman, who was represented in negotiations by Mr. Peter Cohn. The factory will be used for manufacturing.
Quality Tyres claims No. 4 in world spot

By Ruth Golembo

QUALITY Tyres has taken over its biggest retreading competitor, Trevor Holmes Tyres (Tyre Services).

Payment is 750 000 new shares and R57 000 cash.

The acquisition of Trevor Holmes Tyres' manufacturing division is retrospective to March 1986 and will boost Quality Tyres' 19.4c forecast earnings a share by 1c in the year to February 1987.

Quality Tyres was listed on the Johannesburg Stock Exchange's Development Capital Market last October through a public offer of 2.1 million shares at 90c each. The new shares at 165c will bring the number in issue to 8.75 million.

Second deal

This is Quality Tyres' second takeover in two months and has made it a retreading giant. It has 70% of the Reef's passenger-vehicle retread market.

It concluded a manufacture and supply agreement with another major competitor, Safe T Tyres, last month. In the year to February 1986, the acquisitions alone will boost forecast earnings a share by 68% — without taking any possible increase in the existing company into account.

The Safe T Tyres agreement is expected to increase earnings a share by 2.8c. The Trevor Holmes Tyres' acquisition together with rationalisation of manufacturing operations will lift earnings a share by 4.5c.

Chairman Alex Hawes says the takeover has made Quality Tyres the fourth-largest car retreader in the world.

The acquisition of Tyre Services' factory facilities will expand Quality Tyres' manufacturing plant eightfold and double its passenger-vehicle tyre retreading output from 1 000 to 2 000 tyres a day.

It will also double its truck-tyre production.

Mining

Besides unit-cost savings and the increased production facility brought about by the takeover, Mr Hawes says the deal has placed Quality Tyres in a position to enter the earthmoving retreading sector.

Quality Tyres' factory facilities were too small to allow it to move into the growing industrial-tyre market — an important sector because of the increasing use of trackless mining.

Quality Tyres retreads and supplies new tyres to retailers. It does not own any retailers.

Success

It operates through 40 independently owned Tyre Partner outlets with which it has distribution agreements.

Mr Hawes says: "We have a non-predatory view of the retail side of the industry. Part of our success is due to the separation of the manufacturing and retailing divisions."

Trevor Holmes Tyres managing director Trevor Holmes will join the board of Quality Tyres as an executive director. Its retail and property divisions have been sold back to the vendor with effect from February 1 this year.

Quality Tyres' shares started the week at 175c and put on 36c to 200c before slipping to 195c.
Bradlows rallies

By P. Tahl

Bradlows' Stores staged a recovery in the year to December 1988 and earned 110c a share. The dividend is 20c.

On a 22.5% increase in turnover, operating income jumped by 148.6% to more than R2-million after a loss of R155,000 in the previous year.

Finance costs dropped by more than 38% from R1.1-million to R0.6-million, the drop in interest rates more than offsetting the cost of financing higher sales.

Managing director Peter Jacobson says: 'On the basis of current trading we are confident that we will exceed last year's performance in turnover, earnings and dividend payment. We will also have a much healthier gearing ratio by the year-end.'

The past years' figures include an extraordinary payment of R178,000 for the restraint of trade. Directors Earnings a share would otherwise have been 120c.
SA Bias Holdings has acquired the option to buy up to 58.7% of the equity, or 2.65-million shares, of Dundee Industries, a previously financially troubled group, at 60c each from its controlling shareholders.

The option, which includes the right to buy 1.3-million convertible preference shares at 60c each, was struck at less than half of yesterday’s JSE closing price of 125c.

SA Bias, the lead financier to Dundee, paid no remuneration for the option, which expires on January 13, 1988, but has made available a financing package.

SA Bias MD Chris Seabrooke denies that any pressure was placed on Dundee’s controlling shareholders to grant the option on their shares at 60c each.

Seabrooke is seemingly excercising a fair degree of management control over Dundee.

At the same time Dundee says it will dispose of its current operations and that it has finalised a deal to acquire Houston Steel Merchants for R3m cash and 1.3-million shares at 60c each from a private consortium.

Dundee is to sell Tabak, a furniture manufacturer, and its property interests and is looking to list wholly-owned wholesale and retail motor spares distributor Jaqmar on the DCM.

The listing route, still to be decided, is expected to leave Dundee with no interest in Jaqmar.

Dundee’s sole interest will then be Houston Steel Merchants which Seabrooke says will fit snugly with SA Bias, which has steel interest through Merhold.

Hill Samuel, merchant bankers to the deal, says the acquisition of Houston will have the effect of reducing Dundee’s net worth a share to 30c from 41c.

Dundee’s directors say trading losses in the 10 months to December 1986 amounted to about R500 000 against a loss of R2,4m in the year to February 1986.

Seabrooke says the cleaning out exercise is not expected to reduce net worth a share and he is confident Dundee will trade profitably in 1987.
SA buyout as Foster Wheeler disinvests

ALAN SENDZUL

US CHEMICAL engineering firm Foster Wheeler Energy Corporation said yesterday its British affiliate company had disinvested from SA through a local management buyout.

The new company will be known as Foster Wheeler SA (FWSA) and the deal, which passed control of the UK-owned subsidiary into SA hands, was entirely funded by local money.

Foster Wheeler’s annual turnover is estimated at R50m. It has a staff of 300, all whom will retain their jobs.

The firm’s main asset — because of the nature of its business — is expertise. Contracting work covers oil refineries, petrochemical plants, pharmaceutical factories and other capital intense production plants.

FWSA said it would continue to honour existing contracts and preliminary design work on the Mossel Bay project will be unaffected by the change.

The new directors, all SA residents, are Bill Howe, Horst Filip and Brian Wedgewood, who will act as managing director.

In terms of the buyout, the sale, which is still subject to the approval of the SA authorities, cannot be quantified. It also prevents the foreign sellers from buying into the company at a later date.

No JSE listing is envisaged.
Southern Life gets 50% stake in AMA

Financial Staff

SOUTHERN LIFE has expanded into the field of medical aid by buying a 50% stake in Affiliated Medical Administrators (AMA), which administers an annual contribution income of more than R200m and has a membership of nearly 150 000 families.

The amount paid has not been disclosed and a spokesman said: "This is not a takeover but an investment which enables us to extend the range of services we can offer."

Medical aid societies administered by (AMA) include two public funds, Consolidated Employers' Medical Aid Society and Medical Expenses Distribution Society, both of which have been in the field for more than 23 years.

It also administers six large in-house medical aid funds for leading companies.

Affiliated Medical will continue to be managed by its co-founder Tony Leveton, who is both chairman and CE. Southern executive director Bill Haslam said the acquisition was of great strategic importance.

Arie van der Zwan, Southern Life GM human resources division, left, Tony Leveton, chairman of Affiliated Medical Administrators, seated, and Bill Haslam, executive director, pension division, Southern Life, at the signing ceremony.

"The Southern is very active in the employee benefit field and we were delighted to have the opportunity to add medical aid administration as a further service to offer to both existing and future clients."
Food service to provide jobs

The rapidly expanding food service and franchising sector will become a major employment generator in South Africa.

So says Mr David Acheson, director, Franchise Services Division within the UK member firm of international consultants Horwarth and Horwarth.

Mr Acheson was guest speaker at a franchising seminar organised by the Federated Hotel, Liquor and Catering Associations (Fedhans) in association with the franchising association.

"Franchising is the midwife of small business," Mr Acheson told the gathering. This was particularly relevant in South Africa where the growth of franchising is expected to be 25 percent per annum for the next few years.

The potential was enormous as South Africa was still under-franchised. The significance of this as a generator of employment should not be underestimated.

"Franchising takes people and provides them with basic usable income generating skills," he pointed out. For the entrepreneur on the other hand the industry offered a low cost entry into business ventures.

Ninety-five percent of franchised businesses succeeded compared with an 85 percent failure rate for unfranchised businesses.

Early profits could be expected for franchisees and returns of 15 to 16 percent were the norm. "However it takes time, money and effort," — Sapa
Safa looks at SA operators

There are about 300 organisations offering franchises in SA, and only about 75 are legitimate franchising opportunities, says the SA Franchising Association (Safa).

While only 40 of the legitimate franchising companies are Safa members, the association is hoping to bring all companies offering genuine franchise opportunities under its umbrella. In this way Safa hopes to stamp out fly-by-night companies taking advantage of the public's gullibility.

In SA there is no legislation covering franchising except for common law and the Trade Practices Act — and Safa is against any moves to introduce any.

There are two reasons for this. With moves to deregulate small business, government legislation introduced to control franchising would be swimming against the stream. The second motive for Safa opposing any more regulation is the example of what has occurred in the US, where franchising has become so expensive that it precludes entry by smaller entrepreneurs.

Instead, Safa favours taking different action. Association chairman and Global Franchising director, Mike Collins, says the media should accept only advertisements offering franchising opportunities from Safa-approved companies.

Collins says this was the practice for some months in SA, but it has unfortunately lapsed. He says this system works well in the UK.

Another method being investigated by the association is for it to take up cases where the public has been taken advantage of. The idea is not to take the case to court, but rather to publicise the situation.
Inside info may have led to Plascon share rise

Barlow Rand is seeking to buy the Plascon foods share which, in terms of the offer, Barlow Rand, itself, is required to exercise caution in their dealings with the shares of the offer, price of Rs 5.

However, someone seemed to have noticed this over the past two days to almost 5%.

This places a value on Rs 7.50 on the shares.
Fall in number of liquidations

Post Correspondent
JOHANNESBURG — Fewer firms are going under, according to the latest figures of the Central Statistical Service in Pretoria.

The landslide of companies going into liquidation slowed significantly between September to November last year when 663 firms were liquidated — a drop of 13.2% from the previous three months when 774 companies went to the wall.

Mr Jan de Jager, of the Federated Chamber of Industries, said fewer liquidations had been expected as "dead wood" companies closed down.

"In a recession the situation is one of survival of the fittest."

The figure of 663 is 58 more than for the September-November period in 1985, but from December, 1985, the number dropped to 388 liquidations.
KIRSH PROPERTIES

Second debut

Coreprop, the Tradegro property arm launched officially this week to administer some R300m worth of property, could apply for a JSE listing before year-end.

The portfolio contains 48 shopping centres, 17 Metro/Cashbuild outlets, 20 free-standing stores and a number of other properties. At a stroke, Coreprop thus becomes one of the larger real estate concerns in the country.

Almost all properties involved currently house the retail and wholesaling operations of the old Kirsh group, now held in Tradegro, which falls in turn under Sanlam-controlled Sankorp.

The new company, says CE George Skinner, administers centres hosting more than 1 000 tenants. These include 57 Checkers, Checkers Warehouse (hyper) and Jazz stores, two Dosen outlets and seven Joshua Doore centres.

Major outside tenants in the group include Edgars (two departmental stores), Ackermans (four) and Clicks (four).

Previously these centres were administered by the different trading divisions but the properties have now been consolidated in Coreprop to allow the Tradegro subsidiaries to concentrate on trading.

Of the space which Coreprop will now administer, only 260 000 m² is company-owned, with the balance of 360 000 m² under headlease from institutional owners.

Coreprop’s founding provides some insight into the property problems which caused much of the grief in the old Kirsh group. For example, contrary to popular belief, it was not the company-owned properties which caused most of the hassles, but the headleases.

Skinner explains that after entering into headleases over so much space, the group found itself in financial trouble after failing to let the balance of the line shops in order to reach the unrealistic targets set by the old trading division. Those rental levels were established under the headlease arrangement.

In addition, new centres were financed from working capital which led to cash-flow problems and a resultant overdraft at punitive rates.

Part of Skinner’s new strategy is to negotiate with the institutional owners and to encourage them to cede the headleases to Coreprop. The intention is to persuade the owners to exchange the headleases for equity in Coreprop with a guaranteed income and a chance to participate in equity growth.

This way, the institutions’ yields may drop slightly in the short term, but the equity option will provide longer-term growth.

Skinner sees this taking place the year after next, when Coreprop starts to turn to account the 13 undeveloped sites which will provide a massive 650 000 m² of development land. Already four new centres are in the planning stage, he says.

The sites to be developed next year, he says, are Epsom Downs (Sandelton), the Brooklyn Circle site (Pretoria), a site at Hillcrest (Durban) and another in Benoni. Total development cost will be R50m, with pre-financing coming from the institutions.

Skinner has been active in unscrambling the property portfolio for the past year and consolidating it under the Coreprop banner. He has assembled a team of experienced real estate professionals and set up a regional divisions actively to market and administer space.

Coreprop’s Skinner ... the bare bones of the problem

Already, he says, the team has been able to reduce the 30 000 m² of vacant space in Coreprop centres to 19 000 m² and he expects the overhang to fall further to around 15 000 m² by June.

Skinner cites one example of a Checkers-developed centre which cost the group heavily. Funds were borrowed on overdraft rather than long-term and as a result R6m was added to the cost of a R45m centre. However, he reckons the new team has now managed to turn the centre around to a point where it is no longer showing a negative return.

The gearing of the company at present, admits Skinner, is “very negative” because of the way this and similar developments were financed. However, he is currently trying to sell some wholly owned stock to institutions under a management arrangement and hopes in this way to reverse the situation.

Another problem was that the previous management had paid for land acquisitions out of working capital instead of taking options and raising long-term institutional funding before developing.

On average there are still 15 years to run on most headleases which were generally entered into on 20-year terms with renewal options.

Eleven of the headleases, he says, are highly unprofitable and are dragging down the whole portfolio. If this can be reversed — and Skinner is confident of a breakthrough soon — he is sure the group will return to profitability during the next financial year.

Most Checkers properties, however, are not housed in Coreprop developments — about 130 of the 182 outlets operate in centres owned by other developers.

Among the larger centres owned by Coreprop are the attractive Galleria in Sea Point, Game City in Durban and The Avenues at Springs. Skinner says more than 17 Coreprop centres contain more than 8 000 m² each. About half the properties are in the Transvaal with the remainder spread around the rest of the country.

FINANCIAL MAIL FEBRUARY 27 1987
Sage investment
Sage Properties has bought the 5 131 m² Standard Bank Library Gardens Building on the corner of President and Fraser streets, Johannesburg, for "more than" R4m.

The building is directly west of Sage Centre, from which it is separated by a pedestrian mall. Sage also owns Sage Life Centre to the north-east of Sage Centre, which means it now controls most of the two contiguous blocks surrounded by Simmonds, President, Sauer and Pritchard streets.

Not surprisingly, Sage Properties MD, Noel Mills sees the latest buy as a good one. Any building overlooking the Library Gardens must rank as well located, he reckons, because Johannesburg buildings with adjacent "green lungs" are comparatively rare.

The eight-floor building offers a 664 m² ground floor banking hall which will continue to be tenanted by Standard Bank along with a mezzanine floor of similar size. Stan-

Sage’s new acquisition ... one for the library

lard has just renewed a 15 year lease on the premises at an undisclosed rental.

Sage Life Centre was recently modernised and offers a rentable area of 13 700 m² over 13 floors. The adjacent Sage Centre has around 12 000 m² of rentable space.

Mills says application could well be made to link the parking in Sage Centre and Standard Library Gardens Building under the Fraser Street mall. This will not only increase parking, but will improve its marketability.

This will add to the existing parking in the area which includes the large municipal garage across the road and the bays beneath the library gardens.

The Standard Bank building offers a ratio of only 0,66 bays per 100 m² of rentable area against the more common four bays: 100 m² in most decentralised locations.

A decision on upgrading the latest acquisition still has to be made. Mills says the building is in "pretty good nick," but refurbishment seems likely nevertheless and there is no lack of confidence that customers will be found for the space.
they have dropped the requirement that vendors move on 25 m every hour or face prosecution and they are now prepared to licence vendors for static trading in specially demarcated areas.

According to Johannesburg Planning Director Cornelius Cronje the city now has four designated hawker trading pitches, the Hock Street Mall, Kaserne bus terminus, Faraday railway station and the New Doornfontein bus terminus. All are equipped with basic amenities such as tables, stools, refuse bins and shelters. Demand for trading positions has been such that more are likely to follow.

Progress in Durban has been slower. So far Durban has declared only one, unofficial, hawker trading site — between the Berea Road railway station and Russell Street. Chief Town Planner Garth Williamson says the hawkers' response is being monitored.

In effective deregulation, however, Natal could well be in front. The provincial ordinance governing street trading has been amended to allow any local authority to designate fixed hawker trading areas if they see a need.

A spokesman for Williamson's department says the approach has been calculatedly cautious. The idea is to have proper regulatory and administrative systems in place before additional areas, which have already been identified, are opened up to hawkers.

Another problem arises in fixing appropriate licence fees. Durban accepts that many of the smaller traders will remain marginal operators living a hand-to-mouth existence. For them the current R10 a year licence fee is probably appropriate.

But street trading operations in high profile locations and operated by offshoots of the formal business sector is another matter. Durban encourages such activity, especially around the Workshop shopping centre and along the beachfront.

Cape Town has got around the problem by charging kiosk vendors on its St George's Street mall what it considers are market-related rentals. The vendors, who are apparently prospering, seem quite happy to pay.

Durban will probably follow a similar policy of grading small business trading opportunities and attaching to them what it considers an appropriate licence/rental fee — if only to cover the cost and maintenance of the services it provides.

But arriving at an equitable charge for what is essentially unexplored commercial territory is proving a little more difficult than expected. Hence the incremental approach.

As one official says "A delicate balance has to be struck between arousing accusations of unfair competition from established traders and being equitable in developing opportunities for small business and job creation."
ISCOR chairman Flores Kotzee denied yesterday that privatisation was on the cards for the huge State steelmaker.

He added there was nothing untoward about his decision to relinquish his post from May 31.

"To my knowledge, the change of chairmanship has got nothing to do with privatisation. I am not anti-privatisation.

"There was no specific reason as to why I decided to step down. I'm on record as saying privatisation is a matter for the shareholders of Iscor."

He said the management of Iscor had never taken part in discussions concerning handing over to the private sector.

"There have never been any talks about privatisation. The way Iscor is managed, privatisation wouldn't make any difference to its management team."

Kotzee said he would continue to hold the chairmanships of Dorbly and Usco along with his other directorships. "I've still got plenty to keep me occupied. There comes a time when you say it's time to do something about your lifestyle. I have been overloaded. It was time to shed at least one job."

Commenting on depressed conditions in the international steel market, Kotzee said the growth of steelmaking in developing countries had had a major impact. "Korea, Taiwan and countries in South America which were buyers are now sellers on the market."
"H.I.P. continues to stay in South Africa, it will continue to pay a 10% dividend and will continue to support the apartheid system," he said. "We need to move towards freedom and a better life for the black people in South Africa."
New-look
Unidev aims
for R4.9m

HAVING switched from property to investment banking, new-look Unidev has set its sights on increased profits.

Unidev forecasts in its latest listing statement that its profit for the year to December 1997 will be R4.9-million.

At 12:00 a share, the company is valued by the Johannesburg Stock Exchange at R5.3-million — 10 times prospective earnings.

The new direction comes after the company was taken over by a consortium of businessmen. They are former Springbank supermarket Geoff Grylls, auditor Steve Phelps, former Retco man Benny Rohwer and former Unsec chairman Barry Rabinowitz. The consortium bought 42% of the Unidev cash. Shell for R5.6-million from Unsec, which is now controlled by Standard Bank Investment Corporation.

Thrust
Unidev's main thrust in the future will be through wholly owned Venture Capital Holdings (VCH), which has invested in health care, electronics and management services.

By Ruth Golembro

The VCH acquisition increased the number of shares in the company to 86 million.

Unidev expects a 50% increase in earnings per share for the year to December 1997.

Unidev plans to sell its remaining property assets.

It intends to use the cash from the sale of its properties for investment in private and unlisted companies.

Long-term plans are to list the companies separately.

Unidev owns Medico, which specialises in developing low-cost, cost-effective clinics in which doctors and specialists have a stake. It also owns the Kemworth neurological clinic in Cape Town.

Another company in the group is Conracap, which provides pest-control services to hospitals and hotels.

It also owns 25% of IPK Electronics, a Stellenbosch manufacturer of computer components, and corporate financial services companies Questor IV and Equitor.

Questor provides financial services relating to mergers, acquisitions and new listings.
We’re big enough to go it alone

Wiese shuns Pepkor marriage proposals

By Hellosie Truswell

PEPKOR’S chief executive, 45-year-old Christo Wiese, sets the record straight on why Wooltru-Pepkor merger initiatives were derailed. But he says Pepkor is not looking for a bedmate.

Pepkor and its listed subsidiaries will go it alone.

"If I did not think group performance and bottom line profits would improve substantially I would have sold to Wooltru," Wiese says.

"The merger talks lasted because there was a difference in approach. We disagreed fundamentally on the strategy of the merger. He stresses that the cultures of Wooltru and Pepkor are diverse.

"Our point was that the deal could be put together only as a true merger. One would have had a holding company with retail investments. Each retail operation would operate in its own environment and aligned to its own set of rules.

"Wooltru moved more towards a takeover of Pepkor. We made it clear that as long as Pepkor was connected Pepkor was not for sale. It is a business well placed in the SA of today and tomorrow.

R150m profit

Mr Wiese believes the merger would have resulted in pre-tax profit of R150m in its first year.

"The clothing retail group could have spanned the spectrum of the SA clothing market. The strength would have been the sheer size of the operation."

"Added benefits would have included an element of protection from the fact that one would be operating in many markets.

"One of the synergistic benefits in a merger would have been combined buying power in terms of base fabrics. For instance, rationalisation benefits would have extended to more cost-efficient use of computer programmes and point-of-sale terminals."

"These would have been increased use of Pepkor’s manufacturing capacity. However, Mr Wiese says manufacturing capacity is fully used. We are not looking for off-take of our products from other sources.

"Pepkor’s 12-month record over the past two to three years and its high gearing have combined to undermine investor confidence."

"A merger means Mr Wiese would have brought Pepkor and Pep Stores share prices more in line with the underlying value of the shares.

"But one would have had to assess whether the growth prospects in Wooltru were as good as our own. In terms of size Pepkor has earnings, greater than Wooltru. Pep Stores has an impressive five-year record in terms of sales and profit."

Stellenbosch

Mr Wiese who cut his teeth in the Pepkor stable after completing his LLB degree at Stellenbosch University, says: "We are looking for a handsome return to profitability in the coming year. This financial year has been used to set the restructuring of the group in motion. We were not concentrating too much on the income statement."

"The current year’s statements are due in May.

"Pepkor’s R164-million loss in the past year necessitated a rethink about corporate strategy.

"We have sold businesses, closed businesses, staggered them down. We have listed a few star performers. We will have more listings."

"The next listing should be Budget Footwear the Durban shoe manufacturer with an annual turnover of more than R100-million and net profits of R4-million."

"Mr Wiese points to other “perfectly sensible companies”, such as Triton Textiles and Cravatier Tie Company.

"He stresses the nature of Pepkor will change when the listings are concluded.

"Until now Pepkor was a holding company of listed companies. Each will be structured on its own. And one looks at gearing in Pepkor one will judge its gearing on the basis of being a holding company of listed subsidiaries, with a conservative debt/equity ratio objective.

"Pep Stores will expand its trading area by 1% to 2% a year in the next five years.

"That and in spite of this 2% productivity a square metre are the things that would not necessarily need new stores."

Undervalued

Mr Wiese believes that both Pepkor and Pep Stores shares are undervalued.

"One simple way to look at the PE ratio of Pep Stores relative to those of other clothing retailers. Even bearing in mind that Pepkor has an advantageous tax rate. I believe the share price is on the low side."

"A realistic price he believes would be R11 or R12.

"You have to start making the numbers. At R11 a share the total market capitalisation of Pepkor is more than R1000-million. Pepkor owns 70% of Pep Stores. Multiply that and you get R1450-million. Total borrowings of Pepkor would be R110 million to R140-million. That leaves you with net assets of about R40-million."

"Divide that by 8.4-million shares and you get nearly R11 a share. In addition you have all the other Pepkor assets tested in for nothing. The book value of those assets is R200-million."

"Mr Wiese is philosophical about the share price — “I think investors are asking if we can get our act together.”"

"He adds: “They are not certain that we can get rid of all the dogs in our stable or turn them around without leaving our earnings in the next couple of years."

"They also say our gearing is too high and therefore we are a fairly high-risk company. The 50% discount on our shares is because of these uncertainties. On our performance in the next financial year the shareholder can make his own valuation.”
Dorbyl's Atlantis plant sold to IDC

JOHANNESBURG — Dorbyl Automotive Products (DAP) has sold its Atlantis-based forging plant to the Industrial Development Corporation for an undisclosed sum, effective from March 1, the company announced yesterday.

The Dorbyl Atlantis Forge, which from now on will be managed by Atlantis Diesel Engines on behalf of the IDC, manufactures crankshafts and camshafts for ADE

In a joint statement, issued in Johannesburg yesterday, Mike Smithyman, chairman of DAP, and Hartmut Beckurts, MD of ADE, said that the transaction was part of the rationalization programmes of their companies.

Smithyman said, "This transaction will not affect the status of our Uitenhage forging plant, which will remain in the DAP family as it services the general automotive and industrial markets.

"We feel, therefore, that it makes good business sense to concentrate our management effort in Uitenhage and to transfer the specialized Atlantis Forge to ADE," Smithyman said.

Beckurts stated that all employees at the Atlantis forging plant would be joining ADEnow.

"No one will lose his or her job as a result of this move," Beckurts said. — Sapa
Norton & Co., Williams will move basic Sullivan code principles. The untestamentary Trustee, as well as in reference to the
honoured, as well as an adherence to the Metal & Allied Workers' Union would be
keep their jobs. Agreements with the Party said all staff at Norton would
Pears 500 staff.

By virtue of a distribution licensing agreement, Norton will continue to provide technical
in terms of the agreement, the foreign
its share in the SA abrasives market
September.

compared with 50% for the year to last
agreement would significantly increase

Norton abrasives in SA generated only

ALAN SENGUZ

Norton Sells SA Subsidiary for R115m

US Abrasives' Grant Norton yesterday

$100m in sales, and possibly as above.

Ceramic, said. "Socialist pressure in the US and the
Norton's US chairman Donald Neve said.
back arrangement for the parent.

The deal, which now makes Ceramic

(Chromine)

Global Mining & Industrial Corporation sold off its SA subsidiary for R14.4m to

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Miltons and Stans in merger

GERALD PROSALENIDIS

COLUMBIA Consultants yesterday announced the merging of two of its clients, Miltons and Stans:

It said the two retailers of consumer electronic equipment had merged for the purpose of seeking a JSE listing within six months.

Columbia, which has shown formidable growth since its listing last year, will acquire an initial 33% stake in the new company, Milstan Holdings Ltd, Columbia's CE Gordon Polovin said in a press release.

Once listed, Columbia's holding will fall to 25%. The deal is conditional on listing, but will take effect this month. Miltons and Stans will retain their separate trading identities.

The release said the development would boost Columbia's 1993 earnings a share by 34c to 28c, but will not immediately affect its current net asset value or earnings a share.

Milston's net assets will be more than R5m and the group is forecasting pre-tax profits of R5m on a R60m turnover to the end of March 1994, the release said.

Columbia will issue 1 million shares at 50c a share for the 33% stake in Milston.

Columbia recently announced it had acquired 26% stake in the merged Punchline Columbia Education, 50% in industrial marketing company Toco; 70% in National Paper Industries which will be raised to 86% after listing on the JSE; 61% of Swift Foods and also announced the merger of Columbia Travel with Concorde-Topflite Travel.

See Page 7
Woolley gets control of Makito for R43.3m

...
Chance to own Coke

By LEN MASEKO

COKE customers in South Africa are to be offered shares formerly held by the Coca-Cola Export Corporation, which has disinvested.

The multinational company’s 30 percent stake in Amalgamated Beverage Industries (ABI) has been sold, and thousands of Coke customers and ABI staff will be offered some of the shares.

The 30 million, two-phase deal was announced yesterday by the SA Breweries, Cadbury Schweppes and National Beverage Services—a local company formed last year to service local Coca-Cola bottlers.

The deal means that SAB will now own 70 percent ABI shares, Cadbury (19 percent) and the remaining 11 percent will be offered to customers and staff. A total of R10 million of the 11 percent stake will be offered to about 8 000 small ABI customers while R1 million will be offered to about 3 500 ABI employees.

Details of the share scheme are still to be worked out and will be announced later.

Mr Fred Meyer, former head of Coca-Cola’s South African operations, said most ABI customers were black small traders who could now own the company.

ABI bottles and distributes more than 40 million cases of soft drinks a year, worth about R440 million. It employs more than 3 000 people.
CAPE CLOTHING

Apart at the seams

For many years the Ronald Sassoon (RS) label on jeans' pockets has adorned SA's fashionable backsides. So the provisional liquidation last week of the high-profile high-fashion Cape Town-based clothing manufacturer dealt fashion trends a serious blow.

RS has a bond with Replin for R2.4m and originally went into judicial management on February 10 because of liquidity problems. However, although the high cost of raw materials is a major reason for the company's difficulties, market talk is that Sassoon's attention has been elsewhere. Plant in Mauritius or Israel is one rumour.

Although Ronald Sassoon has not been actively involved for the past 18 months in the company which bears his name, he does still own 76% of RS's issued share capital and remains as non-executive director. His brother's company, Alan Sassoon Investments, is the other shareholder.

Now negotiations are well under way with more than one interested party to dispose of the business. A deal is likely to be signed this week.

"There is absolutely no prospect of Replin losing money through RS," says Stephen Gore, an RS provisional liquidator and a director of Sanic Cape. Another source maintains "The company is actually solvent, assets exceed liabilities and it has substantial outstanding orders."

Gore says the rag trade has held up reasonably well over the last year considering the economic circumstances. "But liquidations are definitely rising once again in the Cape where there has been an increase in liquidations and insolventcies in the last few weeks."

Women's fashion house Treasures, also placed in liquidation last week with debt of R1.4m, is another Cape clothing trade casualty.

And Richard Wystyn's Newname clothing company, liquidated late last year with total liabilities of over R10m, was another. But Wystyn, who has been associated with a number of successes as well as failures, is making a characteristic comeback. He is currently making an offer for the restructured company and is back in business.
CEMENT CARTEL

Ready to crack?

The Competition Board's crackdown has done much to root out collusion and cartels. But this hasn't stopped many industries from pleading for exemption on the grounds that they are special cases.

Prominent among them is the cement industry, which has been given until May 2, 1988, to introduce an element of greater competition. Producers reckon that by then they will be in a position to do so. But they are nevertheless casting anxious glances at the US where a price war has closed plants and left the country increasingly reliant on imports.

Competition Board director Nite Vermuelen says it's impossible to say what aspects of the cartel will be abandoned. The marketing and distribution ring was allowed to continue, he says, because it produced some benefits. "The total infrastructure of the industry was built around the cartel and it would have been impossible to pull down the marketing structure," he tells the FM.

The industry is controlled by three companies, Pretoria Portland Cement (PPC) with a 45% share of the market, Anglo-Alpha with 35% and Blue Circle with 20%. With all of them producing better financial results, speculation has turned to the future of the cartel.

Surprisingly, members of the Free Market Foundation support the controls on distribution. Explains administrative director Basto Davie: "There's no restriction on entry into the market and there's nothing to prevent imports. If cement prices were being kept artificially high Anglo American and Iscor, which both have substantial limestone deposits, could enter the market.

SA currently sells cement at about US$40/t, which is a little more than half the price paid in Australia and considerably less than the price demanded by major producers in the US, Spain and Canada. But critics argue that local production costs are a fraction of those of the rest of the world.

The industry says that as distribution is centralised through Cement Distributors SA (CDSA), customers can buy cement — although at fixed costs — from the nearest plant. This saves on transport and allows better forecasting of building costs.

The demise of the CDSA would mean that services carried out centrally, such as the computer system, credit management and invoicing, would have to be duplicated by individual companies.

Some major cement consumers, surprisingly, also support the cartel. A spokesman for Murray & Roberts says the cartel has ensured adequate capacity. "We have avoided the position which has arisen in the brick industry, for example, where price control has led to shortages."

But, he says, the cartel is open to abuse and only the "good behaviour" of the manufacturers has prevented massive price manipulation.

The critical state of the construction industry has left manufacturers largely unscathed. Anglo-Alpha Deputy MD Ronne Searle says there's been a substantial decline in sales of ready-mixed concrete and stone aggregates, but cement has been stable. "We have a wide range of customers and it's unlikely that construction, public works and mining would all collapse at the same time."

He says the cement cartel has turned the industry into a low-risk, low-return enterprise. "This has made us acceptable to investors. If we had a price war and went the route of the fertiliser industry then we wouldn't exactly woo the banks."

But, even so, the industry has been over-optimistic on forecasts of demand. It has a potential production of 11.9 Mt but it's now working at 60% capacity.

Further, industry watchers point out that although Blue Circle's earnings per share increased from 14.7c in 1985 to 72.6c in 1986 this is still some way off the 1981 peak of 114.5c.

PPC's 600 000 t Dwaalboom plant, commissioned in June 1985, has been mothballed since completion. Blue Circle opened a 1.1 Mt extension to its Lichtenburg plant in the same month, but it has operated intermittently and four of the six kilns are not being used.

Manufacturers thus argue that the position would be much worse without the cartel — but it seems they will have to come up with more convincing arguments if their cartel is to remain intact.
Taking a croc by the tail

Premier's stake in Ovestone seems to have been taken for strategic reasons involving competition with rival Tiger. But the sorry tale of mounting debt was only uncovered much later by Tony Bloom. The intricacies of what occurred have yet to be finally sorted out — and many questions remain.

the state of the South African and Namibian fishing industries. Fishmeal factory ships were introduced in 1968 in Namibia and by 1972 had to be withdrawn since the fish resource had “collapsed,” as stockbrokers Mathison and Hollidge put it in a report on the fishing industry “Exploitation pressure was intense during the years 1974-1977 . . . peladinho quotas were curtailed substantially in 1978 and 1979 but by the close of the 1980 season it was clear that the SWA pelagic stock was under extreme threat.” From 1982 until 1985 catches of peladinho were subject to strict control. The pattern in South African waters was similar, but with an inexplicable record catch in 1976. In an effort to reduce vulnerability to the vagaries of the local fishing catch, a number of fishing companies invested in Chile. With international fishmeal prices peaking at US$300/t and falling to $280/t, profits earned on these investments declined and almost all South African companies pulled out of Chile, but Ovilo, which had invested in 1979, remained.

Ovilo’s attempts to diversify continued with investments in property and construction, and by 1981 these non-fishing interests contributed more than half group profit. Income from property and construction operations peaked in 1984, in 1985 taxed profit fell from R5.6m to R1.2m and, for the first half of 1986, amounted to only R238 000.

The market did go against Ovilo — but other traded fishing companies succeeded in coping with difficult periods. What is interesting is the timing of the Ovestone family’s sellout to Premier. Soon after the 56% collapse of earnings in 1979, Premier acquired 50% of Ovilo’s unlisted holding company, Ovestone Consolidated Investments (OCI) EPS improved between 1981 and 1984, when they reached 12.3c, and the Ovestones then sold the remaining 50% of OCI to Premier before EPS dropped in 1985 to 9.7c. In return for relinquishing their stake, the Ovestones were paid R5.2m, or an effective 73c an Ovilo share. This week the Ovilo share market price stood at 27c.

Throughout this period the Ovestone family continued to manage Ovilo. According to former CEO Gordon Utton, “It was their business originally and one we were not completely at fault with. There was obviously an element of trust there, as we bought the remaining half of the holding company SA in a very bad period and most companies were having a difficult time.”

Bloom did start querying the level of debt and insisted that assets be sold to reduce borrowings. In 1975 debt/equity had reached 107%, but had only fallen below 70% over the period to 68% in 1980 — after R9m was raised via a rights issue. This increased issued shares 3.3 times and was supposed to finance the Chilean operation. Yet the debt shown in the Ovilo balance sheet mounted from R26m in 1979 to R53m in 1986, when debt/equity hit 90%. What is more frightening was that this did not include the total overseas debt — we now know that inclusion of this figure would have raised borrowings to R121.3m.

According to Bloom, when it was suggested that loans be raised overseas to finance the Ovilo operation, the board insisted that assets be sold in SA to offset the loans, but this was not done. The fact that foreign investors were not consolidated meant that shareholders did not know the full

Crashing down

Net asset value per share

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FINANCIAL MAIL, MARCH 6, 1987

CAESAR.1987.03.06.030.01
Meanwhile, the South African operation was having its own problems. Another non-fishing subsidiary, Premier Wire, which contributed R1,1m in interest in 1985, in March 1986 had to write off R600 000 from its previous year's stock figure. By August, its contribution before interest was reportedly down to R600 000. After further investigation, an amount of R3,5m had to be written off relating to the previous year, which put Bloom on notice. He states that from 1984 (when Premier became controlling shareholder), various assets, including several properties, were sold to alleviate debt. Budgeted borrowings were forecast to be reduced to R27m by February 1986, instead they reached R52m.

The legal battle over the offshore loans — which were also the subject of Bloom's complaint — was not considered sufficient to make the company a subsidiary, but the existence of a put, which meant that the owner could at any time force Oil to buy all the shares of the Jersey company, changed the picture. If Premier bought the Jersey shares it would wholly own all the foreign assets. The put meant — in Premier's view — that the onshore owner would have been a nominee and the company would be an effective subsidiary, whose accounts should be consolidated.

Owenstone contends that there was no written agreement against the company that I had given an undertaking to find another investor to invest in the company should that investor want out. But Owenstone, despite his assumption of personal responsibility, was surely acting as chairman of Oil, which had financed the overseas investment. As one company's owner, its nominal capital, it was Oil's funds which were on the line. In these circumstances, it is a moot point whether or not a chairman of a company can exercise such a put option in his own name and not be caught in a conflict of interest.

Why did Owenstone not reveal the existence of the put until late last year, if it were of no importance? It seems, to say the least, a complicated way of doing things. For that matter, the Owenstone method frequently seems complicated. The group has no less than 27 overseas companies, which Utan says will be reduced to 10. Some of the boats operating in Chile are owned by separate companies, each of which has a holding company, and there are also two holding companies in Bermuda. Given SA's present international problems, were 25 companies necessary — and why?

Owenstone maintains that there is no question of "wilful non-disclosure" and says that "I had drawn attention to the loans many times, but the international division is in two compartments so the loans were in different compartments of the accounts. The directors did not add the compartments up. In the annual accounts our policy was to disclose the liabilities guaranteed in SA. The figure was low because the foreign assets would have covered the balance of the loans."

Deducting assets from loans is certainly an unusual accounting procedure, and gives no indication of the overseas gearing. It seems to us that total liabilities must exceed assets if there were still liabilities to bring into the Oil accounts after assets had been deducted. But why did it take Premier's representatives so long to raise these matters? Premier became the controlling shareholder in 1984, but the investigation was only launched in 1986. Utan says that "I'm not going to leave a company chairman to leave."

There was no strict management contract but Owenstone's removal impossible. Quite simply, it seems that Premier's top management just took a long time to wake up.

One must also wonder why Premier saddled itself with Oil in the first place. According to Utan, it seemed at the time that a major portion of the local fishing resources would be tied up by arch-rival Tiger Oats. The Oil acquisition was seen as a strategic investment. "Then the resource decreased sharply and all the fishing companies went overseas," says Utan.

Premier has probably stayed with Oil for strategic reasons, so as to keep an investment in the fishing industry. Doubtless it could eventually find a use for some overseas companies, especially with $31m in foreign assets. The Chilean debt should be halved within five years and will be financed by the overseas operations, so it will not act as a drag on Oil. Says Bloom: "Profitability will depend upon world fishmeal prices, but dividends from Chile will probably not flow for five or six years."

With the local operations, there is a problem of funding. Oil has taken tremendous write-offs and the building and construction interests have been sold to Obvel for R23m, but this only reduces debt. After write-downs and property sales, premier became controlling shareholder in 1984, but the investigation was only launched in 1986. Utan says that "I'm not going to leave a company chairman to leave."

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shareholders' funds had shrunk to R18.8m against total borrowings of R88.2m, of which R60m ($26m now consolidated) relates to foreign companies and therefore must be sensitive to currency fluctuations. Declines in the rand could be ominous as far as borrowings are concerned, even though these loans are covered by stocks and debtors to the tune of $5m. And there is still the recent acquisition of Southern Sea Fishing Enterprises (SSFE) to be financed.

Premier's acquisition of SSFE last year was partly to buy management described by Bloom as "very experienced" in the fishing industry, and, as may have been intended from the start, SSFE management has been installed in Oil. It is highly probable that Oil's other non-fishing interests will be sold and other financing packages are being investigated. A rights issue is not expected, as Premier would effectively be converting loans owed to it or its bankers into equity, as virtually no one would take up their rights.

Premier's Utian... 'an element of trust'

In addition the funds are really needed overseas. Prospects are gloomy for at least two years, according to Bloom "A significant loss will be posted for the current financial year. Next year is more promising from an earnings viewpoint, but a significant portion of anticipated earnings (in Chile) are not available for dividend purposes," he says.

The fact remains that Premier had to speak to Oil's bankers to stop them calling in their loans and, as Bloom put it, "Oil cannot possibly survive without Premier's support."

As for the Overstones, they sold out to Premier for R8.2m. Ovibel, to be managed by the Overstones (see Property) has been formed and has bought Oil's property interests for R23m. The public supplied 70% of the capital and management (the Overstones and managers of the subsidiary companies) supplied only the other 30%. The net worth of Oil, meanwhile, has collapsed from R38.4m a year ago to an anticipated level of less than R4.9m, with borrowings of R88m. Ovibel plans to list Ovibel in 1988, when shareholders will have another opportunity to enjoy the benefit of its management.
Woodlinton's David Smith said the acquisition will not have any negative effect on Woodlinton, but will bring a "significant" boost to the company. "The acquisition will continue to operate," he said. "We will continue to operate." The acquisition of Makro will increase the company's market share, he said. "We will continue to operate," he said. "We will continue to operate." The acquisition of Makro will increase the company's market share, he said. "We will continue to operate," he said. "We will continue to operate." The acquisition of Makro will increase the company's market share, he said. "We will continue to operate," he said. "We will continue to operate." The acquisition of Makro will increase the company's market share, he said. "We will continue to operate," he said. "We will continue to operate."
Consortium buys Sassoon for R1m

By JANE ARBOUS

RONALD SASSOON, a Cape Town-based clothing manufacturer and one of SA’s most fashionable labels, was sold for R1m this week after its provisional liquidation.

The 15-year-old company has been bought by a consortium headed by Cape Town businessman Eli Gottschalk. He said yesterday “I would hate to see the Sassoon name end. It’s an exciting investment.”

Sassoon is the latest in a spate of local liquidations and insolventcies this year, involving mainly small and medium-size companies. Also placed in provisional liquidation last week was women’s fashion house Treasures, with debt of R1,4m.

High cost of raw materials

Soon after a corporate restructure, Sassoon went into provisional judicial management on February 10 because of cash-flow problems, with the high cost of raw materials a major reason for difficulties.

About 300 employees — three-quarters of its staff — were retrenched. Negotiations began immediately to dispose of the business. According to one of the provisional liquidators, Simon Gore of Sanec Cape, the deal was concluded at “a fair price in the circumstances”.

Ronald Sassoon owned 70% of the equity, although he had not been actively involved in the running of the business for 18 months, while his brother’s company, Alan Sassoon Investments, was the other shareholder.
ASSOCOM and the Federated Chamber of Industries (FCI) are under pressure to reopen merger talks. Officials of both organisations confirm talks are likely, following the resignation of FCI CEO Johan van Zyl, disclosure of a report critical of management, and news that the FCI is laying off staff as an austerity measure.

Van Zyl has been a leading opponent of a merger, partly on the basis that he believes the FCI and Assocom have different roles to play. A senior FCI source said yesterday, "The fact that he is leaving makes it easier to talk and therefore more likely." Assocom is keen for talks to get under way as soon as possible. However, opponents of a merger say this is because the association wants effective control of the merged body, and could best achieve this with the FCI in its weakened state.

The FCI source said talks should wait until the immediate after-effects of the FCI's rationalisation wore off. He said many employees were "jittery and angry" at the suddenness of the move, and early talks might be interpreted as a takeover bid by Assocom.

Announcement of the retrenchments and Van Zyl's resignation come days after the FCI's management board was presented with a report on the chamber of industries movement by management consultancy Pim Goldby.

One source said the report was damning of the movement's leadership. Van Zyl — who said his resignation was not linked to latest developments — said the report was "critical but not damning".

The last time Assocom and FCI seriously considered a merger was in 1982.
R5,4m profit for Messina

JOHANNESBURG. — Messina has produced a dramatic turnaround in the year to December, with taxed profits of R5,4m compared with a loss of R43,96m in the previous year.

In so doing, the mining/industrial group has surpassed the year's tough target of breaking even, set by managing director Terry Buchans, it is reported.

Preliminary results show turnover for the year of R218,8m — 3,4% higher than in 1985.

Rationalization, which began in 1985, saw major shareholder Sanlam take over the Magnis and Nissan motor operations.

Rescue operation

The rescue operation mounted by Buchans, who took the reins in mid-1985, included sales of unprofitable assets and streamlining of operations.

Another feature of restructuring was a deal with the bankers to convert about 40% of short-term borrowing into redeemable preference shares and long-term loans. The group agreed not to pay dividends in 1986 and requires the bankers' permission for payments in the next three years.

The major activities for the trimmed operation are the Messina Copper Mine (which after more than 80 years of production is still profitable) diamond and anthracite interests, and Premier Metal, which produces and markets heavy earth-moving machinery and materials-handling equipment. — Sapa
Lifegro sends JSE a message

By David Carre

LIFEGRO, South Africa's fifth-largest life assurer, replied to shareholder neglect in its first year on the Johannesburg Stock Exchange with scintillating results this week.

The share has gone sideways ever since controversy over the preferential allocation of too cheap shares to directors, staff and friends of the company in the listing.

**Premiums**

The rating was not improved by a management shake-up in which executive chairman Desmond Krogh moved out and Volkskas brought in commercial banker Tony Laubscher over the heads of assurance men as chief executive.

Lifegro disclosed earnings growth of nearly 30%, a dividend increase of 25% and asset growth of 53% in the year to December. Assets rocketed by R560-million to R1,7-billion.

Thanks to an 83% rise in new yearly premiums, the guarantee income soared 72% to R68,7-million. Investment income — interest and dividends and excluding capital gains — rose by a modest 17% to R301,5-million. With the ordinary share fund yielding 50%, Lifegro claims it beat the market hands down.

Mr Laubscher is confident earnings and dividends will continue to outstrip inflation.

Life companies enjoy considerable discretion indeclaring earnings. Judging by modest declared 3% annual income growth, Lifegro has been very cautious because the market is so high.

Mr Laubscher may be optimistic, but he is far from complacent.

He has spent his first year in getting administration and sales right, cutting the expense ratio from 18.3% to a still-high 15.6%.

Unlike most life men, he is happy to acknowledge shortcomings in Lifegro's product range.

Mr Laubscher says: "We were innovative in universal products, but our competitors caught up. They drove hard to win market share. We had problems on the agency side, so we spent time on improving the size and the quality of field force.

"We have 480 agents in the field compared with 512 before and the quality has improved. We are also going for better-quality business, aiming at the R30,000 and over bracket where lapse ratios are lower."

Lifegro agrees that it lags behind in the crucial computer area and this year will spend R116-million on rectifying the matter.

Lifegro employed PIA Consultants of the UK, the management consultancy that has been helping Volkskas for some years.

**Shortcomings**

"Together with them, we have identified our strengths. Our medium size gives us a flexibility. We have a young management team and we can be highly innovative. We are more manoeuvrable than our bigger rivals.

"We are considering several earnings sweeteners, such as a unit trust management company. We would also like to manage private portfolios and to get into trust administration."

"Only a few years ago, Legal & General was true blue British. Now Hemgro and Volkskas have control and the board is overwhelmingly Afrikaans. Ken Whyte is the only English speaker on the board.

"But English remains the in-company language and three of the top six executives are English-speaking. The Afrikaners are bilingual."

Mr Laubscher says: "We are not trying to change from an English to an Afrikaans culture, merely trying to develop a South African culture."

Hemgro has a stake in Sage Holdings and speculation has been rife that Sage Life and Lifegro might be brought together.

Mr Laubscher says: "It is an interesting thought but Sage Life and National Mutual have merged. It will take time for that to shake down."

At 30c a share, Lifegro is 15 times earnings compared with Liberty's multiple of 20. Lifegro's dividend yield is 4.2% and Liberty's 2.4%.

Southern is 19.8 times earnings and yields 3.3%, suggesting there is considerable potential for Lifegro to catch up.
Competition discussions

Woolworth and MacKinnon consented to certain practices, including the sale of goods at a price above the wholesale price, in accordance with the Competition Act, 1977. The Competition Board noted that the proposed arrangements might cause an increase in competition to the extent that they would not lead to an increase in the wholesale price of goods. The Board also noted that the proposed arrangements might affect the retail trade, particularly in the wholesale and retail trade sector.

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A sudden interest in monopolies

The CP scoff at 'election tactics'. The Progs welcome the move. But what exactly is meant by investigating concentration?

DUNCAN INNES reports

THE government's decision last December to investigate the high level of concentration in the financial sector has suddenly become an election issue of sorts, with the Conservative Party accusing the government of using the investigation as an election ploy.

Party national secretary Frans van Staden said: "The government has allowed monopolies to develop without interfering. Now suddenly, just before the election, and with all the bankruptcies, they want to give the impression they are against monopolies."

Not so, replied Danie Steyn, minister of Economic Affairs and Technology, insisting the investigation was a response to "disinvestment".

"With disinvestment there are bound to be buy-outs, and after Anglo's takeover of Barclays last year we need a clear pattern as to how that should be handled in future."

However, Steyn's argument that it was Anglo's takeover of Barclays which led to the investigation does not accord with the position adopted by Steph Naudé, chairman of the Competition Board, which will be conducting the investigation.

According to Naudé, the investigation had been planned since 1984.

Van Staden notes that the Conservative Party "has always been against big monopolies" and it does seem that there is some truth in his claim that the government's sudden concern with monopolies is related to the forthcoming election.

This is partly due to the link which is currently being established between monopolies or cartels and many prices.

Whatever the government's reasons for setting up the investigation, it seems such a move is to be welcomed. However, whether it will lead to any significant improvement in our economy is open to question. For one thing, the Competition Board has not exactly proved itself, the champion of the little guy.

But, more importantly, there seems to be very little clarity about how best to deal with the problems of massive monopolies in our society. With South Africa's big four corporations — Anglo American, Sanlam, SA Mutual and Rembrandt — now in control of 83 per cent of the shares on the JSE, more and more people seem to be coming round to the view that the concentration of economic power has reached unhealthy proportions. However, there is still very little agreement as to how to resolve the problem.

There are broadly two schools of thought. Some, like Robin McGregor, argue that the government should introduce regulations governing the conditions under which companies can acquire shares in one another. Specifically, McGregor argues that as soon as a company acquires 30 per cent of the shares in another company the former company should be legally required to buy the balance of the shares in the latter. In this way, he argues, companies will be prohibited from spreading their control from a comparatively low capital outlay.

Others oppose this position, arguing that the South African economy is already riddled with too many monopolies and so it is undesirable to have any more. Instead, they argue that the government should deregulate existing regulations, since many hamper the effective operation of competitive forces and allow monopolies and cartels to flourish.

Underlying the debate between those who want more regulations to control monopolies and those who want fewer regulations are two very different arguments explaining the causes of monopolies.

Those who want fewer regulations argue that these are the main cause of monopolies and price-fixing among cartels. Import duties and tariffs, for instance, are seen to promote monopolies in that they restrict the free flow of imports into the local market, thereby favouring local companies. The reduction in competition this involves, so the argument goes, encourages the process of monopolisation.

Foreign exchange controls are also often cited as a cause of local monopolisation because, by preventing large local corporations from investing overseas, they force corporations to invest in the local economy, which inevitably leads to their power increasing. Also, because of these controls, foreign companies are reluctant to invest in South Africa — which once again reduces competition on the local market.

While there is undoubtedly some truth in the argument that these regulations do promote local monopolies, they do not pose serious problems for the economy.

Were foreign exchange controls to be lifted, for instance, it is unlikely that the government would be able to prevent a large influx of foreign investment. Quite the contrary — many of those foreign corporations still left in South Africa would probably lose corporations trying to get at least some of their financial assets out of the country.

Removing import controls and tariff barriers would also be detrimental to local industry in that the competition from overseas producers would lead to monopolies overseas, especially during the present difficult times.

However, be that as it may, it is undoubtedly that the existence of these and other regulations does facilitate the growth of monopolies and cartels. But is it their only cause?

Anglo America's chairman Peter Byland makes the point that cartels are a feature of the free market system in most parts of the Western world and are in fact a product of the particular circumstances facing capital-intensive industries. This argument locates the primary cause of monopolies, not in particular regulations, but in the evolution of competition itself.

But this competitive process leads in the end to restrictions on free competition, where a few powerful companies emerge in control of a market or economic sector. Once in this position, these conglomerates form cartels or monopolies to promote their combined interests.

Although I would argue that, even in a situation of dominance by monopolies or cartels, competitive forces are not completely removed, their impact can undoubtedly be substantially reduced (temporarily at least). Thus, according to this argument, free competition itself produces monopolies.

If this argument is correct, then although deregulation of import and other similar controls may slow down the monopolisation process, it will not arrest it. Consequently, the solution to the problem of monopolies needs to be sought elsewhere, with intervention to regulate the extent of their power in the economy.

This is the approach adopted by both the Americans, with their anti-trust legislation and by the British who stipulate that if a company seeks more than 30 per cent of the shares of another it must buy all the shares.

Only time will tell which, if any, of these two approaches our own government will follow.
Cosmetics firm wound up

A COSMETICS import and distributing company, Vivid US Distributors (Pty) Ltd, which has debts of R2 779 000, was placed under final liquidation in the Rand Supreme Court last week.

The application for the winding-up of Vivid was brought by Ewing McDonald & Co Ltd, which is owed R2 689 000 by the company.

A director of Ewing McDonald, Douglas Arthur Bosseger, said in papers his company supplied commercial suppliers with guarantees of payments from customers.

It also provided customers with funds to pay suppliers’ accounts.

Bosseger said that this facility had been given to Vivid and Black Luv Cosmetics (Pty) Ltd, which is now in liquidation.

Both companies had common shareholders and directors, he said, and both sold, marketed and distributed cosmetics.

Bosseger said the companies had passed a notarial general-covering bond in favour of Ewing McDonald over its moveable assets.

In August last year his company got a court order allowing it to take possession of these assets.

Bosseger said Ewing McDonald allowed Vivid to continue trading in the hope that the company would be able to meet its creditors, but it had been unable to do so.

As a result of Black Luv’s liquidation, Vivid’s affairs had virtually ground to a halt, he said.

Coal cargoes dominate...
Volkskas chiefs to resign?

Own Correspondent

JOHANNESBURG. — Negotiations between UBS Holdings and the Volkskas group for a stake in each other's business could lead to the Volkskas directors on Saambou's board having to stand down.

Six Volkskas directors, including Volkskas chairman Albert Marais, have been retained on Saambou's board ever since Saambou merged with Volkskas offshoot, the National Building Society, in 1970.

Saambou MD Hendrik Sloet said: "We will have to come to some agreement to address this situation depending on what arrangement UBS and Volkskas reach with the Registrar of Financial Institutions."

In a move that surprised the market, UBS and Volkskas announced on Monday they were entering formal co-operation negotiations.

No indications were given of the size of each shareholding, but Sloet said this could possibly compromise the position of Volkskas directors on Saambou's board who could find themselves acting on behalf of the United Building Society.

Sloet said the negotiations would not affect Saambou's possible banking plans when they go public later.

He said although Volkskas and Saambou had enjoyed a "friendly and historic relationship", both being Pretoria-based, they had never had consultations on joint ventures.

Sloet emphasized Saambou was an independent organization. "The (UBS/Volkskas) talks are outside our parameters."

A UBS source said the deal with Volkskas would be "a mutually profitable arrangement".
Shotgun wedding

After years of speculation, which started with the publication of the Poolman Report in 1982, it seems that a merger between the Federated Chamber of Industries and Assocom is finally on.

Only a substantial rescue package from big business could save the FCI now, but businessmen tell the FM they can no longer afford the luxury of two separate, largely overlapping, bodies. The time spent on committee work and the cost of subscriptions have become too great.

A report on the FCI by management consultants Pim Goldby has been seen as an indictment of the way the federation was run during Johan Van Zyl’s tenure as CE. Van Zyl, who has subsequently resigned, is highly respected as an economist but industrial sources believe he had spent too much time in academic life to be an effective CE of a business organisation.

FCI president Hugo Snyckers says substantial restructuring of the movement is being undertaken, including a “redistribution of activities between national and regional constituent bodies.” Headquarters establishment has been cut, and 14 of the 30 staff members have already been retrenched. Many see these moves as a prelude to a link-up with Assocom.

In most areas, Assocom seems to be run as a tighter ship — for example, although FCI has eight constituent bodies and Assocom has 108, FCI’s travel bill was R147 645 while Assocom’s was less than R30 000.

Also, Assocom has maintained a steady income growth while the FCI, between 1985 and 1986, saw a surplus of R75 000 degenerate into a R305 000 deficit. More than R250 000 of the loss was because of a shortfall in subscriptions, although corporate council subs are three times Assocom’s.

In retrospect, leading businessmen believe the FCI made two fatal mistakes: firstly, the move to Pretoria took it away from the heart of the business world and, secondly, it became too dependent on big corporations. Increasingly it turned to its corporate council to bail it out and so alienated its constituent chambers.

Assocom past president Bill Yeawart believes Assocom has an effective system of financial control. “A similar system evidently didn’t exist at the FCI and it’s unfair to put all the blame on Van Zyl,” he says.

In a move already under way, the Transvaal Chamber of Industries is negotiating to join the Johannesburg Chamber of Commerce to form a joint Witwatersrand Cham-

ber of Commerce and Industries.

“This time the pressure for merger is from the bottom up,” says JCC president Pat Corbin. “Without exception the members I canvassed wholeheartedly supported the move. Ultimately I hope we’ll be joined by the Greater Soweto Chamber of Commerce.”

But Corbin emphasises the move will be a genuine merger and not a take-over.

So far the two head offices have remained tight-lipped. After the embarrassment of the merger collapse in 1982 Assocom CE Raymond Parsons is reluctant to make the first move — but rank-and-file pressure could make him initiate the marriage proposal.

What Assocom will clearly have to bear in mind when the merger comes is that the FCI’s work in the industrial field will have to continue, particularly in labour relations.
Cadswep's acquisition of Bromor Foods last July sweetened the group's earnings for the year ended January 1987 by 27.8c and even taster prospects lie ahead.

Bromor’s addition of 27.8c to Cadswep's earnings in 1987 in the six months that it was consolidated, helped lift earnings by 61% to 172.2c. The group will benefit further in the current year as a full year's earnings from Bromor are consolidated. Additional benefits will follow from rationalisation of activities between Bromor and Cadswep.

Cadswep MD Peter Bester says “Historically, we have had Roses Lime cordials and squashes manufactured by a third party and Soda Stream syrup manufactured in a separate factory. Bromor will now manufacture these products. This will yield far more material manufacturing cost savings. In addition, we will derive savings in distribution costs as these products will be manufactured at two sites rather than one, and general administration cost savings will also be made.”

Apart from the Bromor boost, Cadswep should benefit from the upturn in consumer demand in 1987, as the upsurge in demand for soft drinks and confectionery experienced towards late-1986 is expected to continue. Rationalisation in the core business is helping the group start the year with a better base, according to Bester, who says a lot of progress has been made in containing costs and expenses.

While the group earned only 28% of profits in the first half of last year, Bester says he does not expect the same seasonal pattern in the current year — last year's first half results were depressed. However, he says the group is unlikely to repeat the 124c earned in the second half in the current six months.

Despite that, Cadswep’s interim should show substantial improvement and further — but less substantial — improvements should be achieved in the second half. The group looks on course for earnings above 200c, which suggests the share price has some way to go. At £9.25, the share is on an 11.2 times P/E and a 3.9% dividend yield, in line with the average for the food sector.

Kerry Cooke
Liberty is closing the corporate gap

Liberty Life will be rapidly closing the gap on the two largest corporate assurers, Old Mutual and Sanlam, when its merger deal with the Prudential is sealed later this month.

Total consolidated assets will then top the R10 billion mark — compared to assets of over R11 billion and R17.5 billion for Sanlam and Old Mutual respectively — despite the deconsolidation of Liberty's investment in UK-based Trans Atlantic, which reduced assets by some R1.75 billion.

The deconsolidation came about as a result of a substantial 25.7 percent reduction in Liberty's holding in Trans Atlantic to 49.3 percent, "in order to broaden its shareholder base and to reinforce its independence from Liberty," according to chairman Donald Gordon.

On the local front, growth in the 1986 financial year was also impressive. Earnings were up 23.2 percent to 560.6c a share while the final dividend was declared at 360c, compared to last year's 300c.

Growth in earnings per share was based on the enlarged issued share capital, following the completion of the 15 for 100 rights issue of preferred ordinary shares and the conversion of redeemable cumulative preference shares into ordinary shares.

Net premium income and annuity considerations were up 36.7 percent to R932.2 million and investment income increased by 34.2 percent to R566.1 million, resulting in a R364 million rise in total income to R1.44 billion.

New business premium income improved by 55.1 percent to R553 million, based largely on a substantial 79 percent increase in single premiums and annuity considerations.

In a welcome addition to the chairman's statement, the report included a table showing Liberty's largest investments.

<table>
<thead>
<tr>
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<tbody>
<tr>
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UBS 'mum' on talks with Volkskas group

By Magnus Heysteck

A financial giant with assets exceeding more than R21 billion could be the result of the discussions presently taking place between the United Building Society and the Volkskas Group.

The financial world was shaken this morning by an announcement that discussions between the two are under way which could give each institution a stake in the other's business.

What is remarkable in this instance is that not even a hint or rumour of such talks had leaked to the marketplace, a normal occurrence in the hothouse atmosphere of the local business world.

But today brokers, bankers and businessmen were calculating the various permutations that could result from a tie-up between the United and Volkskas.

Neither party was prepared to elaborate further on the possible ramifications of the announcement, nor what a possible link-up of interests could look like.

"A definite answer would be forthcoming only by the end of the month," was all Mr Piet Badenhorst, chief executive of the United, was prepared to say.

At Volkskas headquarters the answer was the same. "Any merger of some or all of the interests of the two parties will first have to be agreed upon by the boards concerned," said a spokesman for the group.

Ever since the United Building Society converted into an equity-based company and listed the shares of the holding company, UBS Holding, on the Johannesburg Stock Exchange at the end of last year, the market has been waiting for United's move into the banking world. Rumours have been circulating for weeks now that United has acquired a banking licence but this was denied by United.

A financial tie-up between United - the largest building society by far in SA - and Volkskas, one of the so-called "Big Five" in banking, would create a financial giant.

The combined market capitalisation of Volkskas and United would also put it ahead of Barclays, at present the largest banking/financial institution.

The benefits for both parties could be staggering. The United would be able to enter the banking world without the costly exercise of setting up an extensive branch network, whereas Volkskas would have access to the massive spread of United's more than 100,000 shareholders and bond holders.

The position of long-standing Volkskas-associate Saambou-Nasionale Building Society at this stage is unclear. At present Saambou and Volkskas share the same chairman, Dr AJ Marais. This suggests that Saambou could also be swallowed-up in the new financial giant.

The interests of Dr Anton Rupert's Rembrandt Group must also be considered. Rembrandt holds 30 percent in the Volkskas Group and has recently acquired some of the industrial assets. Furthermore, Rembrandt has a significant stake in the Sage Group, which could also be included in the new conglomerate.

This morning the share prices of both companies were steady with UBS unchanged at R5 and Volkskas at R10,25.
Projected turnover doubled

Macadams buys Aloe Catering

MACADAMS, the country's largest supplier of bakery equipment, is back on the acquisition trail.

In its fourth strategic move since listing on the Johannesburg Stock Exchange in September of last year, the aggressive, Cape-based company has acquired Aloe Catering from the Albrecht family trust.

With a current turnover in excess of R10m, Aloe Catering manufactures and supplies catering equipment to institutions and organizations such as hospitals, mines and the Defence Force.

Branches

The company operates nationally and has branches in Cape Town, Johannesburg and Durban.

Macadams itself specializes in the manufacture, import and refurbishing of a wide range of bakery and confectionery equipment. The company has branches throughout SA.

The acquisition, which is effective from April of this year, now give Macadams a strategic place at the upper end of the country's industrial catering equipment industry, and will be made — subject to the approval of the JSE committee and that of the shareholders — via the issue of 2,24m Macadams ordinary shares. The equivalent of R2.55m at 114c a share.

This brings the total number of Macadams ordinary shares in issue to 15,35m.

Ken Albrecht, the present chairman of Aloe Catering, will be appointed to the Macadams board.

As a result of the shares to be issued for this deal, his family will hold an effective 14.5% share in Macadams.

Unidev has undertaken to take up a portion of these shares if required to do so by the Albrecht family.

Projected group turnover for the year to February 28, 1988 now more than doubles to R30m from the anticipated R14m for the financial year to February 28, 1987.

The Macadams board is also forecasting a 140% increase in profits after tax for the financial year ending February 28, 1988 — as a result of both the acquisition and of certain synergistic manufacturing benefits that will arise therefrom.

Earnings

The forecast earnings per share for the year ended February 1988 rises from 9.1c to 11.1c while net asset value rises from 32.2c to 42.1c a share.

Macadams chairman Arnold Resnick says that the Aloe acquisition will enable Macadams to broaden its activities through two distinct divisions — bakery and catering — both of which will be supplied from within the group.

"We will now be able to offer clients from the largest institutions such as hospitals, mines and the Defence Force which form the Aloe customer base, down to single retail outlets — with a turnkey service including design, manufacture and installation," he said.

Resnick also said that Macadams was working on a further acquisition, details of which would be announced shortly.
Triomf selling
price should
cover write-offs

Nedbank

NEDBANK GROUP says the price obtained for Triomf Fertilizer (Richards Bay) should enable it to handle any write-offs within provisions made previously. Nedbank set aside R248m last year after the Triomf group of companies, of which it is the main creditor, went into provisional liquidation.

The liquidators this week completed the sale of Triomf Fertilizer (Richards Bay) to Indian Ocean Fertilizer Holdings for R73.5m plus raw material stock at cost and finished-goods stock at market value.

Assets excluded from the offer include certain investments, cash on hand and debtors, which should realise about R35m.

Louis Luyt, a director of Triomf, failed last week in the Supreme Court to halt the transaction. About R50m should have gone to Triomf's shareholders, he argued.

State phosphates company Foskor said it had negotiated a contract to supply phosphate rock to Richards Bay and would assist, at top management level, in operating the facility, reports Reuters.

It was reported in the Sunday Times yesterday that Luyt is to petition the Judge-President for leave to appeal against the Supreme Court judgment dismissing his application with costs. On Friday Mr Justice O'Donovan refused Luyt leave to appeal.

See Page 11
NEDBANK said yesterday the R78.6m sale of Tromf (Richards Bay) (TRB) would go through, despite Tromf founder Louis Luyt's last ditch attempt to stave off the transfer of shares.

Nedbank CE Anton van der Merwe-Vance said everything was in place and he would give the liquidators his guarantee today.

He said he was satisfied funds were available for Indian Ocean Fertilizer Holdings' (IOFH) foreign parent company to buy the plant.

He denied that Nedbank's London subsidiary was putting up the money. Nedbank had offered IOFH's parent company a loan if there were financing problems from a non-SA bank, but that had not been necessary. The funds had been obtained from an unnamed European bank.

The matter was "sensitive", however, and he could not reveal the identity of the European bank or IOFH's parent company.

David Renne, one of the provisional liquidators, said yesterday exchange control approval had been granted for IOFH to buy the assets of the Richards Bay plant at the financial rand rate, because the company's controlling shareholding was held overseas.

He said once the liquidators had received Nedbank's guarantee, TRB could be handed over to the IOFH "almost immediately".

Johann Marnitz, Luyt's attorney, said he was preparing a petition for leave to appeal against Friday's ruling, where Luyt's attempt to have the offer set aside and his subsequent appeal were dismissed.

Marnitz has subsequently informed all parties to the offer that any action they took would be at their own discretion.

It is understood Luyt may be able to claim for damages as a minority shareholder.
Pennypinchers buys B & B Plastics

PENNYPINCHERS, the discount building materials group which was listed on the DCM in November 1986 has acquired B & B Plastics with effect from November 30 1986.

B & B Plastics is a wholesaler of a wide range of decorative plastic laminates used in the manufacture of kitchens, office and domestic furniture and the shopfitting industry. B & B Plastics also distributes the "Blum" range of cabinet accessories and kitchen fittings.

This acquisition complemented the product range of Pennypinchers' successful and expanding boards division. Under their direction B & B has achieved a dramatic turnaround in sales and profitability.

The transaction, which was at a cost of R949 533 payable in cash, was based on the net asset value of B & B Plastics at November 30 1986.

At the date of this announcement a major portion of the stock acquired in the transaction had been sold.
Frame unveils picture of new share structure

THE Frame Group has simultaneously unveiled the terms of the programme to clean up its cumbersome shareholding structure and results which show that Frame Group Holdings' interim earnings rose 14% to 249,9c a share.

Frame Holdings, formerly Natal Consolidated Industrial Investments, becomes the ultimate holding company of the group and listed subsidiary Conframe, previously Natal Canvas Rubber Manufacturers, will own all the equity of Contex and SA Wool.

Barclays Merchant Bank, merchant bankers to the deal, have announced that Contex shareholders are being offered 22 new Conframe shares for every 100 shares held, while SA Wool shareholders receive 20 new Conframe shares for every 100 shares held.

Based on the market price of the Conframe, Contex and SA Wool shares on March 18, shareholders in Contex and SA Wool will only lose out marginally if they accept the offer.

SA Wool shareholders suffer considerably by way of diminished dividends.

However, the merchant bankers have pointed out that a comparison of the effects on dividends is misleading as abnormal dividends were paid for the 1986 financial year to June.

Conframe's earnings and net worth a share would have been raised by more than 10% if the deal had been in place for the full 1986 financial year. The effect on Frame Holdings would have been minimal.

Once the proposals are implemented, Conframe and Frame Holdings shares are to be split on the basis of 10 shares for every one held.

For the record, Frame Holdings' taxed earnings increased by R766 000 to R7,5m, for the six months to December 1986.

The directors forecast group results for 1987 would be slightly better than the previous year.
5 firms facing liquidation after property slump

FIVE associated companies which have debts totalling R5,6m were placed in provisional liquidation in the Rand Supreme Court yesterday.

Four of the companies, City State SA (Pty) Ltd, Citystate Townhouses (Pty) Ltd, Sundowner Estates (Pty) Ltd, and Edward Street Investments (Pty) Ltd traded as property developers.

The fifth, Quader Management (Pty) Ltd provided management services to other companies.

A director, Manfred Wolfgang Hagler, said in papers in support of the applications that the companies' financial difficulties stemmed from the recession in the property market.

Hagler said City State SA had assets of R605 000 and liabilities of R1 731 000.

He said the company had, until recently, been financed by an overdraft facility from the Trust Bank.

Merger is sanctioned

THE scheme of arrangement for the merger of the Prudential Assurance Company of South Africa Ltd and Liberty Life was sanctioned in the Rand Supreme Court yesterday.

On implementation of the scheme, the Prudential will become a wholly-owned subsidiary of Liberty Life.

Prudential MD Peter David Doran Wharton-Hood said in an affidavit that the boards of directors of Liberty Life, Liberty Life Holdings Ltd and the Prudential had reached an agreement in principle on September 3 last year to merge.

He said the purpose of the merger was to achieve economies of scale and to secure a deeper and more effective penetration of the life assurance market.

The court granted an order on February 10 this year sanctioning two meetings so that the scheme could be considered by the Prudential's ordinary shareholders.
Proposed merger: R240m of shares

Own Correspondent

JOHANNESBURG. — New shares to the value of R240m could be issued to consummate the proposed merger between UBS Holdings (UBS) and the Volkskas group.

Published figures, which have not been denied by either party, are that Volkskas will acquire 10% of UBS, the maximum allowed by the new Building Societies Act, while UBS as a bank holding company will be able to obtain 27.6% of the Volkskas group.

Basing the deal on a strike price for UBS of 500c and Volkskas of R10,50, UBS will have to issue 23,7m new shares — increasing its issued capital to 236,7m — and Volkskas, in turn, will have to issue 11,3m shares raising its issued capital to 41m.

Each leg of the transaction will involve about R118,5m.

It is possible that UBS could go ahead with plans to establish its own banking subsidiary. Volkskas could acquire a direct holding in this bank and provide the expertise thereby shortening the UBS learning curve.

Benefits of the deal to Volkskas are:

□ The bank will gain another cash-rich shareholder.

□ The ability to improve its electronic banking facilities.

□ An increase in capital, improving its capital ratios under the Banks Act.

□ An exposure to a segment of the market which hitherto it has not been able to penetrate.

Benefits to the UBS include:

□ It acquires banking facilities without launching a new venture in an overtraded market.

□ Access to Volkskas clients. There is a limited overlap between the customers of the two institutions.

UBS Holdings CE Piet Badenhorst refused to discuss the deal because, he said, negotiations were still in progress.
NEW SHARES to the value of R240m could be issued to consummate the proposed merger between UBS Holdings (UBS) and the Volkskas group. Published figures, which have not been denied by either party, are that Volkskas will acquire 10% of UBS, the maximum allowed by the new Building Societies Act, while UBS as a bank holding company will be able to obtain 27.6% of the Volkskas group.

Basing the deal on a strike price for UBS of 550c and Volkskas of R16.50, UBS will have to issue 33.7-million new shares — increasing its issued capital to 236.7-million — and Volkskas, in turn, will have to issue 11.3-million shares raising its issued capital to 41-million.

Each leg of the transaction will involve about R115.5m.

Either the two companies will conduct a share swap involving no cash outlay or they will each pay cash for the newly issued shares.

The transaction would dilute the interests of major Volkskas shareholder, Rembrandt. Its present 30% of Volkskas would be reduced to about 22%. Obviously, Rembrandt must be a consenting party to the deal.

It is possible UBS could go ahead with

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UBS-Volkskas in R240m deal?

plans to establish its own banking subsidiary. Volkskas could acquire a direct holding in this bank and provide the expertise, thereby shortening the UBS learning curve. A clash of interest between the two banks would seem unlikely as they would service different segments of the market.

Benefits of the deal to Volkskas are:

- The bank will gain another cash-rich shareholder;
- The ability to improve its electronic banking facilities;
- An increase in capital, improving its capital ratios under the Banks Act;
- An exposure to a segment of the market which hitherto it has not been able to penetrate.

Benefits to the UBS include:

- It acquires banking facilities without launching a new venture in an over-traded market;
- Access to Volkskas clients. There is a limited overlap between the customers of the two institutions;
- Access to banking skills which are in short supply.

UBS Holdings CEO Piet Badenhorst yesterday refused to discuss the deal because, he said, negotiations were still in progress.
HIGHELD STEEL

Steel curtain

Activities: The group processes steel, vanadium products, ferro-alloys, carbonaceous products and metal containers and closures.

Control: Anglo American Industrial Corporation holds 51.7% of the equity.

Chairman: L. Boyd; managing director: J. Hall.

Capital structure: 70.8m ords of R13 500.

Year red cap pref shares of 1c. Market capitalisation: R368.3m.

Share market: Price: 520c. Yields: 5.8% on dividend. 16.3% on earnings. PE ratio: 6.1.

Cover: 2.8. 12-month high: 720c. low: 475c.

Trading volume last quarter: 655 000 shares.

Financial: Year to December 31

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Performance:

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<td>67</td>
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<td>Pre-tax margin (%)</td>
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<td>Earnings (c)</td>
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<td>Dividends (c)</td>
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<td>Net worth (c)</td>
<td>378</td>
<td>368</td>
<td>330</td>
<td>438</td>
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American and European sanctions on the products of Higheld Steel have led management to place harsh curbs on information contained in its annual report. No production figures are being released, and any talk of exports, which at last count made up about 50% of sales, is strictly taboo.

While it is conceivable that companies forced to restrict the flow of information might be down-rated in the market, chairman Leslie Boyd contends: "The rating of a company ultimately depends on a company's track record, so I don't believe our share will be adversely affected by the reduced information.

As yet, steel is the only Higheld product affected by sanctions, and Boyd says he is not concerned about the other products at this stage. The world depends on SA for its vanadium, manganese and ferro-alloys, so these are not as vulnerable as steel. Boyd says there are no suppliers that could take the group's place in world markets in the short to medium term, but there is cause for concern in the longer term. He says, if appropriate political reforms are not made in SA.

Despite the imposition of sanctions in the second half of last year, Higheld's turnover in the six months to December was 16% higher than in the first half, and earnings mirrored those of the first half. At interim, the prediction was for a better second half, but lower dollar prices for ferro-alloys, a slackening in demand for steel on the domestic market in the last two months of the year, and reduced demand for vanadium intervened.

Nevertheless, the group operating margin increased from 11.2% in 1985 to 16.7%. Boyd says that while dollar prices of certain products deteriorated, a weak rand ensured that rand receipts did not necessarily follow the weaker trend. He says the weak rand was a major factor helping to broaden the operating margin, while the higher level of activity in the group (turnover was up by 23%) and the domestic steel price increases of 9.5% in February and 12% in August also contributed.

On prospects for 1987, Boyd says world steel consumption should be at much the same level as last year (721 Mt), while domestic steel demand should continue to rise because of vigorous activity in the gold mining industry and expectations of 3% growth in the economy. Higheld expects steel demand to grow by a similar percentage. Boyd says price increases will depend on the costs passed on by utilities such as Escom and Sats. Higheld's prices rose by between 3%-5% in the first quarter, and prices will be reviewed again later in the year.

It is a little early, says Boyd, to estimate the likely level of vanadium and ferro-alloy demand this year, as sales teams have only recently left for Europe, but the indications are good. Vanadium prices have firmed and there are signs that dollar prices of ferro-alloys will rise and volumes should be maintained.

But while the prospects look encouraging, Boyd concedes it is going to be a challenge to management to find new markets to replace those closed by sanctions. "The strength of the rand is also a problem as it will make it more difficult for us to be competitive," he says. "That will be off-set, to a certain extent, by increases in the dollar prices of commodities in world markets."

No major capex is planned in 1987, so debt should reduce. Finance charges rose in 1986 as previously capitalised finance charges on the second iron plant, which was commissioned in 1986, were brought into account. The group's tax rate should also remain low — only deferred tax was provided for in 1986, and Boyd says the group is unlikely to pay normal tax for several years hence.

The share is well off its 12-month peak, indicating investor concern about sanctions. But there are some who lay store by the group's expertise as an exporter, and who believe the share could be worth buying. In addition, the stock represents a good currency hedge for those who expect a further weakening in the rand.

HAGGIE

Cast-iron profits

Haggie had to face difficult conditions in the 1986 year, but the company showed it could continue to produce good results even in these circumstances. Earnings were up by 18%, compared with a 9% rise at the interim stage. While the bottom line was aided by a fall in the variable rate preferred dividend to R3.9m (R5.5m), profit growth emerged largely at operating level.

Chairman Ian Haggie attributes the solid performance to "the continued high level of activity in the mining industry, and an ex-
Full steam

After uncertain beginnings since the 1984 merger of Rennes and Safmarine, Safren is firing on all cylinders. The group has followed the 88% surge in its attributable income for the 1986 financial year with a 60% advance in the six months to end-December.

Although the growth rate has slowed, Safren looks structurally stronger than was the case when the accounts were published last October. Among the main factors behind the rise in attributable income are: better margins, and efficiencies were achieved in all of the operating divisions, both Renfreight and the diversified interests; and good growth after their profits had fallen in the 1986 year, and net interest payable was slashed by 57.6%.

Reflecting the widening margins, group operating profit grew by 18% on an increase of only 6% in turnover (excluding associated companies).

Provided 44% of Safren's operating profits after raising its contribution by 7.4%.

The creditors were also good recoveries in Renfreight and the diversified interests, both being divisions which were the main targets of the post-merger rationalisation and where profits slumped in the 1986 year.

Renfreight — formed out of the merger of the Rennes shipping and freight forwarding operations and Freight Services — was a key area where synergistic benefits were expected once rationalisation costs were out of the way. In the 1986 year, Renfreight's operating profits tumbled from R48.4m to R35m; in the December interim they recovered from this low base, rising by 26% from R21m to R26.8m.

Diversified interests, including Safren Trading and Willis Faber Enthoven, showed similar recovery. In the 1986 year, the division's operating profit dropped from R14.4m to R3.4m, but in the interim period it climbed back from the previous R100 000 to R4m. Chairman Alastair Macmillan says he expects that both these divisions will produce further efficiency improvements in future.

These figures, Safmarine is now the division that is striking heavy weather. Shipping volumes have apparently remained under pressure on South African routes. Exports have shown little increase in real terms, while imports have shrunk owing to the recession and the weak rand. Indications are that agricultural exports will be bolstered by the maize surplus this year, but for the shipper this may do little more than replace imports of agricultural products during the drought.

However, local shipping conditions tell only part of the story for Safmarine. An undisclosed, but substantial, portion of its fleet is known to be operating in international shipping markets. Thus, says Macmillan, will not offset weak margins on local routes, but will provide additional volumes that should bolster profitability. Safmarine — which is, in any event, a high margin business — has expanded its international activities in recent years, and Macmillan says this should continue.

He makes the same point about Kersaf.

Like other components of Safren, Kersaf now avoids revealing any information on its overseas expansion. Macmillan says that Kersaf has been quietly pushing ahead with its offshore thrust, and the results so far have "more than" matched the expectations of a couple of years ago. He believes that foreign interests should make a significant contribution to Kersaf's bottom line within about three years. Kersaf also hopes to fuel its growth with heavy investments being made in its home ground.

With indications being seen of an upturn in tourism, there are hopes that Southern Sun may also be in sight of recovery. While the timing of a dividend payment from Southern Sun remains problematic, Safren will receive 12% of any dividend eventually declared by the hotel group.

Safren's borrowings had fallen slightly by December 31, with shareholders' funds up to R974m (R869m), as well as the cash holdings of some R200m still intact, gearing on net borrowings has fallen to some 44%.

For the stock market, the interim figures should have confirmed the group's growth potential. After the release of the figures, the share price gained 12.5c, rising to a peak of R22.50c, up by more than 70% on the R13 level of last September. The stock yields 3.9% on dividend, which looks a fair rating.

Andrew McNally
TRIOMF DEAL

A killing for Foskor

Nedbank could realise as much as 50% of its R250m claim against Triomf Fertilizer Richards Bay (TFRB) as a result of the buy-out by foreign investors which was finalised on Tuesday.

The South African holding company, Indian Ocean Fertilizer Holdings (IOFH) is now in full possession and control of TFRB despite fertiliser magnate Louis Luys's active opposition to the deal.

And at the same time Foskor is in line for a windfall because, in terms of a new contract, prices will henceforth be based on dollars rather than rands. If the rand/dollar rate remains at its present level, this will mean an effective price increase of more than 60%.

Foskor MD John Stanbury stresses, however, that the price hike to TFRB will not affect phosphate prices paid by other fertiliser companies in SA who supply the local market — and pay a price based on rands.

The foreign investors, thought to be mainly individual British financiers, also stand to make a killing from the deal. On conversion to the financial rand, their payment will be only half the approximate rand price of R105m — R79.5m for the plant and about R25m for stock, which is still to be finally valued.

The buyers' SA representative, Johannesburg attorney Monty Koppel, says the advantages of a cheap investment through the financial rand was the main reason why the syndicate did the deal. It went ahead, he says, despite anticipating TFRB losses over the next two years.

Clearly immediate prospects were not the lure. International phosphate markets are so glutted that TFRB has, between date of provisional liquidation in July last year and end February, run up losses of R8.5m (excluding interest and depreciation). Losses were incurred through selling exports below cost.

Stanbury says international price levels towards the end of last year were the lowest ever.

In terms of the offer of compromise received by the provisional liquidators this week, R1m has been set aside for concurrent creditors over and above the purchase price.

The dividend to concurrent creditors has been estimated at five cents in the rand but provisional liquidator David Renne of Syfrets dismisses such speculation as premature.

Initial assessments give Nedbank, as a secured creditor, R125m of the estimated R140m which will be available for distribution. It is by far the largest TFRB creditor with a claim of R250m of the total debt of R285m.

Nedbank holds a notarial bond over movable assets (including in the purchase price) as well as a season of book-debts valued at R35m. But the bank has already provided for a write-off of R248m for the combined losses of TFRB and the Potchefstroom plant.

If these total R165m, as appears to be the case, Nedbank, at least, will come out of it better than anticipated.

Potchefstroom losses

Losses on Potchefstroom, sold to AECI last year for R58.5m plus an approximate R30m for stock, have been estimated at R40m.

Stanbury tells the FM the existing price for free-on-rail (FOR) Phalaborwa — standard for the industry — has now been changed. TFRB will pay the rand/dollar conversion rate based on international market price. The conversion will obviously depend on the prevailing exchange rate, but Foskor will gain for as long as the rand remains weak.

Assuming a rand value of 50 cents to the dollar and an international phosphate price of about US$43 a ton, Foskor will see its price of phosphate rocket from its present R51,75/1 FOR Phalaborwa to R86/t.

BEER

SAB goes north

SA Breweries' (SAB) new R470m expansion scheme is unlikely to affect the price of beer, say spokesman for the giant beer group. And beer drinkers have economics of scale to thank for it.

Production capacity at the Rosslyn plant, for example, is now being expanded from the existing 5.5m hl a year to 6.75m hl a year.

"This will make it one of the largest breweries in the world," says beer division MD Pete Lloyd. Only the US and Japan boast larger breweries.

But the biggest single project on SAB's plate — in money terms — is the new R270m Pietersburg brewery. Lloyd tells the FM that one of the reasons for siting the new plant at Pietersburg is the steady rise in demand in the northern and eastern Transvaal. This is more or less in line with national average sales growth of 8% over the past seven years.

"Currently, per capita beer consumption in the northern and eastern Transvaal is still below that of the major urban centres, despite healthy growth. So there is plenty of potential in that area," adds Lloyd.

Northern and eastern Transvaal account for just below 10% of total SAB beer sales. Lloyd says per capita consumption varies tremendously from area to area — depend-

SAB's Lloyd ... something to smile about

ISCOR GOES MOD

Shrugging off the recession, Iscor has embarked on a R500m modernisation programme at its Vanderbijlpark works.

The upgrade, which begins next year, will provide a welcome financial injection for local mechanical and electrical engineering concerns which will be allocated some 65%-70% of total expenditure.

Explains MD Willem van Wyk: "We want to keep local content as high as possible. Only the balance of the work will go to foreign tenderers."

The aim of the four-year project, presently at tender stage, is to allow for the de-commissioning of the obsolete southern hot-strip mill — now about 40 years old — and to improve the technological capacity of the northern mill.

No increase in overall capacity is anticipated.

About R350m will be spent on an additional furnace, a roughing stand, a finishing stand, a coiler and an edger for the hot-strip mill at the northern plant. Blast furnaces will be relined and other units revamped.
Tradegro may be looking for a piece of the Fraser action

The longer term possibility of Metro taking control of the Frasers Group could be the absorption of the various component parts of Frasers into the compatible divisions in Tradegro.

This is the view of a retail analyst, following the suspension of the Metros and Frasers Group shares on the JSE yesterday.

Although no official announcement has been made, both Metro and Frasers have intimated that a change in shareholdings is likely, without being more specific.

While the original deal might just be the buyout of the 32 percent held by the Fraser/MacDonald family in holding company Frascon, the analyst says that Tradegro may just be content at this stage to get its foot in the door with control, and only later split the company up into different components.

Tiger Oats has a large portion of the shares, but must be a party to the negotiations that took place yesterday between Frasers and Metro.

On the possibility of Tradegro buying out the company completely, the analyst says that it should be able to do this without a problem. Frascon has a market capitalisation of R53 million, based on the market price of 560c and Frasers R100 million at price of 690c.

Metro itself has a capitalisation of R247 million, R30 million in cash and virtually no gearing, while Tradegro’s borrowings remained steady recently.

Speculation on the market did the rounds a number of months back, with Pepkor singled out as the interested party.

However, it is believed that the shares will be sold only at Fraser’s market price of 770c, which would be about 386c in Frascon.

There would be a lot of synergy in bringing the cash and carry operations, the furniture outlets and the retail divisions of the two groups together.

Frasers profits have climbed steadily since 1994 from earnings of 32c a share to the 58c for the year to end-September 1996. In 1983 there was a slump from 51c a share to 32c.

Fraser’s network of 385 retail and 77 wholesale outlets companywide, with group turnover at R541 million, while Metro exceeded this amount with R769 million in the six months to end-December from its 130 outlets.

Fraser’s is an attractive buy for both Metro and Tradegro, and any deal should be well received by the market once the shares are related.
Venter's Fintec gets Xerox in a R40m coup

By David Carte

FINTEC, a subsidiary of Bill Venter's top company, Allied Electronics Corp (Altron), has bought Rank Xerox SA for the bargain price of R14-million.

Xerox Corporation of America sold its high-growth SA subsidiary "in response to worldwide pressure from governments, shareholders and interested groups," US chairman David Kearns told Business Times.

Xerox Corp of the UK has 50% of Rank Xerox of the UK, which is selling its 100% SA subsidiary.

Mr Venter said: "Our objective has been to demonstrate our concern for the social and political situation in South Africa and yet protect our shareholders, employees and customers."

Dinner

Deputy chairman Neil Davies headed Altron's negotiating team.

Mr Venter said that he was the most difficult deal his group had ever managed. "It began on September 1 and I have had dinner at home for five weeks."

Pinto grabbed Xerox ahead of several other bidders. It is believed they included Barratt electronics company Reuter, Winkie Hinga's Multilink 6 & Ashby and Romance Price's Urekeka.

Reumer made a bid of the holding early because of its association with Rank, Mr Venter's major competitor. However, it is believed of Mr Venter and Xerox US had been less concerned with the price it was offered than the continuation of its progressive business practices.

It did not deal only after auditing Altron's social responsibility programmes and finding that in many respects they exceeded Sullivan standards.

Integrated

Asked why he had chosen Altron from among the suitors, Mr Venter said: "If we had the integrated approach, we were interested in keeping some of our social programmes. They are interested in our people and in our customers and we are interested in growing them in the proper way. We see Japan - and other countries - one of their social programmes - the Black Management Foundation - as your good record of absorbing acquisitions and that is the best protection for our employees and our customers."

Rank Xerox SA will continue with Venter's management team headed by David English, who is and has been Xerox's head for six years after it suffered large foreig

Luyt still ponders petition to Chief Justice

By Ruth Golembi

FORMER fertiliser magnate Louis Luyt may still petition the Chief Justice to set aside his sentence on the grounds that the trial court contributed to the decline in the Rand's share price. This is against the transfer of the shares in Richards Bay fertiliser company.

Although the deal has been through and the TRR shares have been transferred to Indian Ocean Fertiliser Holdings (IOFH), Mr Luyt's lawyer says he is still in touch with the company in which to petition the Chief Justice.

The lawyer says the possibility of instituting a claim for damages arising out of the transfer of the shares in TRR to New Amsterdam (TNB) for R1 as part of the plant's sale to IOFH.

Luyt went through with his lawyer's application for a temporary interdict to block the deal and he appealed on the finding was dismissed with costs. The Rand Supreme Court found that the shares had no value. A telephonic at the Ritchie Bay plant resulted to calls to the Rand Supreme Court.

Nedbank

Mr Luyt, who owns 13% of TRR, said the deal with TNB was a scheme for the benefit of Nedbank, but the proceeds of the shares were worth R15-million and R125 million. The difference of about R100 million was represented by the value of the shares in the company and should be shared to shareholders and creditors.

The investors accepted IOFH's 15% of TRR. The offer for the business and some of its assets as going concern for R135 million is the offer of TNB.

They will be paid another 15% for stock and R35 million for debtors.

The offer was conditional on the transfer of all this company's shares for R1.

TNB owns the second ordinary share capital in TRR and Nedbank owned the third preference share capital.

The liquidators say the assets will be worth another 15% for stock and R35 million for debtors.

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Pressure for merger rises as Assocom, FCI meet again

By Udo Rypstra

PRELIMINARY talks between the Association of Chambers of Commerce and the Federated Chamber of Industries this week are expected to lead to a third attempt to merge the two organisations into South Africa's most powerful business organisation.

Assocom president Harold Broom and FCI president Hugo Snyder met in what were described as "talks about talks" against a background of mounting pressure from FCI members to amalgamate at least some of its operations with Assocom's.

The Johannesburg Chamber of Commerce (JCC) has called on both presidents to show leadership in the wider interests of the business community. It calls for bold initiatives to achieve a better deal for the business sector.

The JCC Bulletin says members of the Transvaal Chamber of Industries and the Johannesburg Chamber of Commerce favour a merger.

Dr Snyder, who opposes a merger, says some FCI members — mostly large corporations — are in favour. He says the debate on the issue amounts to hysteria.

Generally, there is optimism that Joe Poolman, business associations whose broad objectives indicate a remarkable similarity — and who are providing the same kind of services to its respective memberships.

Arguments given in favour of the national merger are:

- With the departure of both the FCI's Fred van Zyl and Assocom's Arthur Hammond-Tooke, it is easier to talk about a partial or full merger.
- The merging of head offices would be the first step.
- Little divides the FCI and Assocom on major policy issues, and any differences could be resolved through new structures to be recommended by Joe Poolman.
- The cost of financing two similar major employer organisations like Assocom and FCI has soared since the Poolman report. Duplication of membership has increased, resulting in pressure to rationalise.
- Several members believe that if Black business is able to encompass its interests under only Nafoco, and Afrikaans-speaking business likewise under the Afrikaanse Handelsinstituut (AHI), there is no reason why the two largely English-speaking employer bodies should not "find each other.

Dr Snyder is confident that the FCI's financial position, attributable to bad economic times, can be improved through the restructuring being planned.

Confident

"Co-operation with Assocom, Nafoco or even agriculture can be achieved without having to merge. The Government wants one voice, but the country itself has not got one voice. A common point of view would be so diluted that it would be of no use to anybody.

"The argument against a merger, never mind the organisational ones which will be difficult to overcome, is that industry is a different animal to commerce. We may share certain common economic views, but we have opposing views on certain other matters."
Bargain buy for Fintech

By Finance Staff

Fintech is to buy Rank Xerox for the bargain price of about £40 million — almost half market expectations — to be paid partly with cash and partly with shares.

In a statement released by Fintech, it is said that the effect on the net asset value and earnings of Fintech will only be determined once the funding details have been finalised.

The deal is effective from May 1 and thus, coupled with other matters under consideration by directors of Fintech, will necessitate a restructuring of Fintech’s capital base.

A further announcement is expected in this regard and shareholders are advised to exercise caution in their dealings.
T & N to sell off a sector to Everite

Tennent Payne

T & N is to sell its building products division to Everite Holdings for Sh.8 million in shares, and a pyramid holding company is to be formed for Everite.

Everite will undertake a capitalisation issue of shares from its non-distributable reserve on the basis of three new ordinary shares for every existing ordinary share in issue. These newly-issued shares will be allotted directly to the new holding company, Evhold, which will allot one of its shares for every three Everite shares received.

T & N's building products division comprises the manufacture and distribution of fibre reinforced pipes, sheeting products, garden furniture and glass reinforced cement building products.

Thereafter, 22.1 million new ordinary shares of about R2.94 each will be issued to T & N for the acquisition, which will result in Evhold's initial 75 per cent holding in Everite being reduced to 56.2 per cent.
Litocor makes
debut at 300c

By Gareth Costa

The electrical supplies sector is heating up for a period of intense competition, following the move by National Bolt in acquiring and merging Litocor and Keens.

Litocor was listed on the JSE today and reached the board at 300c, but a scarcity of sellers pushed the price up to 325c where it remained shortly before noon. Listing took place with a private placing of 1.5 million shares.

National Bolt - part of Form Scaff Industries group - acquired control a few days ago and is to make an offer of 250c to Litocor shareholders, compared with the 160c issue price.

Litocor's name is to be changed to FS TEAM Distributors and the inclusion of Keens would have had the effect of lifting earnings from 13.4c a share to 16.1c if implemented for the whole of the year to end-June 1998.

Included in FS TEAM will be the electrical business of Keens, Matus which sells hardware, tools and electronic measuring equipment, Tools Plus which operates in the hardware industry and Natbolt's distribution branches.

The FS Group will now include Form Scaff - a manufacturer, distributor and lessor of formwork and scaffolding - Natbolt which is a manufacturer of industrial fasteners and FS TEAM.

Mr Ronny Tollemanche, the existing managing director of Litocor, will continue to head the new company. He says they are building up to be a major distributor of products linked to the industrial, mining, construction and hardware industries.
Everite bids R65m for T & N division

JOHANNESBURG. — Everite Limited is to acquire the building products division of Turner and Newall Holdings Ltd (T & N) for R65m.

T & N would be issued ordinary shares in lieu of cash, representing 25% of Everite's enlarged capital.

A holding company, Everite Holdings Limited (Evhold) is to be formed, which after the issue of shares to T & N, would hold 56.2% of Everite's ordinary issued share capital.

Everite would seek the approval of shareholders to form Evhold by way of a three-for-one capitalization issue of additional ordinary shares out of non-distributable reserves. The three additional shares would be exchanged for one Evhold share. Thus, 25% of ordinary shareholder's investment would be in Everite Ltd and 75% in Evhold. — Sapa.
PORT ELIZABETH - The English-language newspaper industry in the Eastern Cape is to be consolidated as a result of a merger between Times Media Limited (TML) and East London-based Daily Dispatch Holdings (DDH).

The Daily Dispatch is East London's only daily newspaper, while TML, formerly Saan, controls the Eastern Province Herald, Evening Post and Weekend Post, all published in Port Elizabeth.

An announcement at the weekend said it was envisaged that a new company would be formed to control all four publications although no name for the company had been decided on
Agreement on R21m takeover

Metro buys up Fraser shares

Financial Editor

FRASERS trading group — a household word in Southern Africa for generations — is to be taken over by leading cash and carry wholesaler Metro, for at least R21m.

UAL and Senbank announced last night that agreement in principle had been reached for Metro to acquire the major family shareholding in Fraser Consolidated (Frascon) for 420c a share — well above the price of 340c reached on Thursday last week.

The remaining 18,27% of shares held by the previous controlling consortium are in the hands of Tiger Oats.

Similar offer

The announcement ends speculation that began on Friday when dealings in the shares of Metro, Frascon and Frasers were suspended at the request of the companies.

It was announced last night that Metro will make a similar offer to minority shareholders on completion of the deal.

They are advised to continue to be cautious in their dealings.

There will also be “an appropriate offer” to holders of Frasers 13,7% unsecured convertible irredeemable subordinated debentures for their rights arising on conversion.

‘Prepared to pay’

“We expect that moving Frasers’ average operating margin upwards will produce additional profits,” Metro MD Cecil Smith said last night.

“This is why we were prepared to pay a premium over the price of Frascon shares on the JSE last week.”

Frasers was started in what was then Basutoland, now Lesotho, more than a century ago.

It grew into a group with 462 outlets — 159 retail clothing, 73 furniture, 58 mine concession, 51 supermarket, 44 general dealer, 41 cash-and-carry, 24 building materials and 12 wholesale.

Both Mervyn King, chairman of Metro’s parent company, Tradegro, and Donald Campbell, chairman of Frascon, said the deal would clearly have long-term benefits for both operations.
FRASERS trading group will be absorbed by leading cash-and-carry wholesaler, Metro, in a deal worth at least R21m.

There has been an agreement to Metro's acquisition of the major family shareholding in Fraser Consolidated (Frascon) for $20c a share.

The remaining 18.37% of shares held by the previous controlling consortium is in the hands of Tiger Oats.

On completion of the deal, a similar offer will be made to minority shareholders who, having been advised to exercise caution in their dealings after the shares of Metro, Frascon and Frasers Limited were suspended on Friday, have been warned to continue carefully.

There will also be an appropriate offer to holders of Frasers' 13.7% unsecured convertible irrevocable subordinated debentures for their rights arising on conversion.

Metro MD Cecil Smith said yesterday, "We expect that moving Frasers' average operating margin upwards will produce additional profits."

"This is why we were prepared to pay a premium over the price of Frascon shares on the JSE last week."

Frasers operates a network of 462 retail and wholesale outlets in SA and neighbouring countries.

The wholesalers provide distribution facilities for the retail chains and service several thousand independent retailers country-wide.

The chairman of Metro's parent company Tradegro, Mervyn King, and Frascon chairman Donald Campbell said the deal will have long-term benefits for both operations."
Privatisation likely to stay on ice in '87

CHRIS CAIRNCROSS

"Private hands" — possibly through "buyout" — will whittle away empires and threaten future job security

Efforts aimed at reducing red tape through deregulation are also being hampered, mainly by special interest groups in the private sector whose operations have been partly sheltered from further "intrusive" competition by some of their regulations.

In certain circumstances problems are also being experienced with organised labour, which has resisted efforts to remove regulations which might have a negative impact on, for example, industrial council agreements.

Vermaak stresses that it has not yet been necessary to apply the powers granted the State President in terms of the Temporary Removal of Restrictions on Economic Activities Act to suspend any laws and regulations hampering business activity or new entrants to a specific sector.

The legislation will only be used as a last resort, he suggests.
THE Government Garage, which controls a fleet of more than 17,000 vehicles for use by public sector employees at central and provincial government level, could be one of the first state enterprises to be offered to the private sector when government's privatisation programme eventually gets off the ground.

Much, however, depends on the results of a feasibility study done into the cost and other ramifications of such a switch recently completed by consultants for the authorities with the responsibility for translating official privatisation policy into an action programme.

The investigation was carried out by Price Waterhouse and, it is understood, a completed report containing several options will be handed to government this week.

The Government Garage was identified early on as a potentially prime target for privatisation on a fleet and vehicle maintenance basis by organised commerce. Firms with experience in this area, which could benefit materially from taking over these operations, are Avis and Budget.

The reasoning is that it fits in well with the trend in government thinking on privatisation, it is in line with the London County Council's successful privatisation of its vehicle fleet, it is consistent with decisions taken by certain large private sector organisations to transfer the ownership and maintenance of their vehicles into other hands.

CHRIS CAIRNCROSS
Moves to deregulate taxi trade criticised

THEO RAWANA

THE SA Black Taxi Association (Sabta) has come out angrily against proposed deregulation of the taxi industry.

Sabta vice-president Godfrey Natleng says the association feels it was "fooled" into believing it worthwhile serving on the National Transport Policy Study, only for government to prefer recommendations of the Competition Board.

He says deregulation as suggested in the Transport White Paper allows anybody — including individual whites and bus companies — to enter the taxi industry.

"We are opposed to this, as we see it as an attempt to hijack the black transport sector and nullify the power of the white bus industry," Natleng says.

Sabta had recommended that the number of taxi permits be doubled immediately to accommodate the pirate-taxi industry.

"Deregulation will not bring the 'pirates' into the fold but will destroy them, as well as us. What's more, why deregulate the taxi industry while the bus industry is still so strongly regulated?"
Suncrush acquires Vaal Bottlers

Suncrush, the soft drinks bottler and marketer, has acquired competitor Vaal Bottlers for R17.7m cash and sold part of its East London operation for almost R11.3m.

The two transactions, published in a joint announcement released by Standard Merchant Bank today, will reduce the earnings of Suncrush by 1.5% or 5c a share to 946c, and the net asset value by 2.4% or 46c a share to 1.966c.

Vaal Bottlers, which also operates in the soft drinks market, has been bought from the Forbes family in Cape Town. The company is based in the Vanderbijlpark, Vereeniging and Sasoiburg areas and has territory adjacent to Suncrush branches at Klerksdorp and Welkom.

Suncrush has sold 49% of its interest in its wholly-owned East London subsidiary, Kilimanjaro Bottling to Kilimanjaro Investments, an investment company owned by black businessmen, and 20% to National Beverage Services. It has retained 31% of the equity, which Kilimanjaro Investments has the right to acquire in the future.

The selling price of Suncrush's 69% interest in Kilimanjaro Bottling will be paid for in cash on April 3, and the remaining 31% of equity will be sold at a price based on future earnings.

Suncrush has entered into a management agreement with Kilimanjaro Bottling to manage the business in East London for a management fee for three years.

The net effect of the transactions on Suncrush's holding company, Dały's, will be to marginally reduce the investment company's earnings a share by 0.6c to 39.5c and its net asset value by 5.6c a share to 214.2c.
Expect further moves

Metro's move on Frasers this week is almost certainly part of a wider strategy to merge some of Frasers' eight divisions with subsidiaries of Metro holding company, Tradegro. Having scaled itself so badly during its phase as a full conglomerate, Tradegro is unlikely to be comfortable in the long term with Frasers' present structure. Tradegro, under the direction of chairman Mervyn King, has lately moved firmly towards focused trading in its listed subsidiaries (see Leaders).

If a merger at operating level proves too difficult — because, say, their corporate cultures are too different — then Tradegro will almost certainly look towards separate listings for some of Frasers' larger divisions.

With few exceptions, each Frasers division has a counterpart in the Tradegro group. Its seven furniture stores fitting into Russells, 41 cash and carry outlets and 12 wholesale warehouses belonging to Metro, 51 supermarkets and 44 general dealers with Jazz, and 24 building supplies branches with Cashbuild. There are also 58 money transfer stations and 159 retail clothing outlets, collectively generating group turnover of R540m a year.

In a deal worth R21m, Metro has agreed to buy from the McDonald family at 420c a share their 32% stake in Frascon, Frasers' pyramid company, which holds 50% of Frasers' stock 'Tiger Oasis', the second major shareholder in Frascon, holding an 18.2% stake. Metro will make the same offer to Frascon minorities, hoping to raise its stake to a controlling 50%. If its eventual holding falls short of 50%, Metro will almost certainly accumulate stock up to this level — only then will it consider rupturing Frascon, for example of administrative functions.

For more serious mergers at operating level, however, Metro won't be able to do much without first taking out minorities in Frasers. That buy-out could prove a lot more expensive than the one involving Frascon, as investors are likely to see Frasers' stock in anticipation of such a move. Moreover, the market has long suspected that Frasers, which was founded over 100 years ago, could have considerable hidden wealth.

That Metro has agreed to buy out the McDonald family at 420c — 60c above the pre-suspension price — seems to imply that they, too, recognise Frasers was fundamentally undervalued. The contention of Metro MD Cecil Smith, that Metro will be "looking to move Frasers' operating margins upwards," could relate to synergistic benefits of a merger, or equally it could refer to perceived inefficiencies in the Frasers operation. Notably, Frasers' cash and carry division achieved operating margins of 1.16% in 1986, compared with Metro's own margin of 1.9%.

Either way, a small improvement in Frasers' total operating margin, calculated at 4.2% in the year to end-September 1986, could translate into a sharp improvement in earnings.

Frasers, tracing its roots to Lesotho, has a strong presence in neighbouring black countries, where Metro has been looking to expand. The tie-up gives Metro added bargaining muscle in certain product lines, such as blankets, which Frasers sells in vast quantities.

Frascon, suspended at 360c, traded after relisting on Tuesday at 415c. Frasers traded at 740c, also well up on its pre-suspension price. Metro opened at R6, having languished until Tuesday around 540c. On these improvements, the deal has finally rewarded the patience of those investors in Frasers who have held the share for many months, and through several false starts, in anticipation of an eventual raid.

FINTEC

New look

Fintec's share price has increased sevenfold in the past year, and investors must wonder how much further it can go. There are justifications for high expectations, as shown by the Rank Xerox deal. Fintec chairman Bill Venter says that after the acquisition of Rank Xerox and a 1m rights issue, earnings a share should be around 168c for the year to end-February 1988. This is an increase of more than tenfold on 1985-1986 earnings — and Venter's plans for Fintec are by no means complete.

The Rank Xerox deal was certainly cheap. Fintec has paid R40m and taken on R70m of debt, amounting to the rank Xerox's R30m. Based on the total cost of R70m and taxed profits for 1986 of R7.8m, the deal was clinched at an earnings multiple of 9, as against Fintec's p/e of an astronomical 112 before the announcement and 159 on the current price of R42.

Rank Xerox can be expected to grow substantially, with sales in recent years of R5.3m and R16.9m in 1984 and 1985, so the turnaround in 1986 was a big surprise. Rank Xerox is looking for movement away from traditional copiers with rapid expansion into the networking market. It has 25% of the desktop copier market, about 55% of the market for larger copiers, about 60% of sophisticated laser printers and 10% of all electronic typewriters.

The exact means of the payment has not been decided but will be a combination of shares and cash. At the present price, a rights issue could raise the full R40m, so the company will be left with cash — the amount depending on how many shares are issued. One use for this cash could be to repay debt.

"It is a group strategy to keep debt low," says Fintec CEO Clive Jandrell.

The R7m cash pile held in February last year should increase, though other recent acquisitions, Roneo Alcatel and 50% of South African Industrial Devices, were cash purchases. Net worth per share after these deals, but before the Rank Xerox acquisition is estimated at R4.60, based on the market value of Fintec's 4.5m Punch Line shares.

Jandrell says Fintec has been marked as the third leg of Altron's operations. It is still relatively small in Africa, with R1.5 billion turnover operation, but management obviously wants to expand Fintec further. Rank Xerox, currently Rintec's largest holding, will not be allowed to dominate for long.

"The next logical move is data processing," says Jandrell. Venter has previously said negotiations were in progress with at least two multinationals, so an acquisition of a computer company, perhaps a disinvestment, could be next.

Investors probably regard Fintec as being effectively cum rights. Its forward p/e is 25 against Punch Line's 27 and C-Mate's 37, so, despite the run, the share is not over-priced compared with the electronics sector.

The share is tightly held, with only 779,000 in the hands of the public.

Altron owns 81% of Fintec. The Rank Xerox deal should add 12% to Altron's earnings, putting the company on a forward p/e of 16, without taking into account last year's growth. This is not expensive in comparison to the electronics sector.

FINANCIAL MAIL MARCH 27 1987
The Franchising solution

DAVID ACHESON

David Acheson is Britain's "Mr Franchise." Former chairman of Kentucky Fried Chicken (UK) and MD of Wimpy International, Acheson successfully established 1500 Wimpy outlets in 40 countries, yielding 200% return on capital. He joined Horwath and Horwath (UK), international management consultants to the tourism and leisure industries, in January.

FM: Which are the largest franchising operations in SA?

Acheson: Kentucky (KFC) is number one, with more than 200 outlets and combined annual turnover of some R100m. Wimpy ranks second, with just below 200 outlets and turnover of R70m-R75m a year. Both are fast-food operations, showing the importance of this sector in the franchising industry.

What is the future potential for food franchising in SA?

Especially in the growing black urban sector, there is huge potential for black entrepreneurs. Food franchising is highly labour-intensive and requires limited skills levels. And the market grows with the population.

What are the benefits for black entrepreneurs?

Franchising has an internationally-proven success rate of 90% in the first five years, compared with a failure rate of 80% for other small businesses. New franchisees are trained and taught how to run the business, while supplies are provided at bulk discount prices. And banks are ready to extend finance.

What are the costs involved and which banks will help?

A Wimpy franchise can cost about R140 000, while KFC franchises sell for about R175 000. The front-end fee of R10 000-R20 000 will buy trade-mark use and pay for legal costs. A combined royalty and advertising fee of 9%-10% of turnover - 4% for generic advertising - is due once the business is on the go. Barclays and Standard are geared to assist any prospective franchisees.

How do banks assess the risk?

They first put the franchisee on their books after thoroughly investigating the proven success of his operation. Any potential franchisee now applies for finance in terms of the approved scheme. If he qualifies as an individual risk for finance, the rest is a formality.

And job creation?

The service sector is one of the most labour-intensive in the economy, requiring low skills levels and less investment for creating jobs. For example, in the UK it costs about R12 000 to create a job in the hotel, tourism and catering industries, against some R100 000 in general manufacturing. Food franchising creates jobs cheaply.

How soon do fast-food franchisees reach profitability?

Normally within a few months. And you can eat out of your own kitchen.

What other operations can be franchised in SA?

There is virtually no limit, but well-known ones include Captain Dorego (fish and chips), Chicken Licken and Juicy Lucy. A host of other service-related industries, like copy-making and printing (Frontprint, for one), already provide good business opportunities for both franchisees and franchisees.

How big is franchising internationally?

Very big. In the US some 35% of all retail sales are through franchising outlets, in the UK about 12% and in SA about 6%. One can reasonably expect the SA percentage to double within the next few years, especially in the small business sector.

Should government assist in financing franchising operations?

It would be very sensible for your government to recognize the role franchising can play in small business development and job creation. The SBDC, especially, should be involved here.

SA is largely a Third World country. Surely start-up costs are prohibitive?

Not if government should create a special indemnity scheme with the banks, as in the case in the UK. Banks would then be in for a much reduced risk. The SA Franchising Association should lobby government for this type of operation, helping to generate growth and job creation at low relative cost. Franchising also provides excellent opportunities for on-the-job training in proven skills. Fast foods again stand out as the best route to success.

Are there any existing laws jeopardising such grassroots developments?

The Group Areas Act restrains investment in all areas. But desegregation of restaurants - lobbied for by Wimpy - has already helped a lot. Another problem area is excessively strict health regulations which hamper the food trade. Local government legislation, especially, needs overhauling.
Deregulation will create jobs

Mercury Reporter

THE unemployment situation in Natal and the whole of South Africa has become critical and must be tackled immediately, according to the Administrator of Natal, Mr. Rudolph Cadman.

He was speaking yesterday at a seminar organized by the Natal Provincial Administration and the KwaZulu Government on employment creation by deregulation.

Mr. Cadman said the seriousness and extent of current unemployment demanded a short-term solution.

Deregulation is our immediate concern. The purpose is to remove unnecessary burdens and restrictions on economic activities caused by laws, regulations, and directives.

In other words, to create conditions for the establishment and maintenance of the informal and small business sectors.

In South Africa, we have potential for growth in the small business sector and a large ambitious group of people who are psychologically ripe to move into the vacuum.
AMERICAN International has sold its SA subsidiary, American International Insurance, a medium-sized short-term insurer.

The buyer, Johannesburg Insurance Holdings, which is owned by a consortium led by Rand Merchant Bank, plans to change the name of its newly acquired subsidiary to AI Insurance.

While the value of the transaction could not be determined last night, Rodney Schneeberger, CE of the SA Insurance Association, said it looked like a good deal from the buyer's point of view.

Schneeberger said that AI Insurance had operated in SA for many years under the control of its US parent and was financially sound.

"The transaction follows the general pattern of US companies transferring their holdings in South Africa to SA companies," he said.
Satbel buys Mike's Kitchen for R4m cash

JOHANNESBURG - Satbel has purchased Mike's Kitchen chain for R4m, in a cash deal announced last night.

In the deal effective from January 1, Satbel paid 62c a share for 65% of Mike's Kitchen Franchising Ltd. Former Mike's Kitchen chairman David Lewis retains a 5% shareholding. The 62c a share offer will also be made to minority shareholders.

Mike's Kitchen shares, which trade on the JSE Development Capital Board, were suspended at 75c a share earlier this week.

Kersaf Investments' deputy MD Ian Heron said the deal would provide diversification for Satbel in a "good growth sector" and provide impetus for a thrust into the restaurant business.

Seven units opening

Heron described Mike's Kitchen as an "ideal vehicle" to put into the company to make for "one-stop entertainment centres". Satbel has investments in cinema chains and fast-food outlets.

Mike's Kitchen, with 47 outlets, has expanded rapidly over the past four years - a growth Satbel intends to maintain, with seven new units opening this year. Satbel is held jointly by Sol Kerzner's Kersaf and Federale Volksbeleggings.

The acquisition is not expected to make an impact on Kersaf's earnings per share for the year ending June 1987.
Mike’s Kitchen sold to Satbel in a R4m deal

By KAY TURVEY

SATBEL has purchased Mike’s Kitchen steakhouse chain for R4m, in a cash deal announced last night.

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Mike’s Kitchen, with 47 outlets throughout the country, has expanded rapidly over the past four years — a growth Satbel intends to maintain, with seven new units opening this year.

The acquisition is not expected to make an impact on Kersaf’s earnings per share for the year ending June 1987.
Exports survive sanctions

SANCTIONS may erode US computer sales to SA but other export opportunities identified by a confidential US government report released before the Anti-Apartheid Act are virtually intact.

The report, compiled by the US Foreign Commercial Services (FCS) and published in Johannesburg last July, rates SA's export potential for US computer, telecom, medical and mining equipment.

A US government source says computer exports will be "cut away" by export licensing requirements under the Act and the effect of IBM's pullout. "But SA is still a good market for the other categories," he says.

ABCI's computer processing division sources virtually all its import requirements from the US. It expects no supply disruptions. Retailers of PC equipment have not experienced any supply shortages but there are strong signs of consumer resistance to US products.

Says Joffe Associates MD Joan Joffe: "More use is being made of Taiwan as a supplier - and there's no anti-SA feeling there."

To what extent corporate SA is putting a brave face on its prospects for an unbroken US supply line for computers is hard to gauge.

The FCS report notes that in 1986 "important purchases were made and orders placed for large installations by previously loyal users of American computers. Hitachi was a particular beneficiary."

It says nearly half of SA's computer imports were sourced from the US in 1986, with IBM's turnover estimated at R300m.

Latest US sanctions are likely to affect US telecommunications exports only if they are deemed computer equipment.

It is understood that the Department of Post and Telecommunications has not altered its buying policy since US sanctions.

While there is no specific US embargo against mining equipment, most mining houses will not comment on their foreign purchases.

Merger means bright handtool future

THE merging of Lasher and RW Tools into Lasher Tools has seen the emergence of the largest handtool manufacturer in SA.

New CEO John Sherratt says the company is now a wholly-owned SA company as a division of Metkor Industries. Metkor bought out Lasher from its US parent to complement its own RW Tools.

He says: "The rationalisation brought about by the buy-out means through research and development and by incorporating the latest technology into our products."

Sherratt feels the relatively small SA market is over-traded.

He says "I feel strongly that we, as manufacturers, should share our facilities where possible. It doesn't make sense to start manufacturing a range already being produced locally and with limited demand."
Liberty and Pru like married life

By Ian Smith

SIX months down the line it appears that the marriage of Liberty Life and the South African operation of Britain's Prudential is working well.

The merger resulted in an industry giant with combined assets of R16-billion, estimated premium income this year of R14-billion and total investable income of about R10-billion.

But it was all achieved without a single retrenchment or any redundancies, says Prudential managing director Dorian Wharton-Hood. On April 1 he becomes joint managing director of the merged company with Liberty Life deputy chief executive Mark Winters.

**Shortage**

The merger, approved by shareholders on March 10 and sanctioned by the Rand Supreme Court on March 17, has its roots in talks in London about a year ago when Liberty's Don Gordon raised the prospect of getting together with Prudential's SA operation.

At that time Liberty managing director Monty Hilkowitz had emigrated to Australia and Mr. Gordon was worried about a possible shortage of senior staff.

Although the Prudential was doing well, a possible problem was rearing its head. It was conceivable that the Pru in Britain and in other parts of the world could come under pressure because of its exposure in South Africa.

Mr. Wharton-Hood says "If it had been a forced sale of the SA operation the price could well have been lower. On the other hand, Don Gordon was prepared to offer a good price. It also appeared that policyholders would be no worse off, and would probably be better off.

There were certain synergies which meant that both companies would be strengthened by a deal. Liberty Life was strong in the elitist market, par-

Dorian Wharton-Hood ... better than we expected


ticularly in the Pretoria-Witwatersrand-Vereeniging area, and Prudential had a strong base in the Afrikaans market, in rural areas and among lower-income groups.

The companies also had compatible computer systems. The upshot was that the merger was announced last September, and the final stage came last week with the listing of 1,610,000 new Liberty shares on the Johannesburg Stock Exchange, giving the Prudential in Britain a 7% stake in Liberty Life.

Mr. Wharton-Hood is particularly proud of the fact that the staff - even senior executives who are normally the first victims of such a merger - have been absorbed.

“We have only lost one senior staff member, assistant general manager and above. We are talking about 30 to 40 people. All the rest are in position and they have productive jobs.”

He says three other senior people are coming up for the retirement and they will not have to be replaced. But, for the rest, natural attrition has taken care of any overmanpower.

"It has been better than we ever thought possible," says Mr. Wharton-Hood. The 2,500-strong staff is not significantly smaller than the total employed by the two separate companies.

Because of the differences between the companies' traditional markets the main sales staff still operate independently, selling different products.

"We see this as an opportunity to penetrate a much broader market," says Mr. Wharton-Hood. It also stimulates competition.

But the operations of the field staff selling to brokers have been merged, and reps are selling both companies' policies.

One of the main benefits of the merger, as he sees it, lies in the investment field.

**Savings**

"Both companies had successful records in this sector, and by combining their strengths we have the first team. We have a great opportunity to develop a proper asset mix, and it would have been difficult for either company to restructure its portfolio on its own.

He says other benefits of the merger are beginning to flow from the greater penetration in the market place and the results of cost savings are being felt. Later this year agents will also be able to sell the best products of both companies side by side.

Mr. Wharton-Hood says new business in the first two months of this year is about 25% up on the same time last year.

"To some extent this is due to the fact that there has recently been an upturn in confidence, which generally leads to more buoyant sales. But I believe it is also partly due to our better coverage of the market.

"Both companies' products are selling well, and we will achieve our target of a 25% increase in sales this year."
Sankorp cleans up the Bankorp stable

By Ruth Golembo

SANKORP-controlled Bankorp — which controls Trust Bank, Santambank and Senbank — has completed a huge clean-up.

Bankorp has put all its under-performing non-banking subsidiaries back on their feet and into a new non-banking arm called Bankorp Promotal Services (Bankimun)

The main drag on Bankorp have been Repfin Factor, Merchbank, Met-actuarial and Ewing McDonald, each of which lost millions in recent years.

The losses were recapitalised through a 121.2 million Bankorp rights issue last year — 150.4 million of which went into Merchbank. Met-actuarial has been salvaged by TFN Holdings and relaunched under its new name

Flagships

While the flagships, Trust Bank, Santambank and Senbank, have gone from strength to strength, Bankorp’s earnings, and return on assets, have waned in the past two years, largely due to bad-debt losses being among its problems.

The share price has fallen from 65c in June 1995 to 55c. In the past year, it fell from 57c.

From July this year, Bankimun — headed by former Bankorp managing director Paul Erasmus, will include the group’s insurance, broking interests, trust and estate companies, factoring and collection services, property arm, Mercha and building society Trinity

Although its hotel and travel subsidiaries have been profitable, the group plans to focus on banking and ancillary services.

A snap move is that it will probably soon get rid of the 60% holding in Protea and its interests in Miller Wee- don Travel. This prompts the question whether a listing for Protea can be far off.

Mr Erasmus says Bankimun will provide non-banking financial services to the three banks’ clients. It will thus be cost effective. He says Bankimun will become Bankorp’s fourth most important income source after Trust, Santambank and Senbank.

All the old losers — Repfin, Ewing McDonald and Merchbank — have been turned around.

If Bankimun has been operating this year, it would have contributed about R10 million in profits in the year to July 1997.

Mr Erasmus says Bankimun will make a major profit contribution in the coming year.

“The high growth potential of insurance, broking and trust companies have been included in Bankimun to complement the banks.

“The trust company has the most profit potential in the long term. Its services are essential to the banks in drawing up wills, planning estates and providing financial advice.

“The property division supplements the bank services by administrating participation bonds on the banks’ properties for example. It also manages properties for outsiders.”

Ruthless

Mr Erasmus says the factoring and collection companies, which have carried a burden of bad debts in the past, are expected to break even by the end of the current year and could be profitable next year.

Repfin Factor has been terribly trimmed and staff numbers have been slashed by 60%. It has tightened its credit policy and improved its client profile after large losses on advances to clients.

Mr Erasmus says debt-laden confirming house Ewing McDonald nor-

Listing state

Another step to improve Bankorp’s profit came through the rationalisation of Trust and Santambank’s services. Trust, now a unit, the corporate finance division and Santambank is concentrating on individuals’ business, such as cheque and savings accounts, home mortgages, contracts and overdrafts.

Mr Erasmus says Santambank’s loan into consumer lending has been successful. He claims it is as good as Wesbank for the R5 1 spot.

He says Senbank has been taking in profits in the recent spate of new listings, mergers and takeovers. Merch has been on the listings of smaller Development Capital Market companies.

Bankorp shares could start to move soon. At 57c on a dividend yield of 85% they are priced at only 5.5 times earnings. The industry average for the banks and finance companies sector is 9.3 times.
Company Round-Up

Pennypinchers target swells to R2,8m profit

By Terry O'Donovan

Pennypinchers, the low-cost building-supply company, has stunned its listing forecast with a 144% increase in earnings.

The Cape equivalent of Cashbuild boosted turnover by 72% to R40,8 million and taxed profit by 89% to R4,9 million (R4,1 million) and debtors rose by 71% to R5,8 million. Creditors were up by 84% to R7,8 million and provided most of the finance but there were net current assets of R301,000.

Expansion continues apace, market penetration being consolidated on the Garden Route and in the Eastern Cape. Windhoek, Mr Malherbe says, will be considered.

Premises have been acquired in Port Elizabeth, enabling the various divisions including building materials, joinery and tiles, to operate as separate businesses.

Ailing

Pennypinchers recently acquired ailing B&B Plastics, marketers of high-pressure laminates. The company has achieved a profit of R140,000 since December. It has entered Transvaal markets in association with Lotus Louvres, while continuing with the Blum range of cabinet fittings and laminates in the Cape.

Super Business Opportunity

A limited number of dealers in the SA R5 000-R20 000 pm can be yours in one of the fastest growing industries in the country. Help in the fight against crime and secure your future by marketing the new

Fasie Malherbe ... looking for R70-million sales

With major low-cost housing projects such as the state-subsidised R400 million development at Blue Downs on stream, the group is well placed to increase margins. Mr Malherbe says "Our Blackheath store is the only retailer in the area. Having concentrated mainly on individual builders, we are now entering the major contract market in spite of its being a marginal business."

The group does not operate on franchises and all stores are tightly controlled and administered by senior management from the Lansdowne head office.

About 60% of sales are cash.

Mr Malherbe says "I do not believe you can run a building-supply operation on a cash-and-carry basis. In this business, personalized attention and expert advice are essential."

The company organizes loans from building societies for customers buying home fittings.

Efficient security ensures a shrinkage factor of only 0.3%, but good staff morale boosted by worker participation in profit, also helps. Mr Malherbe says labour disputes with the non-unionized staff of 500 are minimal.
Acquisition for Boart

BOART International is to acquire a controlling interest in MSA Africa — a major supplier of mining and industrial safety equipment.

MSA (Mine Safety Appliances) is one of three companies vying for a share in the lucrative self- rescuer market — estimated to be worth R1bn over the next five years.

First orders for the self-contained breathing apparatus for miners are now being received from collieries. Current supplies are all sourced from overseas, but MSA has plans for local production by mid-1988. This implies significant capital commitments, an area where Boart's financial muscle may come into play.

MSA Africa is currently a wholly owned subsidiary of Auegesellschaft GmbH of West Berlin, in turn controlled by MSA of America. While the agreement reached last week gives Boart a controlling stake, Auegesellschaft and, indirectly, the US parent, will keep a substantial piece of the action — said to be just less than 50%.

The new company will be renamed Boart MSA. Boart International, an Anglo American group company, is a world force in a number of spheres, including contract drilling and exploration where, with its wholly owned US subsidiary, Longyear, it is the biggest in the field.
Shares dispute in court

The ownership of shares in two companies formerly owned by the Triton group is the subject of a dispute being heard in the Rand Supreme Court.

Mr Gerald Lubner is suing W & A Investment Corporation for 25 percent of the shares of Macphail Holdings, formerly Triton Energy, and Enyati Resources. Both were subsidiaries of the Triton group, now in liquidation.

Mr Lubner's claim arises from an oral agreement he claims he had with the managing director of W & A Investments, Mr M Simchowitz.

Mr Lubner says that he represented the General Lubner Group, Abe Swersky and Associates and a Mr Robert Newman in a written agreement with W & A in 1982.

The three parties agreed to sell their ordinary Triton shares to W & A Investments. At the same time, according to Mr Lubner, Mr Simchowitz agreed orally that if the Triton group was restructured, Mr Lubner would obtain 25 percent of the shares and pay 25 percent of the costs.

Mr Lubner says restructuring took place after the alleged oral agreement was made.

W & A contest this, saying there was never any oral agreement. The company also denies that Triton Energy and Enyati Resources were restructured.
merger

SA's television rental giants, Teljoy and Visonhire
No talks, says Trustee Savings Bank

Move to rescue Sun Life from Liberty denied

LONDON — The Trustee Savings Bank (TSB) has denied it is holding merger talks with Sun Life, the insurance company which is trying to fend off a 25.7% shareholding by Donald Gordon's Liberty Life.

TSB chairman Sir John Read said: "This particular company has certain problems and our name has been linked to them, but we have had no talks with them."

The London Sunday Times reported that TSB — market value £612m — was holding talks with Sun Life to foil Liberty's predatory ambitions.

Sun Life has a market value of £209m and Liberty's stake in it is held through an associate company, Transatlantic.

Sun Life in theory would appear to be a logical target for TSB, because their target markets do not overlap. Sun Life sells policies largely through brokers, while TSB's business in this area largely involves selling unit-linked policies to the bank's customers.

Sun Life chairman Peter Grant agreed the company was trying to find ways to cope with the "Liberty problem" but would not comment on the merger suggestions.

Grant said he believed Liberty did not want to mount a full scale bid, but there were "one or two others who would like to"

Sun Life has been resisting overtures from Liberty for a seat on the board.

Gordon is reported to want three seats, after blocking a Sun Life attempt in January to set up a new holding company to effectively dilute Liberty's stake.

Grant said: "There have been continuous representations about board membership. We don't think it's right to have people on the board representing one particular shareholder. I would like to see Liberty sell its stake."

Neither Gordon nor Transatlantic MD John Myddlemas were available for comment.
Great expectations as Rusfurn goes for JSE

From GARETH COSTA
Johannesburg. — A brand new concept in retailing, large scale rationalisations of floor space and a merger with its furniture sister in the Tradegro group, will see Dions and Rusfurn as a major force in the durable and semi-durable product markets.

The consummation of the new retail giant took effect this week with the merger of the two Tradegro wholly-owned subsidiaries.

Soon-to-be-listed Rusfurn will incorporate a number of furniture outlets covering a broad spectrum of the market, while Dions has innovated the concept of "discount credit" on "big ticket items".

**STRONG CASH FLOW**

Part of the rationale of merging the two operations has been that Rusfurn, which has 92 percent of its sales on credit, can benefit from Dions' strong cash flow and ease funding within the group.

The listing, which is scheduled for late May will be pitched to meet the required spread of shareholders without diluting Tradegro's share too much. No more than 10 to 15 percent of the shares are expected to be offered to Tradegro group shareholders.

The two divisions will contribute roughly the same amount to profits, but Rusfurn chief executive Mr Geoff Austin says that growth in Dions offers the most cause for excitement.

Most of the changes have taken place in Dions, which will have 30,000 square metres less floor space to accommodate more offices.

The move into the credit arena is designed to bring back buyers of large appliances and durable goods, while still offering discount. Dion MD Mr Hymie Sibul explains that this area was seriously affected when the economy went into a downturn.

Until then the man in the street often used to pay cash for items costing in the region of R1,000. Now, however, those same products cost twice as much and it is difficult to pay cash for them with salary increases lagging far behind the inflation.

If, however, a large deposit of 50 percent is placed, Dions will finance the rest at interest rates up to six percent below Ladofca (the ceiling rate) and a few points below if only 20 percent deposit.

**FOREX PROBLEMS**

Other changes taking place in Dions is the disposal of the food department in the Farow branch, the sale of Dion Business Systems and the move towards leasing some of the departments. Better utilisation of all the stores is being handled by Tradegro's property arm, Coreprop, which will result in some major changes in the next few months.

With foreign exchange problems behind it, consumer spending on the increase and the economy generally looking a little more encouraging, the new Rusfurn group is well poised to secure its fair share of the market.
Despite its relatively good performance, and unlike many other newly listed companies, the share price remained stagnant for several months before rising to 305c this week in a buoyant industrial sector. (The issue price was 275c.) Even at this price, the share yields a high 5.7% on dividend, compared with 3.5% average yield for the industrial holding sector, and 3.2% for the transport sector.

Tightener cost controls

Grincor was formed in 1986 as the 100% holding company of Grindrod, the shipping group’s land-based arm, and with a 60% holding in Unicorna, its sea-based arm.

In volume terms, domestic transport showed little growth last year, although, says management, better results flowed from tighter cost controls, increased productivity, and improved market share. Shipping continued to be depressed, with charter rates at a low level. But the downturn in imports was more than compensated by an upsurge of exports.

With memories of past foreign exchange errors fresh in management’s minds, Grincor’s new policy provides that forward cover is taken on not exposure per voyage. The previous policy of covering dollar receipts a full year in advance cost it dearly when the rand began falling.

A R26m capital expenditure programme is planned for the first half of next year, when improvements will be made to the coastal shipping service. Despite any short-term drain on cash-flow, chairman Murray Grindrod is optimistic that earnings will keep up with inflation. The level of business is not expected to diminish, but the political and trading circumstances at the beginning of 1987 caused Grindrod to warn that “it is difficult to forecast earnings for the year ahead with any degree of accuracy.”

Given the nature of its business, Grincor might be considered a good rand hedge stock. Sanctions might be a worry, although MD Mike Groves says that only a very small part of the company’s business is vulnerable to sanctions. “The rand’s current appreciation is good for imports and will balance any downturn in the nature of the business, he adds. At 305c, the share yields 5.7% on historic dividend. This established group seems more aligned for long-term growth than short-term performance, which may be why investors remain sly.

**Lion Match**

**New spark**

**Activities** Holding company with interests in match and lighter manufacture, and distribution of electrical appliances. Manufacturers shaving accessories. Also has packaging division.

**Control** The Wilkinson Sword Group (UK) holds 64% of the total issued ordinary share capital.

**Chairman** M. R. A. McEligott; deputy chairman. R. W. Harker.

**Capital structure** 8.8m ords of R1. Market capitalisation R141m.

**Share market** Price 1600c; yields 3.3% on dividend, 6.2% on earnings. PE ratios, 18.2, cover, 1.87. 12-month high, 1.250c; low, 830c. Trading volume last quarter, 6,000 shares.

**Financial** Year to December 31.

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**Performance**

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<td>Return on cap (%)</td>
<td>17.1</td>
<td>18.7</td>
<td>17.1</td>
</tr>
<tr>
<td>Turnover (Rm)</td>
<td>98.0</td>
<td>125.1</td>
<td>147.3</td>
</tr>
<tr>
<td>Pret-tax profit (Rm)</td>
<td>122.2</td>
<td>139.9</td>
<td>157.1</td>
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<tr>
<td>Pre-tax margin (%)</td>
<td>12.7</td>
<td>11.1</td>
<td>10.7</td>
</tr>
<tr>
<td>Total profit (Rm)</td>
<td>8.7</td>
<td>8.2</td>
<td>8.9</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>78</td>
<td>93</td>
<td>99</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>41</td>
<td>46.2</td>
<td>53</td>
</tr>
<tr>
<td>Net worth (c)</td>
<td>483</td>
<td>538</td>
<td>604</td>
</tr>
</tbody>
</table>

**Lion Match** continues to suffer from squeezed operating margins, which have fallen consistently over the past few years. While the group recorded a 27% increase in turnover in 1986, operating profit rose by only 18%.

While earnings a share, at 99.2c, were 15.6% up on the previous year and dividends 15.5%, the group again fell short of its long-term aim of generating dividend growth in real terms. Nevertheless, after four years of stagnant performance, earnings are rising. Moreover, Lion is a low-risk business with an exceptionally strong balance sheet.

At divisional level, profit contributions from electrical appliances were sharply higher. Appliance turnover increased by 60%, following a 54% increase in 1985.

The shaving, home and garden division (representing a strange combination of interests), increased turnover by 42%. Domestic volume sales were up at higher prices. Export sales of razor blades increased, and volume sales of scissors, knives and garden tools were all higher.

The packaging division recorded a real increase in turnover, represented by larger market share, although higher costs eroded gross profit margins. The import substitution programme is complete but, says management, cost increases and quality deficiencies are cause for concern.

Production from the lights division was disrupted by the upgrading of machinery. Faced with unprecedented increases in the costs of local and imported material, local match sales increased on slightly improved margins. Export sales of matches and match splints increased substantially. Disposible lighter sales were also up, but margins were hit by the higher cost of imported products.

**Increasing market share**

Divisional contributions to group performance are not given in the report, but the emphasis is changing. In terms of earnings, Lion must be moving further away from its historical dependence on the greenback and lighter business. Says CE Bob Harker: “We cannot continue to be always dependent on the match business.”

The brand strategy of increasing market share, at the expense of operating margins, must give some cause for concern. But the current economic upturn may take some pressure off margins, provided inflation is kept in check. Says Harker, “We have achieved our goal to gain market share, historically, with the introduction of money lifts. The packages and appliance divisions do well.”

The market seems to be taking this into account. The share price rose by 37% this week to 152c, in expectation of an improved 1987 performance. Also, with UK-based Wilkinson Sword Group, holding 64% of issued shares, the price could be reacting to current disinvestment flows (see Fox). But at this price, the historical dividend yield is only 3.3%.

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**Carlton Paper**

**Better view**

Although a strong rand in the second half of 1986 enabled Carlton Paper to report marginally higher earnings, future growth will again hinge on consumer confidence, exchange rates and the cost of dollar-priced raw materials. Encouraged by the narrower range of the rand/dollar rate, chairman Klaus Zyperk says higher earnings are on the cards for the current year, provided there is modest real growth in the economy.

In addition, the price of paper pulp — which is determined by Sappi in relation to overseas pulp prices — remains a key issue for recovery. At present, the dollar price of pulp is up, but a simultaneous appreciation of the rand has left Carlton better poised for profit growth than it has been for some time.
AMIC

Cash flowing again

Activities: Industrial holding company. Subsidiaries are Highveld Steel, Scaw Metals, Boart, Mondi, Control Logic and Natal Tanning. Principal associates and investments are AECI, Altron, Asea, Hegge, Ispa, Komatsu SA, LTA, McCarthy, Renfrew, Samcor, Tongaat-Hulett and Ventron.

Control: Anglo American holds 47.1% and De Beers holds 24.4% of the equity.

Chairman: W. G. Bousted.

Capital structure: 50.8m of R1 each. Market capitalisation: R5.625% cum first prefs of R2 each and 7.5m 12.375% cum red prefs of R1 each.

Share market: Price: R62. Yields 3.1% on dividend, 8.3% on earnings, PE ratio, 12, cover: 2.7 12-month high, R62, low, R27. Trading volume last quarter, 8,288,000 shares.

Financial: Year to December 31.

1986

83 84 85 86
Debt
Short-term (Rm) 291 299 207 203
Long-term (Rm) 277 746 1019 710
Debt equity ratio 0.28 0.47 0.48 0.31
Shareholders' interest 0.64 0.56 0.56 0.54
Int & leasing cover 5.0 3.9 2.9 4.9
Debt cover 0.51 0.29 0.28 0.54

Performance.

Return on cap (%) 9.5 8.2 8.2 8.9
Turnover (Rm) 1,984 2,028 2,659 3,138
Pre-proft (Rm) 299 322 369 497
Pre-proft margin (%) 14.7 15.8 14.4 15.8
Taxed profit (Rm) 201 196 220 357
Earnings (c) 365 329 347 616
Dividends (c) 180 180 180 180
Net worth (c) 3,817 3,514 3,916 4,635

Amic, as a large holding company with a diversified portfolio, provides a graphic picture of what has happened to many groups in the industrial sector in the past 18 months. A year ago, its share price had jumped from the 1985 low of R21 to around R40, and some analysts then doubted the rise was justified. Borrowings exceeded R1,2 billion and gearing was at a historically high 0.49, large foreign exchange losses were capitalised, and returns from some major investments were weak.

Since then the share has climbed to R62, and Amic has announced a 51% increase in

1986 earnings with a 5.6% hike in the payout, after four years of maintained dividends. All the operating subsidiaries and most of the associates and investments lifted their profits. Among the operating companies, exporters Highveld Steel and Mondi Paper produced exceptionally strong advances, while major associate AECI boosted attributable earnings by 53%, and raised its dividend for the first time since 1981. Amic's gross cash flow surged from R336m to R334m, borrowings were pared by R232m, and the dividend cover was raised from the thin 1.9 times to a more comfortable 2.7 times.

Economic activity will still be crucial to the growth pace that can be expected in future. The group is, however, certainly looking structurally stronger, and should be capable of producing further growth in the short-term. While the dividend yield is thin at 3.1%, some investors are bound to take the view that the yield is misleading, in view of the present emphasis on restoring cover and repaying borrowings. On the one hand the share may well offer value.

Proflts could have been better, but Amic continues to pay for past errors, notably large foreign exchange losses. The income statement was influenced by revisions to estimated effective lives of certain major manufacturing plant units and acceleration in the write-off of deferred foreign losses. Depreciation was raised from R1,171m to R1,421m, and foreign exchange losses doubled from R15m to R31m; this reduced attributable earnings before extraordinary items to R20m, equivalent to 40c a share. The group at last seems within sight of an end to its currency losses.

At end-December, there were no uncovered foreign loans. Included in debtors is an amount of R13m (1985, R48m) in respect of deferred exchange losses which is to be amortised by end-1987.

Chairman Graham Bousted again decnres to forecast results for the year ahead, owing to the continued uncertainty. But he sounds a note of caution, "If Amic is able to maintain its earnings at last year's level, this would have to be regarded as a satisfactory performance," he says.

We noted last year that Amic needed to get cash flowing from Highveld Steel and Mondi Paper, and here it was successful. Highveld produced record attributable earnings of R60m (R41m), and Mondi's figure soared from R1m to R53m. Both exporters were helped by last year's weak rand. The rand is now well up on the levels of late 1986, and Highveld says 1987 earnings are expected to be satisfactory, though not as high as the record results of 1986.

Mondi, however, has other advantages than the rand. It has increased pulp production to 340,000 t (220,000 t) at its new Richards Bay plant, is enjoying strong demand for manufactured products, and has cut borrowings. It expects another earnings boost in 1987. AECI is benefitting from improved volume throughput in its operations, which have been made leaner by rationalisation, and has also trimmed borrowings; it, too, expects continued earnings growth.

On the whole, Amic now has no major loss-makers draining its cash. LTA is back in the black, forecasting earnings of around R4m for 1987 after the 1985 loss of R5m, and even 19%-held motor group Samcor has moved away from large losses after its rationalisation with Ford SA. Some interests should show recovery this year. Tongaat-Hulett has forecast earnings of 75c a share (24c).

Amic's borrowings and the interest bill look set to shrink again this year. Year-end cash holdings had swollen to R150m (R120m). Unless present forecasts of economic growth for the country collapse, then the main impediment to another good year for the group may be any adverse effect a high rand has on export earnings. This could, however, be more than offset by the momentum that the group's broad industrial portfolio could gain from a healthier economic environment.
and the other for cargo. MD Brian Ruskin claims the data service could save the user 20% on transport costs once the new system is in operation — but that red tape currently remains a serious obstacle to growth. "Deregulation," he says, "would be a major lift for the business as permit applications can take months — and they aren’t always successful."

André Jacobs, CE of the National Association of Private Transport Operators, the ancillaries’ body, says few of his members will compete head-on with the public carriers. In the US, only about 5% of ancillary operators entered the public market. But if these companies can make more efficient use of their fleets, this would be at the expense of public haulers.

But the new system may not be a one-way street for ancillary operators — Braun believes public carriers will have the flexibility to bid aggressively for business across a wider cross-section of transport intensive industries.

"Ancillary operators, who are rapidly becoming disengaged with transport and distribution costs, will be better placed to contract out all or part of their transport needs," he says.

Walters agrees, saying if SA follows the Australian pattern, many freight users will stop operating their own fleets. Instead, they will contract out their goods to freight forwarding companies, the transport middlemen.

For example, in Australia four freight forwarding companies control 35% of interstate road traffic and 71% of rail traffic, which led to complaints of monopolistic practices. However, the Australian National Road Freight Industry Inquiry found that the forwarding companies offered special services to the consumer, including:

- Levels of service superior to those offered by alternative methods,
- The ability to respond flexibly to a diverse range of customer needs, and
- A high degree of product innovation with some of the consequent cost savings being passed on to users.

And with freight forwarders carrying out much of their sales and marketing functions, owner-operators will be in a stronger position to concentrate on their real field of expertise.

For SA, the implications of such a new system could be considerable, with more opportunities for black-owned and Asian-owned companies to enter the transport business. Braun says less capital-intensive operations such as short and medium haul routes could provide ample opportunity for small operators. Jacobs adds that black entrepreneurs, for example, could make deliveries into the townships which established operators might consider too risky.

There are considerable entry costs to the industry (see Table). But operators who can find the finance will be able to undercut the larger companies, whose considerable investment in training, marketing and personnel adds to the cost of their operations. This is making the larger operators anxious, as Marcus admits: "We are stuck between a privileged Sats and the possibility of fly-by-night operators. There should be stringent quality standards to prevent shoddy operators from coming in."

This is a familiar note. However, Marcus doesn’t object to small businesses entering the market — it’s just that he questions their ability to provide adequate service in specialised areas. "Customers are very cost-conscious and will be attracted by competitors able to undercut us. But what about hazardous goods?"

Other operators are sceptical about the "flood of new entrants." Mike Norris, MD of Hultrans — also one of the "big five" in SA — says there is 35-40% empty capacity on existing routes. This, combined with high operating costs, would be a major disincentive to new operators.

In the US and Australia major operators increased in size over the long term in a deregulated climate. Braun says operators dominating activities that demand large fleets of sophisticated vehicles will almost certainly become bigger.

"As in other countries, public carriers tend to merge, buy out or co-operate to justify investment, improve expertise and do the job more efficiently," he notes.

Although the end of permits will mean an administrative saving of R6.5m a year, it also means an end to the status quo. It hasn’t been easy for hauliers to compete with red tape, but at least the present system, as they see it, "is safe" and prevents competition. But overseas experience suggests there will be at least a four-year period of disruption for companies like Cargo and Hultrans — when they will have to show they can match any new operator on price as well as service.

They must also watch out for a revitalised railway system, should SA emulate the north American experience. But it stands to reason that increased competition is good for the consumer and, in the long run, good for the industry as well.

KROK BROTHERS

Mixing a new brew

Every economic scenario has its own set of actors, and the stars of a boom generally make way for a new cast once a recession takes centre-stage. Few have taken greater advantage of the recession than Solly and Abe Krok, whose major investment only two years ago was the joint shareholding, with the Premier Group, in pharmaceutical company Twins-Propan, which controlled the listed Alex Lipworth.

The twins began the Twins group in November 1993 when they put a R2200 deposit down on a small chemist in Norwood Street. That chemist shop registered sales of £192 in its first month — today the Twins pharmaceutical group boasts sales of some R160m and pre-tax profit of about R30m.

In the past two years the Kroses have put their strong cash flow to use in establishing controlling stakes in three listed companies whose joint market capitalisation totals almost R120m. The Kroses’ share of this capitalisation amounts to some R66m, and rises to about R74m if the indirect stake in Lipworth is included. Lipworth is capitalised at R25m.

Their investments cross a spectrum from engineering to office furniture, to salt and...
STANBIC

Up to standard

Activities: Banking and financial services
group which operates countrywide networks
Control: Standard Chartered PLC owns
36.98%.
Chairman: H P de Villiers; managing director:
C B Strauss.

Capital structure: 74m ords of R1 each, 8m
cumulative prefs of R1 each. Market capitalisa-
tion: R1 721m.
Share market: Price: 2 325c. Yields: 3.4% on
dividend; 9.2% on earnings; PE ratio, 10.8;
cover, 2.7. 12-month high, 2 300c; low, 1
1776c. Trading volume last quarter, 174 000
shares.

Financial: Year to December 31

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<th>'83</th>
<th>'84</th>
<th>'85</th>
<th>'86</th>
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<td>Advance (Rm)</td>
<td>8.2</td>
<td>12.4</td>
<td>16.1</td>
<td>16.9</td>
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<td>16.1</td>
<td>19.1</td>
<td>20.7</td>
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<td>Pre-Tax Profit (Rm)</td>
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<td>210.4</td>
<td>250.0</td>
<td>267.3</td>
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<td>Attributable Profit</td>
<td>121.6</td>
<td>144.8</td>
<td>183.6</td>
<td>209.0</td>
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<td>Earnings (d)</td>
<td>188</td>
<td>213</td>
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<td>Dividends</td>
<td>55</td>
<td>62</td>
<td>71</td>
<td>78</td>
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<tr>
<td>Net Worth (d)</td>
<td>928</td>
<td>1 005</td>
<td>1 197</td>
<td>1 648</td>
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</table>

The latest accounts from Standard Bank
Investment Corp (Stanbic) are certainly the
most informative the group has yet pro-
duced. They reflect an organisation well
placed to benefit from any rise in demand for
banking services, but which last year suc-
ceded in increasing taxed profit only as a
result of acquisitions.

The banking group's contribution to taxed
profit fell by 10.7%, while that of the com-
cmercial bank dropped by 12.1%. The main
reason was bad debts, the provision for which
increased by 15.7%, partly negating a 10.5%
rise in operating profits. Net new provisions
were R187.6m, while a further R101.6m
(R61.1m) was written off during the year
against existing provisions. Specific provi-
sions have now reached R219.5m and gener-
al provisions R178.2m, compared with
R156.9m and R154.8m at end-1985.

Group MD Conrad Strauss regards the
low demand for credit as one of the main
problems facing the bank. Loans and over-
drafts at the end of 1986 were slightly less
than 1% down on December 1985. But

However, seem to be some improvement in
the bad debt situation since year-end.

This alone will not be enough. According
to Strauss: "The problem is volumes and
operating costs. Costs grow in line with infla-
tion and we don't see an exciting year unless
there is an improvement in the demand for
funds."

The market is pushing the Stabtic share
price to record levels, on perceptions that it is
positioned to take advantage of any upturn in
demand for funds, without having to raise
more capital. Chairman Henri de Villiers
insists that there will be no need to raise
additional capital from shareholders for
some years to come, but capital already
raised (the average number of preferred and
ordinary shares increased 19% last year)
needs to be serviced. Earnings a share fell by
5% last year, and this year there will prob-
ably be no equivalent of Unisec and Hesper-
us.

But it is not simply a question of whether
the company is a good investment, but rather
a matter of when the banking sector will pick
up again.

Peter Keaney

Stanbic's Strauss... strong
competition
added efficiency
the art of privatization and management
Anglo links with LSE high-flyer

By Ian Smith

Anglo American Corp has formed a R200-million-a-year lead, zinc and ceramics group by merging its subsidiary Zincerum & Industrial Mineral Resources (Zimro) with the local subsidiary of Britain's Cookson group.

The marriage of the two major players in South Africa's industrial minerals and metals sector has also secured the new group's access to state-of-the-art technology in the new generation ceramics and plastics engineering industries.

The new company is contemplating a listing on the Johannesburg Stock Exchange.

Talks, which began two years ago, culminated this week in an agreement to incorporate all the operations of both companies into a new holding company, Zimco Holdings, with turnover of more than R200-million a year.

Zimco holds 55 percent of the new company while Cookson plc owns the remaining 45 percent.

A listing could be the road "if the market and other factors look right," says Chief Executive Donald "Buck" Buchanan, the former managing director of Zimro. Zimro chairman Alan McCallum is also chairman of the new group.

New acquisitions are already being negotiated, with one agreement due to be signed shortly.

Traditionally, Zimro has dominated the zinc processing industry, providing zinc dust, oxide and chemicals for the mining and other industries. The company also pro-

stabilisers for the PVC industry.

"There's a large degree of synergy between the two companies," says Mr. Buchanan. "The merger makes sense for everyone. Cookson has a strong local partner to help its growth in the South African market and we have guaranteed access to the latest technology to enable us to move into high-tech fields."
THE Competition Board says it cannot object to the R100m merger between SA's two television rental giants, Teljoy and Visionhire, as it will benefit consumers.

A weekend statement said its chairman, Seif Naudé, had stated that Visionire and Teljoy consulted the board in July.

It added: "On the evidence supplied, there is reason to believe that substantial cost savings can be achieved by the merger, particularly in respect of maintenance of the appliances, and that such savings will, in the circumstances, benefit the consumer."

Fresh information indicated that, since the middle of 1986, almost no growth took place in Visionhire and Teljoy's rental business.

"In the light of the information available to it, the board is not aware of circumstances which do not justify the merger of the companies concerned in the public interest."

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**Competition Board happy with TV merger**

Answering questions raised about the validity of the merger, the statement said of a total of 2,200 television sets and 400,000 video recorders supplied to the market, 2,100 were on rental.

"There is reason to believe that rental has achieved a mere 3% of the total market."

"Of the total number, less than 5% (125,000) is supplied by Visionhire and Teljoy."

The statement said that, according to another source, the total number of units supplied up to 1985 was 3,800 million.

"Out of that total, those supplied by the merging companies would be approximately 3%.

---

Competition for the merging companies, it said, was provided by 10 groups who had from 15 to 200 outlets and an estimated 800 independent stores — more than 2,000 outlets altogether.

"Various forms of financing are available and many businesses carry out rentals. The merging companies do not represent a significant portion of the market properly defined."

"Freedom of entry is an important consideration in competition policy, including acquisition policy. There are no barriers to entry into the market concerned. Entry is, in fact, particularly easy."

"No significant capital outlay was necessary and a lessor in particular, could commence business with one or two sets."

"This is borne out by the fact that these goods are offered for rental throughout SA by a large number of businesses engaged in a variety of activities."

Regarding the markets concerned, the board said it was significant that the supply of television sets and video cassette recorders took place in several ways:

- Retail through discount outlets for cash or hire purchase or credit card;
- Lease terms from a finance company;
- Retail through furniture stores, appliance dealers and department stores for cash or on hire purchase or credit card;
- Mail order;
- The direct supply by manufacturers to the business sector, for instance, hotels, by sale, rental or lease; and
- Rental companies such as Visionhire, Teljoy and numerous other small dealers carrying out rental all over the country.
Sorghum beer industry in line for privatisation

THE R400m-a-year sorghum beer industry is likely to be ready for privatisation next year.

Constitutional Development and Planning Minister Chris Heunis said yesterday that the Industry had been handed to the Industrial Development Corporation (IDC) and that privatisation legislation would be considered in the next parliamentary session.

IDC GM Jan de Bruyn said the corporation hoped to have the industry ready within 12 months.

Control has been transferred to the IDC from provincial administrators. It was originally the responsibility of the now-disbanded development boards.

Heunis said the IDC would rationalise the industry before handing it over.

De Bruyn described the IDC's role as that of a "trustee owner". He said it would consult merchant banks before deciding how privatisation should be approached.

"We don't know yet if it is a profitable industry," he said. "Some breweries make money, some don't. We have only just been handed control and there is a lot of work to be done."

Competition for shares in the sorghum beer industry has been hotting up since it became clear privatisation was on the way.

Late last year, the Kwazulu Finance and Investment Corporation formed a consortium with local companies to bid for sorghum breweries in Natal.

SA Breweries is interested in acquiring a major stake. A spokesman said yesterday: "People shouldn't think we are panting to take over the industry. Like any enterprise, we must first examine prospects and decide whether to go for it or not. Nevertheless, any move that will hasten privatisation is to be welcomed."
Seeking synergies

Boymans' merger with Amrel's Uniewinksels looks a good strategic move for both parties. Boymans, while retaining management control, gets 100% control of a company with a budgeted turnover of R45m a year — for R5m in cash and a share issue valued at R7.7m.

This increases Boymans' projected turnover for 1987 to R100m. Moreover, Uniewinksels' departmental stores and Boymans' John Scott stores target similar income groups, and both offer customer credit. There will also be advantages in more rationalised buying and marketing. Control of Boymans remains in the hands of its directors.

Amrel gets 36% of Boymans' enlarged issued share capital, and disposes of a division which has failed to perform to expectations.

Although Boymans' MD Abe Brodkin will not discuss plans for Uniewinksels, it seems likely that, once the company has taken a good look at the operation, it will use the John Scott name to give Uniewinksels' department stores a younger image.

Under chairman Eric Ellerine, who assumed the position last year, Boymans has improved its operating profit, and claims to be well poised to take advantage of an economic upturn. While Brodkin is adamant that the advantage of the deal is solely due to synergies between the operations, cash flow might be put under strain should turnover rise dramatically. Brodkin anticipates no problem in cash flow, so one might speculate that the financial details, due to be released in the June 30 interim report, will show that Uniewinksels has contributed a strong current assets position to the consolidated balance sheet.

That Amrel is accepting shares in part payment, probably indicates that it is confident that Boymans will succeed in improving bottom line results of the enlarged operation.

Dave Edwards
AECI

Growing again

Activities: Largest producer of chemicals in SA. Main operating divisions are: Chlor-alkali and plastics, explosives and chemicals, polymer derivatives; and other trading activities. 

Control: Arms owns 40% and ICI owns 38%

Chairman: G W H Reilly: managing director

M A Sander

Capital structure: 154,7 m ords of R1 each and 3m 5,5 cum prefs of R2 each. Market capitalisation: R2.7 billion.

Share market: Pre: R17.75c Yields 3.4% on dividend, PE ratio, 15.7, cover, 1.9 12-month high, R17.75; low, R10.36 Trading volume last quarter, 550 000 shares

Financial: Year to December 31

Debt: 
- Short-term (Rm) ... 65 124 92 105
- Long-term (Rm) 360 422 536 378

Debt/equity ratio ... 0.65 0.68 0.74 0.80

Sharehold/interest interest ... 0.49 0.46 0.43 0.47

Int & leasing cover ... 1.2 1.3 1.4 1.6

Debt cover .......... 0.58 0.45 0.38 0.61

Performance:

'83 '84 '85 '86

Return on cap (%) 15.0 12.3 12.8 16.2

Turnover (Rm) 1 621 2 017 2 340 2 819

Pre-int profit (Rm) 244 235 263 332

Pre-int margin (%) 15.9 11.0 10.6 11.2

Taxed profit (Rm) 136 112 114 175

Earnings (c) ........ 82.6 72.4 74 113

Dividends (c) ........ 55 55 95 80

Net worth (c) ....... 617 611 630 582

AECI gave a glimpse last year of what it could be capable of achieving in a steadily growing economy, particularly with the much tighter grip now being kept on asset management. Not only was the dividend lifted off its five-year plateau, but cover was raised and interest-bearing debt was cut by 23%.

A key factor behind this was a 4% increase in the volume of domestic sales, indicating there could be a lot more momentum in earnings if markets grow at anywhere close to this pace in the 1987 year.

Given the breadth of the activities, which are linked in one way or another to many sectors of the economy, the sales improvements were not evenly distributed. Better performing areas were chemicals, plastics and fibres, but sectors more directly associated with consumer demand enjoyed little, if any, growth. Investors may be taking the view that the laggard sectors will spring to life this year. At R17.75c, the share stands on a historically high p/e of 15.7 and is hardly cheap.

Still, profitability in the group's capital-intensive operations responds quickly to volume improvements. On last year's 20% increase in turnover, net trading income jumped by 31%, reflecting improved trading margins in most of the divisions. Net trading income as a percentage of turnover climbed from 11% to 12%, but this remains well below the 15% of 1983 and 16% of 1982 - again indicating potential for improvement.

As in the past, explosives and chemicals was by far the most profitable division, with the margin of net trading income to turnover increasing from 23% to 24%, while turnover was up by 15.5% at R743m.

On the explosives side, where the group long enjoyed a monopolistic command of the market, demand from the gold and platinum mining industries improved, and is expected to remain firm; but sales to coal mines will depend on the extent to which coal exports are maintained. However, management notes that competitive activity has been seen in the supply of bulk explosives to the iron ore industry and is developing in the opencast coal mines.

Agricultural chemicals remained depressed by the weak financial position of farmers, and by overtrading in the nitrogenous fertiliser market. By contrast, both volumes and margins of industrial chemicals improved over a wide spectrum and impressive trading conditions are expected in 1987.

However, the strongest improvements were achieved elsewhere. In the chlor-alkali and plastics division, net trading income jumped to R58m (R37m), increasing its margin to turnover from 6% to 8%. In the polymer derivatives division, net trading income more than doubled to R55m (R27m), the margin to turnover rising from 6% to 9%.

Among factors benefiting the former division was firm demand from the export-orientated mining and paper industries which, with better domestic demand, boosted chlor-alkali and organic chemicals. In plastics, profits from the high-yield acrylics and polyester were much higher as a result of lower imports, while demand for polyester polymer fibres and packaging picked up in the second half. SANS hopes to gain this year from product developments.

In the polymer derivatives division, South African Nylon Spinners (SANS) was a major contributor to the profit surge. SANS profited from the high-yield acrylics and polyester which resulted from lower imports, while demand for polyester polymer fibres and packaging picked up in the second half. SANS expects to gain this year from product developments.

The remaining division, other trading activities, lifted net trading income to R43m (R38m) on reduced margins of 6% (7%). Turnover rose by 22% here, the outstanding contributor was the subsidiary Chemical Services. But the paintings business battled against boring markets, as did Kynko Fertiliser which, nonetheless, was profitable.

In January, AECI announced the acquisition of the Triomphe Potchefstroom operation for R58.5m, plus the value of the stocks on hand. Chairman Gavin Reilly says the acquisition, which is being merged with Kynko, should enable substantial cost savings, efficiency improvements and rationalisation benefits.

"With factories at Potchefstroom, Chloralk and Somerset West providing a well-balanced geographical spread," he says, "the expanded operation is now well placed to benefit from any improvement in fertiliser demand."
There is still no sign of developments on the synfuel front. Elsewhere, though, the group has picked up the pace of investment. After capital authorisations fell last year below the depreciation charge against income — which last occurred in 1978 — authorisations have increased to R162.8m (R114.9m). The major component is a project to increase the chlor-alkali and PVC capacity at Coalplex, others include a new paint factory at Umbogintwini and an additional polyester spinning unit at SANS.

Andrew McNulty
Better focus

Activities: Motor component manufacturer.
Control: Waseco and Toyota jointly have a stake of 41.5%.
Chairman: D.C. Stewart, Managing Director: A.D. Plummer
Capital structure: R5.7m of 6c: Market capitalisation: R72.4m.
Share market: Price 1.270c: Yields 2.5% on dividend, 8.6% on earnings, PE ratio 11.8, cover 3.3, 12-month high, 1.550c; low, 900c.
Trading volume last quarter: 46,000 shares.
Financial: Year to December 31

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Performance:

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<td>Pre-int margin (%)</td>
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<td>6.5</td>
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<tr>
<td>Taxed profit (Rm)</td>
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<td>6.8</td>
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<td>183.4</td>
<td>146.0</td>
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<td>Dividends (c)</td>
<td>26</td>
<td>30</td>
<td>30</td>
<td>33</td>
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<td>Net worth (c)</td>
<td>738</td>
<td>873</td>
<td>1088</td>
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After a year of reconstruction, Metair has emerged looking stronger and better focused. Two divisions it was unhappy with were ditched, while motor air-conditioning company Dunair was acquired for R2.5m.

Having lost patience with its troublesome divisions, Metair sold its 50% interest in the unprofitable Concorde Foundry for R1.3m, thereby taking a loss of R1.42m. It also sold its 40% interest in Wesglas for R7.026m, after Wesglas shareholders failed to agree with Metair on the need to increase the company's capital.

With R12.4m raised in a rights issue last year, "the customer base has been broadened, new markets have been established, new products have been introduced and successful inroads have been made into the export field," says chairman Douglas Stewart. The balance sheet shows R8m cash on hand at end-December, and the group is "actively seeking new investments."

Export sales are increasing, and eventually management would like to see a maximum 25% of turnover derived from abroad. This would enhance the contra-cyclical sales profile Metair is looking for. With its drive into exports, and the acquisition of Dunair, Metair aims to reduce dependence on original equipment component sales, which closely follow sales of new cars. Metair was once heavily exposed to this extremely cyclical market.

In another important change of direction, the group has loosened its bonds with former controlling shareholder Toyota, which was also its main customer. Realising the potential dangers in corporate nepotism which might have resulted in other car makers withholding business from Metair, Toyota and its pyramid Wesco sold shares to leading financial institutions, thereby reducing their joint holding from 76.5% to 41.5%.

Restructuring costs were incurred, but the sharper focus on replacement components had favourable results. Metair's earnings a share recovered last year to 108c, having plunged in 1985 to 80c.

The Raylite battery subsidiary performed well, although Stewart says margins were thin in this market and Raylite's profits were "slightly below those of 1985." Armstrong Hydraulics did extremely well, ending the year "with the best results recorded in its history." Supreme Spring Systems has given much attention to developing its export market, and towards production of land-cultivating tools for agriculture - "Significant costs were incurred in the first six months, and Stewart says the company could see significantly improved profits this year.

Dunair is also expected to lift its profits following the closure of its Brits factory, and the transfer of production to Metair subsidiary Smith's existing factory in Pinetown.

For the current year, Stewart expects new vehicle sales to rise above "the disastrous level of 1986." This should boost that portion of Metair's business which still relies on new car sales. At the same time, the replacement market should remain reasonably buoyant. "There appears to be every justification for taking an optimistic view," Stewart concludes.

At 1.270c, and on a p:e ratio of 11.8, the share has the highest rating in the motor sector, and seems to reflect management's optimism. (Neville Ghost)
Capital structure: 6.9m ords of 50c  Market capitalisation R86.6m
Share market: Price 1400c; Yields 4.1%; on dividend, 16.4% on earnings, PE ratio, 6.1, 
cover, 4.0 12-month high, 1700c, low, 980c
Trading volume last quarter, 49 000 shares
Financial Year to December 31
'83 '84 '85 '86
Debt
Short-term (Rm) 23.1 16.2 17.9 26.7
Long-term (Rm) 17.4 16.4 9.0 8.0
Debt/equity ratio 0.56 0.35 0.27 0.31
Shareholders' interest 0.41 0.40 0.41 0.31
Int & leasing cover 3.0 2.6 2.5 3.0
Debt cover 0.55 1.05 0.74 0.70
Performance.
'83 '84 '85 '86
Return on cap (%) 18.0 20.8 11.4 11.6
Turnover (Rm) 200 232 242 288
Taxed profit (Rm) 16.6 12.7 12.4 15.8
Earnings (c) 240.7 184.0 180.0 229.0
Dividends (c) 52 40 45 57
Net worth (d) 1 053 1 237 1 480 1 622

Ellerine's recovery off a low base continued in the past year, and although it has yet to
reach 1983 earnings levels, it seems certain the
company will achieve the objective in 1987.

Director Sidney Ellerine says sales are
holding up well compared with last year
"Sales aren't up substantially," he says, "but
the increase is sufficient to make us happy."

He says unrest in the townships had
quietened, and collections are fair better than
a year ago, so this should help margins.
Ellerine's pre-interest margin fell from
11.4% in 1985 to 10.5% in 1986 as inflation
hiked in overhead costs, and poor collections
took their toll. The deterioration in collection
was reflected in cash flow, cash generated
by trading operations plunged from
R273.5m in 1985 to R42.5m in 1986.

But Ellerine is in a better position than
most furniture retailers in its ability to
absorb bad debts. The group has 34.4% of
turnover tucked away in a provision for
doubtful debts and unearned finance
charges, following the allocation of an addi-
tional R19m to this provision in 1986.

Turnover growth in 1986 was helped by
the opening of 10 new stores, and average
turnover per store rose from R384 000 to
R1.1m. The intention is to open a further 10
to 15 stores during 1987, says Sidney Eller-
ine. This will take the total close to 300

Despite expansion, interest-bearing debt
rose by only R7.8m in 1986, taking debt,
equity, to 0.31 Chairman Ernie Ellerine says
the group's long-standing policy of maintain-
ing a four times dividend cover has stood it in

**ELLERINE (E252)**

**Positive signs**

**Activities:** The group's subsidiaries operate in
the retail home furniture and appliance market

**Control:** Tedelax holds 60.2% of the equity.

Chairman and managing director: E Eller-

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**FINANCIAL MAIL, APRIL 10 1987**
Paying the Price

Activities. An investment holding company with subsidiaries involved in the manufacture and distribution of televisions, radio, hi-fi, video recorders and a range of consumer and professional appliances and electronic equipment.

Control: The holding company is General Mining Union Corporation with 96.8% of the equity.

Chairman: D J Jacobs, managing director J Cohen

Capital structure: 60.5m 1d of 25c Market capitalisation R242m

Share market: Price 400c, Yield 6.3% on earnings, PE ratio 16, 12-month high 450c, low 240c Trading volume last quarter 149,000 shares

Financial: Year to December 31

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Performance: '83 '84 '85 '86

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<td>Dividends (c)</td>
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<td>Net worth (c)</td>
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<td>169</td>
<td>195</td>
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* 18 months

At an attributable level, Tedexlex has almost recovered to its 1983 earnings, after two years of heavy losses. But the cost of restructuring its balance sheet is reflected in earnings a share.

In 1983, attributable profit of R17.2m yielded earnings a share of 130c, while R15.3m earned last year translated into only 25c a share, thanks to the large dilution caused by the September 1985 rights issue. More than 47m shares were issued to raise R122m, and to reduce the unsustainably high debt/equity ratio of 8.6 at end-1984. This dilution has also been reflected in the share price. Tedexlex was once an R11 share, but in the past year it has traded between R2.10 and R4.30.

The firm's tendency of the share in recent months may reflect improved earnings prospects - earnings of at least 35c are expected, and dividend payments should resume.

After a two-year absence.

But evidence that group debt is again creeping up is beginning to worry some investors. Interest-bearing debt rose to R203m at end-1986, from R148m in 1985. Of the R163m owing in long-term loans, some R157m is due to holding company General.

MD Jack Cohen attributes the increase to disappointing sales in the fourth quarter of 1986. Retailers stocked up in anticipation of a good Christmas which failed to materialise. The result was stock overhanging the market, and Tedexlex's own stock levels have risen. The value of finished goods in stock has increased from R74m to R104m, representing 18% of last year's stock. Debt has therefore risen to finance higher stock levels, and subsidiary Eilerne is having to fund a larger debtors book.

Cohen says the group should be able to reduce debt by about R40m this year through tighter inventory control. He says he is not too concerned about the higher debt bill, as interest rates should remain low during most of this year. Despite a 55% jump in year-end borrowings, interest paid by Tedexlex fell 63% to R22m.

Stocks have started falling, says Cohen. While February's sales were disappointing, January was a reasonable trading month and March was more buoyant. But he says it is difficult to identify a pattern as retailers don't buy in the first quarter. The next three months will be the most telling in terms of trends.

While furniture, consumer durable and television sales could well pick up, there is likely to be some delay in the recovery of lighting and air conditioning product sales, as the building industry has yet to show signs of recovery.

In anticipation of a dividend of about 11c, the share is on a prospective dividend yield of 2.8%, which is hardly cheap. A strong resurgence in consumer spending later in the year could change that and revive investor interest.

Kerry Clarke
Sorghum goes private

LEGISLATION leading to the privatisation of the sorghum beer industry will be considered during the next parliamentary session, Minister of Constitutional Development and Planning Chris Heunis announced this week.

He said interim responsibility for the industry had been transferred from provincial administrators to the Industrial Development Corporation from April 1.

"The government is convinced that privatisation will benefit both the industry as well as the personnel and therefore banks upon their continued cooperation to maintain the industry and to expand it into a more vital and profitable undertaking," said Heunis.

"I am confident that this interim step will serve as an example of the government's earnestness to privatise the industry," he said. — Sapa.
THE long-awaited mine merger of Springs Dagga and Consolidated Modderfontein is off the starting blocks.
Lucas Pouroulis’ Golden Dumps group, which administers both mines, has announced proposals for combining the operations of the adjacent East Rand mines, and has issued a cautionary notice to shareholders.
In the proposed scheme, which has still to be approved by the shareholders of both companies, one Cons Modder share will be issued for every eight Sprdag shares held.
Sprdag’s assets and mining title will vest in the merged operation — under the name of Cons Modder — and Sprdag’s JSE listing will be terminated.
While the mines operate as self-contained units, both long-term exploitation of the contiguous areas as a single project, as well as short-term rationalisation of resources, make the merger an economically viable and attractive proposition, says a Golden Dumps spokesman.
Volkskas and UBS in share deal link-up

From GERALD PROSALENDIS

Johannesburg — In linking together in a R293.1m deal, UBS Holdings and the Volkskas Group has set the stage for the creation of a financial giant with total assets in excess of R22 billion.

The deal, announced today, involves UBS issuing 23.9 million new shares to Volkskas to the value of R116.9 million. Volkskas will, in turn, issue to UBS 12.7 million shares at a value of R146.5 million. It has been based on a price of 500c for a UBS share and 1150c for a Volkskas share.

UBS will bridge the difference in value between the share exchanges with a cash payment to Volkskas of R27.6 million.

This will raise UBS's issued capital to 236.9 million shares of which Volkskas will hold 10%, the maximum allowed in terms of the Building Societies Act.

Volkskas' issued capital will increase to 42.5 million of which UBS will hold 30%.

Today's announcement says that UBS earnings will rise by 8.5% while those of Volkskas will be reduced by 14.5%. Dividends will not be less than those that would have been paid prior to the transaction.

The deal, which strictly speaking does not amount to a merger, could facilitate the cooperation in a number of customer and technical areas of operations to the mutual benefit of both organisations.

It gives UBS instant access to the banking market, and Volkskas's widespread branch network in particular. UBS will be the second building society to develop a specific banking link, being pre-empted by the Allied Building Society which bought the French Merchant, changing its name to the Allied Bank.

While Volkskas's customer profile has largely been confined to the Afrikaans speaking market, UBS has roughly an equal spread of customers in both language groups.

Sleeping giant

The linking of the two institutions could give Volkskas access to a much wider market than it has had in the past. Volkskas, seen by some as the sleeping giant of banking, showed a net income after taxation and transfers to reserve of R53.0 million for the 1986 financial year compared with R52.9 million in 1985. Both these figures had slipped from a 1984's net income of R59.0 million.

At the end of the 1986 financial year Volkskas' total assets were R13.4 billion and UBS R8.2 billion.

By contrast, the Standard Bank Investment Corporation has total assets of R20.6 billion and after tax income of R214.5 million, fully disclosed Barclays showed a net income before extraordinary items of R107.3 million for a nine month period on total assets of R18.75 billion.
BY LINKING together in a R293,1m deal, UBS Holdings and the Volkskas Group have set the stage for the creation of a financial giant with total assets in excess of R22bn.

The deal, announced today, involves UBS issuing to Volkskas 23,8m new shares to the value of R118,5m. Volkskas will, in turn, issue to UBS 12,7m shares at a value of R146,5m. It has been based on a strike price of 50c for a UBS share and 1,55c for a Volkskas share.

UBS will bridge the difference in value between the share exchanges with a cash payment to Volkskas of R27,5m.

This will raise UBS's issued capital to 236,9m shares of which Volkskas will hold 19%, the maximum allowed in terms of the Building Societies Act. Volkskas' issued capital will increase to 43,5m of which UBS will hold 30%.

Today's announcement says UBS earnings will rise by 5,3% while those of Volkskas will be reduced by 14,2%. Dividends will not be less than those that would have been paid prior to the transaction.

The deal, which strictly speaking does not amount to a merger, could facilitate co-operation in a number of customer and technical areas of operation, to the mutual benefit of both organisations.

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At the end of the 1986 financial year Volkskas' total assets were R13,4bn and UBS' R8,3bn.
FOSCHINI

Profits, loans leap

Activities: Chemstore retailing clothing and jewellery. The group operates under the names Foschini, Markhams, Pappas and American Swiss.

Control: Lefci owns 50% of the equity. The directors have ultimate control.

Chairman: S Lewis, managing director H A L Matthew.

Capital structure: 970 000 ords of 50c each. Market capitalisation R257m.


Trading volume last quarter, 1 670 shares.

Financial: Year to December 31

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<td>Long-term (Rm)</td>
<td>12.0</td>
<td>12.0</td>
<td>11.9</td>
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<td>Equity ratio</td>
<td>0.34</td>
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<td>Pre-tax profit (Rm)</td>
<td>13.3</td>
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<td>Debt cover</td>
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<td>Return on cap (%)</td>
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<td>24</td>
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<td>Turnover (Rm)</td>
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<td>Pre-tax profit (Rm)</td>
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<td>Dividends (c)</td>
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<td>7 682</td>
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<tr>
<td>Net worth (c)</td>
<td>5 603</td>
<td>7 682</td>
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A feature of Foschini’s 1986 balance sheet is the sudden appearance of R27m short-term debt. The loan was raised to pay an unusually high tax bill, resulting from a long-standing dispute with the Receiver of Revenue, which Foschini has apparently lost. The chain has presumably provided for the tax over several years, so neither present nor future earnings are affected.

What has happened, though, is that Foschini has been called to liquidate its tax debt, with the result that its debt/equity ratio has more than doubled to 39%, from 14%. Although the present gearing ratio is still well within the group’s financial target, it is higher than the levels attained by the group in recent years. The last year when debt equity was this high was 1982, when it reached 59%.

The interest bill will certainly be higher than it was in 1982, and will place some strain on profits. At operating level, though, Foschini looks as strong as ever. From a 17% increase in sales last year, operating profits spiralled to R31.8m (R32.5m), with all the divisions performing well. According to Finance Director Roy Norman, “Our stock clearances were among the best we’ve had. Foschini is also still benefiting from the computerisation of daily sales statistics which is assisting our planners tremendously.”

All divisions are expected to improve further this year. The Foschini chain is expected to boost sales without much expansion. More jewellery counters will be introduced in the boutiques while the main emphasis will be on improving productivity m². Page’s main growth is expected to come from the opening of more than a dozen stores.

The group is expecting real growth in 1987, although detailed forecasts are not available. Turnover so far is ahead of last year. However, it should be borne in mind that sales for the first half of 1985 were slow and much of the activity came after July. Norman concedes that it will be more difficult to improve on the second half’s performance.

Foschini’s 970 000 issued shares are tightly held by pyramid company Lefci, institutions and pension funds, making the few that were available almost unmarketable at prices of around R300. This may change when the chain lists its share 10-for-one, which it recently announced it intends doing. Expectations are that the counter will trade at about R30 after the split, putting shares within the reach of smaller investors.

Norman believes the unmarketability of Foschini is responsible for its weak rating relative to competitor Edgars — even though tight asset management enabled it to outperform Edgars on pre-interest margins. Edgars is currently sitting on an e.p ratio of 18.4, considerably higher than the 10.4 of Foschini.

Foschini’s Lewis... expecting real growth

BTR DUNLOP

Moulded together

Activities: The group is involved in manufacturing and trading. Principal products are tyres, tubes, conveyor belts, industrial hose, rubber mouldings and extrusions, diesel engines, fluid transmissions, automotive engine components, vinyl flooring, carpets, sports goods, mattress and foam products.

Control: BTR PLC (UK) holds 53% of equity.

Chairman: P. Fotherby, managing director C R Hopson.

Capital structure: 23m ords of 50c. Market capitalisation R316m.

Share market: Price: 1 975c. Yield: 5.5% on dividend, 6.3% on earnings. PE ratio: 14.5. Cover: 1.2. 12-month high, 1 400c. Low, 750c.

Trading volume last quarter, 195 000 shares.

Financial: Year to December 31

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<thead>
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<th>'86</th>
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Performance

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<td>Net worth (c)</td>
<td>632</td>
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Manga Staff Ordered Off Premises

Stop Work Immediately in Pro-SASJ, and the Association of
Times-Chapel Executive of the
Journalists, the Eastern Cape
Journalists, the International Federation of
Journalists, the African Society of Journalists
the Eastern Cape, the Southern
Chapel Rather of the Southern
Baptist Church, and the Southern
Baptist Church.

In a statement yesterday morning,
SASJ General Secretary Dr. Oscar
O. De Goes, chairman of the
SASJ, said an overwhelming majority of
the members of the Southern
Baptist Church had voted in favor of
the move. The SASJ said it had
received a report from the
immediate past president of the
Southern Baptist Church, Dr.
O. De Goes, that the church had
voted in favor of the move.

Dr. De Goes said the move was
made to protect the independence
of the newspaper and to prevent
interference by the church in
the running of the newspaper.

The SASJ said it would
continue to support the
independence of the newspaper.

Dr. De Goes said the move
was made to protect the
independence of the newspaper.

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independence of the newspaper.
Birth of a giant

Negotiations between UBS Holdings and Volkskas on a share swap and future working relationship were probably effectively concluded before UBS CEO Piet Badenhorst left for Australia last month. An announcement of the deal was imminent, with Badenhorst back and the UBS board meeting on Monday, as the FM went to press.

Statutory controls

Despite statutory controls on share ownership of banks and bank controlling companies, it seems that UBS will take 30% of Volkskas, which will issue about 12.7m shares, to bring issued equity to about 42.5m.

Only 29.7m of Volkskas’s authorised 50m shares are now in issue. It was originally thought a stake as large as that would not be possible, because of the presence of another major shareholder in the group.

Says Chris Mostert, at present acting as Registrar in the Financial Institutions Office: “Only one ‘approved’ financial institution — apart from a bank controlling company — may own more than 10% of a bank or bank controlling company.” Rembrandt Group already occupies this slot.

While growth in Volkskas’s capitalisation would reduce Remgro’s holding, that would not be enough to remove legal obstacles. There are, of course, ways round the restriction. According to the Banks Act, permission can be given by the minister “in special cases where he is satisfied that it is desirable in the public interest”.

More simply, if a building society holding company is deemed to be a bank holding company, it could hold up to 100% of a bank. Perhaps UBS’s application for a banking licence, which may have been in the pipeline since the beginning of the year, has been granted. That would enable it to go ahead.

Negotiations have been under way since March 9, when UBS’s share price stood at 490c and Volkskas’s at 1 075c. Since then prices rose to close Monday at 550c and 1 400c respectively.

If the deal was, in fact, concluded before Badenhorst went to Australia, the shares could have been valued at closing prices on March 27: 1 150c a Volkskas and 510c for UBS — a ratio of more than 2:1.

UBS would therefore have R147m worth of Volkskas shares. If, in return, Volkskas is to get a 10% stake in UBS, in the shape of 23.3m new shares worth R119m, this leaves R27.8m to be settled in cash.

This would help the capital position, in terms of the Banks Act, of Volkskas. As it was already within striking distance of its 1987 year-end capital requirement, it could use new strength for expansion.

The question of reserves does not arise in relation to UBS; building society ratios are based on liabilities to the public, and these will not be affected. Moreover, with its enormous surplus, the question of reserves is the least of UBS’s worries.

So both institutions could be looking at growing new assets.

With existing assets, the UBS-Volkskas alliance could pose a threat to existing market leaders Standard Bank Investment Corp, which has assets of R20 billion, Barclays of over R19 billion. The combination of UBS’s near-R10 billion and Volkskas’s R13 billion plus gives the team about R23 billion clout.

Other major considerations arise from the link-up:

UBS’s operations are largely home loan lending, but include an insurance company which turned in underwriting profits in the last reported financial year; and a development company which reported declining profits. Volkskas recently divested itself of most industrial business to concentrate on banking.

By combining their operating strengths, UBS will provide a huge client base to Volkskas and obtain access to a ready-made banking operation. The deal will eliminate a competitor from the banking/building society market and open the way for a multiple of operational efficiencies in the future.

If the working relationship is close enough, we could see the formation of one of the most powerful financial institutions in SA.
VEKA

Cutting cloth

Activities: Manufacture of children's clothes
Control: Wescot owns 50%, Federale Volksbeleggings 31.2% of equity
Chairman: D J du Preez, managing director A Oosthuizen

Capital structure: 28,8m ords of no par value. Market capitalisation R12,4m.
Share market: Price 43c, 14% on earnings, PE ratio 72, 12-month high 43c, low 20c; Trading volume last quarter, 8 875 000

Financial: Year to December 31

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Performance:

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The company took several steps to improve its liquidity during the latter half of last year, and the balance sheet now looks healthier than it has done for some time. Sales of unlisted shares and property raised R3.8m, and a rights issue generated a further R3.9m. The result of these actions, and the successful negotiation of a R2.5m long-term loan at 10% interest, has reduced current liabilities to R13.8m (R26.2m), and is some R2.3m less than current assets.

The turnaround to a small taxed profit position — following three consecutive years of losses — was thanks to lower interest charges and a welcome absence of foreign exchange losses, which absorbed R2.9m of income in 1985. Although Veka's operating performance remained much the same as the previous year, with turnover only marginally up at R19.2m (R19.1m), the company was able to hold its operating margin above 16%.

Because the additional cash was only available for part of the year, chairman Daurjie du Preez anticipates a further fall in the interest bill this year. Operating margins remain low, interest charges can be expected to fall dramatically, as interest-bearing debt has been slashed from R25.7m to R11.8m. This should substantially boost net income, and Du Preez confidently expects the company will be able to pay off all dividend arrears to preference shareholders, which amounts to R57,000, and will possibly pay a small dividend on ordinary shares.

Production is now solely from the Newcastle plant, where the company is using some of its spare capacity, with a limited product line aimed at the medium price-sector of the market. This, with an expected increase in schoolwear sales, suggests a moderate increase in turnover for 1987.

"We have noticed a definite strengthening in the market since the last quarter of last year," says Du Preez. "But with local mills unable to satisfy any major increase in demand, the Newcastle plant is expected to remain operating at about 50% of capacity for the remainder of the year, with any increase in demand being taken up by increased productivity." Although the stronger rand raises the possibility of using substitute imported cloth, Du Preez still prefers to consolidate on recent achievements.

Turnover might be affected by unrest-related problems in black residential areas (which occurred last year), but that risk has apparently lessened in recent months. At 43c, Veka's share price is more than double its 1986 low, and investors seem to be taking a much more positive view. The prospect of a small dividend, and improved long-term prospects for the company in the black consumer market, suggest that the share may have further upward potential.

Dave Edwards

UNIHold

Firm base

Unihold is one of the companies which has been through a traumatic period of rationalisation and survival in the car industry, although it continues to produce the Sprint and Viva. In January last year, it announced the sale of the Sprint line which had been the result of a successful turnaround in 1985. This removed cash-draining operations and injected R10.2m. At the time we said the sale should provide the group with an opportunity to catch its breath and concentrate on operations rather than funding interest payments.

That is what happened. Borrowings were cut from R15m to R7m, and debt equity more than halved to an acceptable 4.45. Lease charges dropped from R1.9m to R2.6m, and, above all, interest payments fell from R4.4m to R2.6m.

With this breather and a positive cash flow of R3m, rather than the negative R3.4m of 1985, Unihold's profits moved into the black, reaching R1.8m pre-tax. Exclusion of discontinued operations shows how the group performed in 1985, and operating income rose 8%, though margins were not squeezed as appears, the narrowing resulted from the accounting treatment of income from acquisitions.

Unihold's Haslam moved to England

Activities: Holding company with interests in foundries, engineering; building and automotive industries.
Control: Unihold Investments owns 51%.
Chairman: J C Haslam, chief executive J W Butler

Capital structure: 23.8m ords of 50c each, 1.8m 9.5% and 0.2m 5.8% redeemable cumulative prefs of R1 each. Market capitalisation R17.5m

Share market: Price 85c, Yields 7.5% on earnings, PE ratio 13.3, 12-month low 85c, high 40c; Trading volume last quarter, 145 000 shares

Financial: Year to December 31

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<td>Dividends (c)</td>
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DATES TO REMEMBER

Last day to register for dividends: Friday Apr 24; Anamint 960c, Boland 23c, Broadacres 5c, Confed 25c, Cullinan 12c, Gen Opt 5c, Ocmam 4c, Prochem 2.5c, Propgroup 3c, Recco 1.5c, SA Reserve Bank R5.00, Spur 2c.

Meetings: Tuesday Apr 21; Palamin (Sandton), Witvliet (Nigel)

Unihold Wednesday Apr 22: Cruife, Ellerine (Germiston), Laser (Cape Town), Macaddams (S) (Suid River), Metair, Tedexox (Pretoria) 12a; Coates (Cape Town), Thursday Apr 23: Angold, Cadweyr (Bedfordview); CFC (Durban); Gants (Strand)

All meetings are in Johannesburg unless otherwise stated.

S = Special meeting
Another leg in for Rembrandt

THE R239-million alliance clinched this week between Volkskas and the United Building Society and the new bank emerging from it are positive for both parties — and a boost for Anton Rupert’s Rembrandt Group.

Through the United Bank being set up as a joint venture between the two parties, Volkskas will at last be able to penetrate the high-growth English-speaking and black markets.

The United will be able to enter the high-risk field of consumer lending with banking skills on board.

Rembrandt, effective controller of Volkskas, can welcome another multi-billion rand financial institution to its sphere of influence. Only a few months ago, the United fell in the Standard Liberty Life camp.

Three times

Rembrandt effectively controls Lifegor, Rand Merchant Bank and shares control of Sage and Sage Life.

In this week’s swap of shares and cash, the UBS acquired 30% of Volkskas and Volkskas took 10% of the UBS. These were the maximum holdings permitted by banks and building society legislation. The transaction was based on the pre-deal share prices of both institutions.

UBS will issue 23.8-million shares at R5 plus R27.4-million cash for 12.7-million Volkskas shares at R11.50.

Volkskas group managing director Piet Morkel says: “The stock market values the UBS at roughly three times the value of Volkskas, so our 10% stake in the UBS is roughly equivalent to its 30% stake in us.”

The United has a higher price earn-

ings multiple than Volkskas, so the cash and share swap will increase its earnings by 8.5%, diluting those of Volkskas by 14.2%. UBS scores on assets as well. Its net assets rise by 2.5%, and those of Volkskas are diluted by 8.1%.

More to gain

Although both parties insist mutual interest was the motivation, the terms suggest otherwise. Volkskas was keenest on the deal. By gaining access to new high-growth markets it appears to have more to gain.

The alliance puts a question mark over Volkskas’s relationship with Saambou National Building Society.

This mutual society with assets of R1.9 billion belongs to the owners of its paid-up capital, fixed-period, fixed-period and subscription shares, but has always been virtually a brother institution to Volkskas.

Volkskas chairman Albert Marais came across from Saambou. He is chairman of both boards. Five directors of Volkskas are also on the Saambou board.

Like the UBS, the NBS and the Allied before it, Saambou has expressed its intention to become a proprietary listed company.

Advertisements have stressed its independence, suggesting a rift with Volkskas, but Dr Marais sanctioned the present scheme, so it is not inconceivable the two building societies will coexist in the Volkskas fold.

Some observers have speculated that Saambou might be merged with the United, but UBS chief executive Piet Badenhorst is thought to be strongly against any such idea.

Volkskas managing director Dane Cronje told Business Times the deal should not affect the relationship with Saambou, but he agreed that Saambou seemed more independent recently.

Volkskas and UBS executives stressed that the two institutions would retain their separate identity, character and culture. The new bank would also be independent.

Because it was still being set up and staffed, the parties did not wish to disclose too much about the new bank.

But it will be a full service bank. An important aim will be to finance housing and purchase deals for home-owners against the equity in their property.

Mr Badenhorst said he did not believe hybrid institutions should handle both mortgage and banking business. Different institutions with different funding mixes were needed.

Dr Morkel said technology was reshaping banks and building societies. Banking had been a labour-intensive business with few economies of scale.

Recently, technology made them capital intensive and subject to economies of scale. One-stop financial services had become not only possible but desirable.

R60-million capital

He said the new bank, which would be launched with R60-million of capital on a 50-50 basis between the partners, would compete against Volkskas.

He was not worried that it might win accounts, so long as they stayed within the partnership.

Volkskas and UBS computer systems are compatible. Together they have more than 1 000 automatic teller machines.

Mr Badenhorst said the United’s close relationship with Liberty Life would not be affected.

“Mr Donald Gordon is very, very broad-minded,” he said.
DURBAN. — Staff members from various KwaZulu government departments have been brought in to replace protesting Ilanga journalists in a bid to meet the Durban newspaper's deadline tomorrow.

Dr Oscar Dhlomo, Inkatha secretary-general and chairman of Mandla-Matla, which recently bought Ilanga from Natal Newspapers, said yesterday that most of the staffers had had some kind of past journalistic experience.

They had been working around the clock to put a newspaper together and would know only late tonight whether it would be ready in time, he said.

"I'll see if the ship sinks completely. We are still battling but our bottom line is the readers and we are trying to ensure that they are not disappointed," he said.

The entire editorial staff of Ilanga were asked to leave the premises on Thursday after they stopped work to hold discussions on their future in the light of the sale.

Their main fear is that the newspaper will merely become a mouthpiece for Inkatha views.

The newspaper advertised for staff yesterday.
City council considers privatising its massive gas works

The council is hoping to privatise the gas works, which is currently under municipal control. The gas works have been in operation for over a century, and the council is looking to reduce its costs by outsourcing the operation to a private company.

The extent of privatisation will be determined by the council, which is currently reviewing the options available. The council has stated that it will not give up control of the gas works, but will look to bring in private investment to help fund the operation.

This will involve the council working with private companies to bring in the necessary finance. It is hoped that this will help to reduce the council's costs and provide a more efficient service for ratepayers.

The council has also stated that any private company that is brought in to run the gas works will be held to the same standards as the council itself, in terms of safety and environmental protection. The council is committed to ensuring that the gas works continue to operate safely and efficiently.

In conclusion, the council is looking to privatising the gas works in order to reduce its costs and improve the service it provides to ratepayers. The council is currently reviewing the options available and will make a decision on the extent of privatisation in the near future.
Dairy co-ops in custardy battle

By CHRIS RENNIE

TWO dairy co-operatives are locked in a “custardy” battle in the Port Elizabeth Supreme Court arising from the similarity of containers in which their products are marketed.

National, Co-operative Dairy Ltd of Johannesburg is seeking to interdict United Dairies (Co-op) Ltd of Port Elizabeth from marketing vanilla custard in containers so similar to its own as to constitute “passing off.”

It alleges its Ultramel custard is a leading brand, a name with a tremendous reputation and an annual turnover of R40m. It has been on sale since 1975 and in its present carton design for more than three years.

About R1.27m had been spent on advertising and promoting it.

Shortly before Christmas last year, United Dairies introduced its long-life vanilla custard in a carton design so similar that it “could confuse the buying public.”

Both cartons were yellow, orange and brown in colour, both had logos consisting of a Cape Dutch house, a rising sun, clouds and trees.

A major chainstore in Port Elizabeth had started buying the United Dairy product in preference because it appeared to be the same, was in similar cartons and sold for a lower price.

United Dairies replied that it had been using the long-life brand name since 1974 and used the Cape Dutch house, trees and rising sun design on its milk products since that time, although in different colours.

They said that “a reasonable purchaser could confuse the products.”
Unidev to lead Prestige buy-out

Financial Staff
HARD on the heels of its move to acquire a major stake in Quantum Finance Limited, Cape-based Unidev Limited yesterday announced that it is to lead a management buy-out of the Prestige Group of South Africa.

And the local consortium plans to list Prestige on the JSE later this year.

In terms of the deal, Unidev and senior members of Prestige’s local management team will acquire the entire issued capital of Prestige from its United Kingdom parent.

Members of the Prestige team involved include MD Angus Snowden, new business director Nigel Edmunson, commercial director Johan Deale, financial director Gavin Wiggett, and technical director Richard Dyson.

Prestige is a major manufacturer of domestic products, including kitchen utensils and bakeware products, which are sold through hypermarkets, supermarkets, discount stores and wholesalers under the Prestige, Skyline and Ewbank brand names.

According to Unidev’s MD Geoff Grylls, Prestige’s historic annual pre-tax profit has shown consistent growth to above R1.5m.

"Considering economic and market circumstances, we would anticipate that the listing of Prestige will have a significant effect on the net asset value and earnings of Unidev’s shares during the current financial year."

Grylls also disclosed that Unidev and the Prestige management intended to hold at least 50% of the company’s equity after its listing and to hold this as a long term strategic investment.

“Our participation in the Prestige buy-out is very much in line with our intention of deploying our resources in strategic shareholdings in private and unlisted companies with attractive, above-average yields in the medium and long term.”

“Certainly, the cash generated through the realisation of our existing capital assets together with the highly competent and diverse management strengths established through recent acquisitions have given us ample resources to attain our objectives.

“We will thus continue to identify those opportunities where small companies with strong management in their fields require additional capital and wider management input to bridge the gap in their growth to becoming a large company.”

The Quaestor statement points out that the Prestige acquisition is the second of the two major transactions mentioned in announcements made by Unidev on March 19 and 23 and on April 15 of this year.

The Prestige Group’s activities in South Africa date to 1970, when the company acquired 50% of local household goods manufacturer EFI Products.

The remaining 20% was acquired in 1976. Prestige in the United Kingdom is, in turn, owned by Gallaher Ltd, which is 100% owned by American Brands in the US.
Ilanga appears despite dismissals

DURBAN. — The Zulu newspaper Ilanga was on the streets yesterday in spite of the effective dismissal of the entire editorial staff. The paper, which appeared in the same format as when it was published by its previous owners, Natal Newspapers, also carried a front-page employment advertisement for journalists.

The previous editorial staff were ordered out of the building last week by Inkatha secretary general Dr Oscar Dlomo after they had refused to work for a newspaper owned “by a political organization.”

Though the staff have as yet not been officially dismissed, they have been temporarily replaced by a handful of journalists from Inkatha’s in-house publications, who — against expectation — managed to bring out the first edition yesterday.

The former Ilanga journalists will meet Natal Newspapers manager Mr Ed Booth today. They demand to be re-employed by Natal Newspapers.

Meanwhile, in the first editorial comment under Inkatha ownership, Ilanga said it would not become a political mouthpiece for Inkatha. Chief Mangosuthu Buthelezi, Chief Minister of KwaZulu, told the KwaZulu Legislative Assembly that Ilanga had been returned to its rightful owners by being bought by blacks.
DURBAN.—The Ilanga editorial staff crisis remained deadlocked following talks yesterday between Natal Newspapers and the South African Newspaper Press Conciliation Board.

But Mr Ed Booth, managing director of Natal Newspapers, said discussions had been “amicable”.

The talks followed the unanimous decision of the 23 black journalists employed by Ilanga not to continue working for the Inkatha-controlled company that recently bought Ilanga from Natal Newspapers.

Mr Booth expressed confidence that Ilanga would appear on the streets today, despite the stay-away by its editorial staff.

Ilanga’s future is “absolutely safe”, the managing director of the company that purchased it last week, Dr Oscar Dhlomo, said yesterday.

Dr Dhlomo said the first issue of the Zulu-language newspaper produced by the new owners on Monday “sold more copies than ever before in the history of the paper”.

The Times Media Johannesburg and the Freelance and Allied chapels of the Southern African Society of Journalists have condemned the sale.

The chapels fully supported the demands by the Ilanga staff to have the sale rescinded. — Sapa
Privatisation ‘only way to reach equality’

DURBAN — Between R50bn and R60bn worth of State and parastatal assets that could be privatised have been identified in Natal, enough to raise the level of spending of blacks to that of whites for the next 50 years.

This was revealed in Durban yesterday by Leon Louw, executive director of the Free Market Foundation of Southern Africa, at a symposium on government and administration.

Louw said privatisation was politically vital in South Africa as it was the only way government could afford to achieve racial equality.

He said investigations had revealed it would cost R1bn a year “to give blacks all whites get” in Natal.

Privatisation therefore was not only good economic and administrative policy, but a precondition to solving SA’s problems, he said.

Louw said experience worldwide had proved that even the threat of privatisation produced 10% savings, because people faced with it immediately tightened their purse strings and started operating more efficiently.

Privatisation, properly tackled, produced savings of between 25% and 40% — depending on the service privatised.

It was also the best way of depoliticising a society, especially in SA where bus, train and other services were often targets for violence because they were run by the State, he said.

Louw described privatisation as “the first global revolution” that was taking place in every corner of the world, including communist countries.

SA was a “late-comer” to the concept, he added.

Virtually every government function had been privatised successfully somewhere in the world and, on a local level, nearly every council function could be tackled by a private-sector firm.

An example was a municipality in Utah that had a two-member city council with everything else contracted out, he said.

A drawback of privatisation was the possible creation of private monopolies out of government monopolies, but there were two ways to avoid this.

One was to have two or more suppliers of a service competing with one another, and the other was to renew contracts regularly, possibly annually, he said.

Another problem was opposition from civil servants afraid of losing their jobs, Louw said.

The only way to solve this was to guarantee them job security and gradually reduce staff by not filing vacancies.

Although this would initially reduce savings generated by privatisation, there would still be immediate savings, Louw said.
Activities: The company manufactures and sells printing inks, xerographic toners, synthetic resins, industrial surface coatings and lithographic chemicals. It also imports and distributes printers' supplies and markets equipment and supplies to the graphic art industry.

Chairman: W F de la H Beck, managing director: E F Williams

Capital structure: £4m ord. of 50c. Market capitalisation: £12.9m


Financial: Year to December 31.

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<tr>
<th>'83</th>
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<td></td>
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<td>Debt equity ratio</td>
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<td></td>
<td>Int &amp; leasing cover</td>
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<tr>
<td></td>
<td>Debt cover</td>
<td>0.37</td>
<td>0.35**</td>
</tr>
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</table>

Performance

| Return on cap (%) | 0.3 | 11.7** | 13.9 | 15.4 |
| Turnover (rml) | 35.4 | 39.8 | 50 | 62 |
| Pre-int profit (rml) | 2.2 | 3.6 | 4.2 | 4.8 |
| Pre-int margin (%) | 6.3 | 7.4 | 8.4 | 8.0 |
| Taxed profit (rml) | 1.2 | 1.3 | 1.9 | 2.3 |
| Earnings (c) | 38.8 | 38.1 | 55.2 | 68.6 |
| Dividends (c) | 18 | 20 | 22.0 | 25.0 |
| Net worth (c) | 323 | 350 | 383 | 426 |

* 14 months ended December
** Annualised

Inflation: The company has been unable to keep up with inflation. The increased cost of raw materials in particular has been a major factor. This has resulted in the share price falling by 20% in the past year. The company has been unable to pass on these costs to its customers, and as a result, profits have declined.

Financial: The financial results for the year to December 31, 1986, show a decline in profits from £4.2 million to £3.5 million. This is due to increased costs and reduced sales. The company's debt levels have also increased, with the debt-to-equity ratio rising from 0.24 to 0.37.

Underrated?

This low-profile company again performed solidly last year, with both turnover and profitability up by 24.3%. The continued growth trend illustrates its ability to perform in adverse economic conditions. Despite the recession, turnover has increased by an annualised 26%, and earnings by 31% over the last three years.

Nevertheless, while major shareholders Coates UK may be content with a 14% increase in dividend payout, local shareholders will again be disappointed with an increase which fails to match the inflation rate.

Traditionally, any improvement in the packaging industry precedes an improvement in the printing ink industry — and recent packaging industry results indicate that packaging demand is indeed, lifting off. So, although management claims not to have noticed any improvement early in the year, there must be some hope of this happening soon.

The company has considerable capacity to react to strong market growth. Its resin and ink divisions combined are geared to cope with twice the current level of demand, which suggests potentially strong leverage gains in an upturn. Despite these positive factors, and for reasons that are not entirely clear, Coates is among the poorest rated shares in the paper and packaging sector. Its price/earnings ratio is astonishingly low at 5.5 times, suggesting the share might offer value at its present 380c.

Dave Edwards

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COATES

Underrated? 24/96

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Dave Edwards
Back to basics

Activities: Operations include civil engineering roads, earthworks, building construction, housing and property development.

Control: Gencor is the ultimate holding company.

Chairman: H F Brown, chief executive P K Clogg

Capital structure: 13.39 m ords of 50c Market capitalisation R41.5 m

Share market: Price 310c 12-month high, 310c low, 100c Trading volume last quarter, 88 0000 shares

Financial: Year to December 31

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<td>Long-term (Rm)</td>
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<td>Shareholders interest</td>
<td>9.8</td>
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<td>6.3</td>
<td>1.1</td>
<td>—</td>
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Performance

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<td>Return on cap (%)</td>
<td>7.9</td>
<td>8.7</td>
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<tr>
<td>Turnover (Rm)</td>
<td>437</td>
<td>518</td>
<td>489</td>
<td>467</td>
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<tr>
<td>Gross profit (Rm)</td>
<td>150</td>
<td>138</td>
<td>(2.0)</td>
<td>(10.0)</td>
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<td>Pre-ent profit (%)</td>
<td>3.4</td>
<td>2.7</td>
<td>—</td>
<td>—</td>
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<tr>
<td>Earnings (Rm)</td>
<td>12.3</td>
<td>13.0</td>
<td>(6.7)</td>
<td>(7.8)</td>
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<tr>
<td>Earnings (Rm)</td>
<td>108</td>
<td>98</td>
<td>(62)</td>
<td>(82)</td>
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<td>Earnings (Rm)</td>
<td>32</td>
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<tr>
<td>Net worth (Rm)</td>
<td>412</td>
<td>398</td>
<td>304</td>
<td>221</td>
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Cleaning out this group is proving more painful than new CE Peter Clogg might have expected. Shortly after his appointment a year ago, Clogg told the FM he hoped to see the company break even this year. Instead, red ink continued flowing through the accounts, and at operating level the performance was far worse than the previous year. Fortunately, a sharp fall in finance costs to R236 000 (R11.2m) massaged the poor operating performance, cutting bottom line losses to below the previous year's figure.

In its construction divisions, Group Five managed to post R1.8m profits after incurring losses the previous year. But the peripheral interests, including Servitek, the electronic subsidiary, and Thermcon, an arconconditioning company, cost the group dearly in terms of both their trading losses and closure costs. Thermcon's closure costs amounted to R1.4m, while R2.5m was incurred in shutting Servitek, on top of R2.7m operating losses it incurred last year.

The property division is another milestone, costing the group R7.5m last year in losses.

Neville Glaser
Market overhang

Activities Tin mining in the Warmbaths district of the Transvaal.

Control: GFS ASA has 45% of the issued share capital.

Chairman: P Janisch

Capital structure: 2.00bn ords of 25c each

Market capitalisation: R14.6m

Share market: Price 700c, 12-month high, 875c, low, 425c. Trading volume last quarter, 92,000 shares.

Financial. Year to December 31

'83 '84 '85 '86

Tin Production (t) 2,133 1,797 1,707 1,837

Tin Sales (t) 2,079 1,738 1,612 1,671

Turnover (Rm) 28.1 28.6 39.7 27.3

Pre-tax Profit (Rm) 8.1 6.8 11.6 (0.4)

Earnings before capex (c)

Before capex 301 280 324 (17)

Dividends (c) 120 40 100

* Includes tons recovered from retired smelter slag

Rationalisation came too late for Rooberg, which stump to a taxed loss of R353,000, in the wake of the international tin crisis and oversupply. Parent Gold Fields of SA (GFSASA) remains confident that much of the world oversupply of tin will be absorbed in the next 18 months, and is hoping to reopen Rooberg's A mine towards end-1988. The A, B and Vellefontein mines, which account-

ed for around 35% of annual production, were placed on care and maintenance last October in a bid to keep the bushveld operation viable.

In the first quarter of 1987, with only the C mine operating, oversupply costs caused Rooberg to lose R46,000. Chairman Peter Janisch says that if these costs can be brought under control, and international tin prices remain stable, Rooberg should return to profitability in the current year.

Meanwhile, mine management is concentrating production efforts on the higher grade C mine from which a larger amount of concentrates will be produced for the smelter. Exploration activities are continuing, with the opening up of the promising NAD area at the A mine. Work will continue this year and the area should be ready for development when the A mine is reopened.

Activities.

Transport group operating under the trade names Stuttards Van Lines, Pickfords, Frasers and Jack Wellsted.

Chairman: D.H. Kaye

Capital structure: 10m ords of 10c Market capitalisation: R45m

Share market: Price 450c. Yields: 1.1% on dividends, 0.8% on earnings. PE ratio, 14.6, cover 6.2. 12-month high, 490c, low, 180c. Trading volume last quarter, 810,000 shares.

Financial. Year to December

'85 '86

Debt Short-term (Rm) 2,6 2,6

Long-term (Rm) 3,3 3,3

Debt equity ratio 1.01 0.90

Shareholders' interest in & leasing cover 0.30 0.26

Debt 1.46 2.07

Debt cover 0.67 0.55

Performance

'85 '86

Return on cap (%) 18.4 23.0

Turnover (Rm) 46.0 63.6

Pre-tax profit (Rm) 2.9 6.7

Pre-tax profit (%) 5.2 10.5

Taxed profit (Rm) 3.1 3.1

Earnings (c) 14.8 30.8

Dividends (c) 5 5

Net worth (c) 87 88

September, the share has leapt from 180c to 450c, underpinned by a 107% rise in tax profits to R3.1m. The performance was 34% better than the prospectus had forecast.

Growth, whether organic or by acquisition, is a theme running strongly through the annual report. The traditional removal business was expanded last year with the acquisition of Roadline Removals and J.L. van Wijnsberghe. Other acquisitions outside the mainstream business included R & T Covers, which makes plastic covers, and Plas Products, which manufactures stationery and allied products.

In its core business, Laser has a reputation for absorbing acquisitions, as shown by the speed with which it turned around Fraser Internationa...
The Argus Correspondent

DURBAN. — Reshaping of the financial services sector took a fresh turn today with the announcement that NBS is to take over Hill Samuel’s retail deposit business from June 1.

The R55-million deal affects about 1 000 Hill Samuel clients in Durban and 3 000 in Johannesburg who will be invited to transfer their savings and deposits to the NBS.

Hill Samuel executive chairman Laurie Korsten says the merchant bank has decided to concentrate its activities on the needs of corporate clients.

NBS will also be taking over Hill Samuel’s retail premises and nine staff. The offices will become NBS investor centres which operate on a cheques-only basis. NBS sees this as a strategic opportunity to tackle the “serious” end of the retail market and enter the trust company field.

Announced just hours before the long-awaited public renaming of Barclays National Bank, the NBS-Hill Samuel deal is the latest in a series of dramatic moves in the financial services sector.

Recently NBS and the United achieved Johannesburg Stock Exchange listings. NBS is developing short-term lending, UBS has a share-based link with Volkskas and Allied Building Society has a full-scale bank subsidiary.
**Activities:** Engaged in the manufacture of knitwear, clothing, textiles and knitted fabric

**Control:** The directors control 60.7% of the ordinary share capital

**Chairman:** D. Aronovski, managing director

**C E P Jacobson**

**Capital structure:** 2.8m ords of 50c; Market capitalisation R12.8m

**Share market:** Price 460c; Yields 5.2% on dividend, 13.8% on earnings; PE ratio, 7.2; cover, 2.7; 1983-1984 high, 460c; low, 70c; Trading volume last quarter, 230,000 shares

**Financial Year to December 31**

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<td>Short-term (Rm)</td>
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<td>Long-term (Rm)</td>
<td>2.8</td>
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<td>Debt equity ratio</td>
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<tr>
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**Performance**

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<td>Return on cap (%)</td>
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<tr>
<td>Turnover (Rm)</td>
<td>20.3</td>
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<td>19.8</td>
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<tr>
<td>Pro-fit profit (Rm)</td>
<td>2.0</td>
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<tr>
<td>Profit margin (%)</td>
<td>9.8</td>
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<td>Taxed profit (Rm)</td>
<td>1.1</td>
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<td>Earnings (c)</td>
<td>0.38</td>
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<tr>
<td>Dividends (c)</td>
<td>18.0</td>
<td>7.0</td>
<td>24.0</td>
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<tr>
<td>Net worth (c)</td>
<td>283.5</td>
<td>282.8</td>
<td>404.0</td>
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The sector's average dividend yield is 3.5% against Progress's 5.2%, while the average earnings yield is 6% compared with 13.8%. A possible dampener could be the industry forecast that demand in the third and fourth quarters will slow again.

Nonetheless, Jacobson's forecast that earnings will rise by more than the inflation rate during 1987 — I expect by about 18% — weighs in the company's favour. With order books for winter 1987 looking encouraging, Progress could be a good inflation hedge.

**Making advances**

Growing international resistance to “made in SA” labels on clothing is behind a plan by the Natal-based knitwear manufacturer to open an export manufacturing facility in Swaziland.

Exports from Swaziland are not only readily accepted in international markets, but are also duty free, says Progress CE Peter Jacobson. Although the Swazi government has agreed in principle to the development, Progress must await formal approval before proceeding with expansion plans.

Meanwhile, efforts will be directed towards meeting forward orders for the current year. Jacobson says order books are stronger than they were a year ago and in the first quarter sales were up 44%, although off a lower base.

This must come as good news to shareholders who were denied dividends during 1985 after the company had reported a loss of 2,1c a share. Nonetheless, a 61% increase in turnover in 1986 enabled it to return to the black with earnings of 63.8c a share.

Progress's sharp improvement last year reflects a slight industry recovery, and, more importantly, a major improvement in the firm's utilisation of its manufacturing capacity, notably in its knitwear division. Jacobson says industry capacity, particularly for manufacture of sweaters, has shrunk significantly over the year as several competitors sold their machinery to overseas buyers.

The increase in sales enabled Progress to reduce gearing, improve liquidity and increase stock turnover from 3.9 to 5.4 times. Stringent credit control helped cut the debt collection period from 94 to 82 days.

Despite these advances, and that the Progress share price, at 460c, is at a 12-month high, the share offers higher yields than the averages for the clothing and textile sector.
industry.

This industry was earmarked as a growth point when Spectrum went to the DCM in October. However, initial progress was slower than anticipated. "We have made a few contacts and have a few orders," says Swersky, "but this is a long-term project." Sales are slow because of the nature of the mines' tender system, and it will be at least another six months before we will be able to consider our efforts successful."

Since its listing, Spectrum's share price has risen and fallen in tandem with the engineering sector index. At its current 125c, the share yields 6c% on earnings, lower than the sector average of 8.8%, but certainly not unusually thin for a DCM listing.

With the help of funds raised in its listing last October, Spectrum's balance sheet remains healthy enough. There is no long-term debt and even with the share's borrowing of R352,000, the debt-equity ratio remains respectable at 22c.

It's an interesting company, but in terms of track record, perhaps not among the most impressive to reach the DCM. Carolyn Iton

MELISSA

Debt laden

Activities: The company operates in mining, automotive components, materials handling and construction equipment, retail trade and commercial vehicle distribution and shipping industries. Group mines produce copper, gem diamonds and antirrhine.

Control: Sanlam has ultimate control.

Chairman: I. Mackenzie, managing director A D S Buchanan

Capital structure: 11.8m 50c. Market capitalisation: R50.1m

Share market: Price 425c. Yield 6.7% on earnings, PE ratio 14.9, 12-month high 525c, low 140c. Trading volume last quarter 1.07m shares.

Financial: Year to December 31, '83 '84 '85 '86

Debt

- Short-term (Rm) 9.8 22.9 15.2 10.8
- Long-term (Rm) 21.2 51.3 68.4 61.4
- Debt equity ratio 0.54 2.1 2.72 1.41
- Shareholders' interest 0.35 0.14 0.23 0.33
- Int & leasing cover 10.2 1 1.4
- Debt cover 0.1* 0.08 0.47

Performance

- '83 '84 '85 '86
- Return on cap (c) 4.2 4.6 7.0 7.9
- Turnover (Rm) 948 858 217 219
- Pre-int profit (Rm) 25.7 (33) 12.2 2.5
- Pre-int margin (%) 2.6 5.6 6.2
- Taxed profit (Rm) 5.4 2.3 3 0.2
- Earnings (c) 30 208 29
- Dividends (c) 10 10 10
- Net worth (c) 1 372 558 186 369

* Adjusted

Tony Buchan, appointed MD in mid-1983, achieved a first in his last year of getting trimmed-down Messina into a break-even position. But although some R10m was shaved off debt, the mini-conglomerate can't afford to be complacent while its gearing

remains at the present unhealthy level of 141%

Management is obviously conscious of this. Says chairman Ian Mackenzie: "The level of borrowings remains unacceptably high and we have placed a high priority on debt reduction in 1987." Quite how this may be done is unclear - unless a rights issue is on the cards.

Operating dividends all showed significant improvements, although automotive components contributed a R4m loss. Nevertheless, attributable income turned sharply around from the previous year's R22m losses to R3.6m profits.

Automotive components are expected to benefit from the trend in new car sales, and profits are expected to improve at Autocast, whose efficiency has improved following rationalisation. Management expects to regain market share in the materials handling and construction equipment division following the merger with Gradtek.

After the purchase of a 51% interest in Nissan Truck Rental, the retail and commercial vehicles division could show improved profits. And, after reporting a 64% increase in profits last year, Messina's 50% shipping interest in Ahrankel Liner Service should sustain creditable growth.

But the mining division remains an unknown factor, with cost inflation and a stronger rand affecting Messina copper and diamond operations. Messina copper mine had a good year in 1986, when sales of recoverable copper concentrates rose to 6 912 t (6 499 t), a change in the method of bringing sales to account, which ensured that revenue and expenditure are more closely matched, benefited profits, but this will not recur in 1987.

An increase in the rand price of diamonds saw diamond profits soar by 97%, but this upward trend is unlikely to continue at this rate of the rand continues to appreciate. With Anthea antiques open cast mine now closed, the group's coal exposure is limited to its 60% holding in Nkomati Anthracite, where future mining will depend on the availability of suitable export contracts.

The share's strong appreciation in February was based on speculation that Messina would sell its platinum rights in Lebowa, where a drilling programme to investigate the Merensky and UG2 reefs is under way. Preliminary drilling is expected to be completed in mid-1987; the group will then consider a trial mining project.

Referring to the dispute between Messina

and RUC/Fury over rights west of the present exploration, Buchan says, "The company already has prospecting permission over 16 km of strike. The dispute will not have any material effect on our decision to either develop a mine or sell (the rights)."

Still, given the present strains on the balance sheet, it is difficult to see how the group could plan to fund a mining project of its own.

After touching a speculative high of 525c in February, the share has retreated to a more reasonable 425c, where the historical earnings yield is 6.7%. As the group has given an undertaking to its bankers not to pay dividends until 1988, the share might be considered fully priced for now.

Dave Edwards

POCITY, the problem would be minimal

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WUNDERSMAN INTERNATIONAL DIRECT (0000)457892
MARWICK'S MARRIAGE

On September 1, SA's Peat Marwick Mitchell and Aiken & Carter are expected to merge to form SA's biggest accountancy firm. The "marriage" has been agreed to in principle, and will follow the international merger between Peat Marwick and Kleynveld Main Goerdeler (KMG), represented in SA by Aiken.

The international agreement allowed firms in each country to make their own decision, but the reasons for the merger were clearly aimed at creating a firm with enhanced international muscle.

In SA, Peat's national senior partner, Guy Smith, says the planned merger will allow development of further specialisation. "I see, for example, the creation of industry business units comprising audit and other specialists, operating together to provide full service to individual clients in financial institutions, engineering and energy industries."

If the merger is finalised according to plan, Aiken's Herc Hefer will be chairman and chief executive partner. "The US and UK mergers have gone through," Hefer says. "As I understand it, the Germans and Dutch are also about to merge. In SA, the two firms have agreed on the main contentious issues - the image of the firm, and management structures. There is lots of detail still to discuss."

Of all South African accounting firms, Aiken has the highest number of clients listed on the JSE, Peat Marwick probably has the highest degree of marketing penetration in the banking sector.

The cherry on top was the recent appointment of Hefer as non-executive chairman of new financial giant UBS Holdings.
W & A Investment Corporation

Changing course

Activities: Holding company with interests in furniture retailing; automotive products, and distribution and trading

Control: Wecor owns 50%

Chairman: M Simchowitz, managing director B Joffe

Capital structure: 5,1 m ords of 50c each and redeemable cumulative shares, 149 900 6% of R2 each, 8 m variable of 1c each Market capitalisation R132,6m

Share market: Price 2 800c; low Yields, 4,6% on dividend, 13,6% on earnings; PE ratio, 7,4; cover, 2,8; 12-month high, 2 725c, low, 575c. Trading volume last quarter, 612 000 shares.

Financial: Year to December 31

- Debt: 1983 '84 '85 '86
  - Short-term (Rm) 10,2 35,6 31,2 6,7
  - Long-term (Rm) 40,2 187,5 142,3 103,1
  - Debt equity ratio 1,20 1,33 0,98 0,64
  - Shareholders’ interest 0,20 0,32 0,20 0,43
  - Int & leasing cover 1,6 1,4 1,2 2,3
  - Debt cover 0,24 0,13 0,07 0,46

Performance

- Return on cap (%) 10,4 13,6 8,8 13,2
- Turnover (Rm) 214 908 611 693
- Pretax profit (Rm) 18,9 73,0 45,7 69,9
- Pre-tax margin (%) 8,8 8,0 6,9 10,0
- Taxed profit (Rm) n/a 13,7 7,3 35,6
- Earnings (c) 180 34 77 35,3
- Dividends (c) 60,0 28,0 125
- Net worth (c) 776 1 019 1 341 1 620

Although we suggested a year ago that W & A had enormous potential for a rebound, the actual improvement in its profits has been breathtaking. The share price has risen sharply in tandem with rising profits, despite the uncertainty caused by chairman Manne Simchowitz’s move to London, and the subsequent appointment of Brian Joffe as MD. Joffe has been with the group for 3/4 years, and remains MD of W & A subsidiary EW Tarry, but investors cannot be blamed for wondering what changes he will make at W & A.

Joffe emphasises, “The results are the cleanest ever. The company has paid off many of its debts, paid down the cash and now has a strong balance sheet.” The result has been an EPS rise of 358% to 353c, assisted by the restruc-

turing of the group to allow more of the earnings of subsidiaries to filter through to W & A, and less to be siphoned off to minorities.

The largest single contributor to pre-tax group profits was General Tyre with R5,1m, followed by World at R4m, Tarry with R2,1m and Bradlows with R1,3m.

Earnings of the unlisted companies — Burhose, Hygama Trang, W & A Textiles, Glen Aml Development, and Glen Aml Investments — are not revealed, but 62% of group income came from manufacturing, 18% from distribution, and 20% from retail.

A number of companies closest to W & A in the complex group structure are in cyclical industries, but Joffe points out that the largest contributor, General Tyre, is in the replacement end of the motor market, as well as enjoying the benefit of new sales. This is also true of Tarry and Burhose. As for the furniture subsidiaries, Bradlows and World, Joffe feels these companies are currently at the bottom of their cycle — a fact that should work to the benefit of W & A investors for the next few years.

We have discussed details of the individual listed subsidiaries in recent issues, and Joffe’s prediction that the group will achieve “inflation plus” in terms of earnings growth seems reasonable.

For many investors, the question will be whether Simchowitz will be an eminence grise, exerting influence from behind the scenes. Joffe concedes that Simchowitz still has control and that, with large quantities of his funds invested in the group, Simchowitz is not about to abandon it.

He does not see this as a problem: “I have as much autonomy here as I have at Tarry. Certainly, if there was no large controlling shareholder, there would be more freedom of action, but Simchowitz never interfered with anything I wanted to do at Tarry and I would not be here if I felt I couldn’t introduce the changes I want to.”

To Joffe an important point is the strong management in the operating companies of W & A, which means that the performance of the group does not depend on either ham or Simchowitz.

Joffe intends further reducing borrowings, despite last year’s 37% drop in debt and 42% fall in interest paid. “We expect interest rates to rise in the medium term,” he says, “and will repay loans with cash generated by better asset management and restructuring.”

Joffe also says he won’t acquire companies with going problems “We are not interested in any more in acquiring cheap assets at a discount.”

That there will be acquisitions is not in doubt. Joffe has made this intention clear. And Simchowitz has already set about building up an empire in England, using one of the two companies in the group with London listings.

Investors have already made their sentiments felt in the share price. With net worth of R1334c a year ago, the share stood at 775c. Now the price is 2 650c, well above net worth of 1 820c. Owing to the sharp earnings turn-

W&A’s Structure

- 50% - 72% - 61% - 40% - 45%
- 87% - 59% - 82% - 4%
Needing industrial support

Gencor's Keys ... spending more on exploration

1986, which cut taxed profits by about R45m. Although Impala's profits could rise in 1987, its contribution to group profits remains relatively small — in 1986 it contributed only 8% of mining income. More important will be the performance of gold mines, and latest gold quarters underline the negative impact the lower rand gold price is exerting on mine profits.

All of Gencor's mines, except Kinross, reported March quarter earnings down on the December quarter. Figures for its mines, however, average a profit of R25/m oz in the March quarter, compared with the previous R20/m oz. While the rand price has risen since the end of March, it is well below levels seen in 1986.

Beatrix, a star performer last year — it added 37c to Gencor's earnings in its first full year of operation — suffered from factor fighting in January which resulted in almost half the workforce leaving the mine. This dented production for six weeks. In the December quarter, Beatrix achieved the highest taxed income of Gencor's mines, but the figure fell by more than 50% in the March quarter as gold output was 21% down. Also, Beatrix will start paying more tax this year.

Gencor's coal and metals and mineral earnings are also expected to remain under pressure in 1987. Last year coal earnings fell by 6%, and metals and mineral earnings rose by 7%.

Although US export prices for coal were firm in the first half of 1986, they deteriorated in the second half owing to an oversupply on world markets and a falling oil price. Sanctions on South African coal by Denmark and France led to greater competition between South African producers in other European markets, and Gencor chairman Derek Keys says South African producers resorted to "political discounts" to retain market share. Coal's average fob export values in US$ declined by 10% in 1986 and have declined further, says Keys.

In the base metals and minerals division, manganese prices came under pressure, but diversified ferro-metals producer Samancor achieved good profits. US prices of ferro-chrome fell early in 1986 and then stabilised, and we are expected to be maintained in 1987. However, Samancor's profits will be hurt by a stronger rand.

In the industrial interests, Gencor should receive a good boost from Sappi in 1987, which continues to benefit from strong demand and rising export prices. The full benefit of last year's R201.5m rights issue will be enjoyed. Analysts expect earnings to rise from 116c in 1986 to at least 25c in 1987, and the dividend to reach 90c (40c).

Other industrial interests which eliminated losses last year are expected to show further substantial recoveries in 1987 — for example, Kohler, Tedexel and Darling & Hodgson.

Looking longer-term, analysts remain concerned about the group's mining prospects, as they believe the group has neglected exploration in recent years. This concern is apparently now shared by Gencor management — significantly more money is going into exploration. The group spent R22,9m on exploration in 1985 and R48,2m in 1986.
with R140m budgeted for this year. Keys
says the increase in funds allocated “is in line
with our strategic decision to put more
weight behind our mine-finding efforts.”

But the long lead times attached to major
mine projects will not permit a quick-fix to
this problem.

These concerns about Gencor are reflected
in the renewed down-rating of the share
relative to the mining house index since mid-
1986. At R65, the share is 65% up on its level
of a year ago, but there are no pointers to
suggest a further re-rating is due.

Kerry Clarke
Moves to restore profitability

Basil Starke to control Oil

Financial Staff
OVENSTONE GROUP (Ovgroup) is selling its fishing interests to Premier Group and acquiring the construction and engineering interests of the Cape Town-based civil engineering firm, Basil Starke, in a major move to restore the troubled group to profitability.

Premier’s Tony Bloom has already taken concerted action to satisfy Oil and Ovgroup’s shareholders. Faced with debt in excess of R100m — reduced to about R70m after the sale of Ovdeco’s property and construction interest to a consortium of former Ovenstone directors — the burden was too heavy for a group that size.

Interest on the reduced debt will amount to R10m alone and the group is operating at heavy losses and will continue to do so.

Today’s announcement says Bloom’s solution is for Premier to buy Ovgroup’s fishing interests as Premier has the size, financial strength and diversity of operations to provide the necessary time needed to restructure the fishing interests, reduce the debt and restore them to profitability, without having to take short-term pressures into consideration.

Ovgroup will acquire the construction and general engineering interests from Basil Starke, which will acquire Premier’s shareholding in Oil Control of Oil will therefore pass to Basil Starke.

Oil and Ovgroup shareholders have a choice of three alternatives, with Rand Merchant Bank being retained to act as advisers on the fairness and reasonableness of the entire transaction.

Ordinary shareholders can either remain invested in Oil and/or Ovgroup, which are proposed to change their names to Basil Starke Investments and Basil Starke Group to reflect the new activities, exchange all or any of their shares for shares in Premier or accept a cash offer for all or any of their shares.

Oil preference shareholders will receive a cash offer for their shares.

The notice reminds shareholders that the board of directors of Oil and Ovgroup had advised that there would be significant losses for the year ended March 31, 1987, results of which are to be published on or about May 22, and this should influence shareholders on the course of action to be followed.

Oil shares, suspended at 30c, and of Ovgroup, suspended at 38c, will be reinstated in the industrial holding sector today.
Frontline group lobbies Poland

WARSAW.—Polish communist leader Wojciech Jaruzelski received a five-man delegation from Southern African states seeking Poland's support for their drive against apartheid in South Africa. Jaruzelski assured them that Poland would continue to "support efforts to fully liberate this portion of the African continent from the racist yoke and colonialism".

Sapa-Reuter

Jaruzelski
Allied, Sage in R125m swap

New financial services group announced

A NEW R7.5bn financial services grouping will come into being as a result of a R125m share swap between Sage Holdings and the soon-to-be-listed Allied Group.

Allied will become a 25% shareholder in the Sage group, while Sage will hold 10% of Allied, the maximum permissible in terms of the Building Societies Act.

Allied will be issued with 5.5-million variable-rate R1 convertible preference shares at R13 a share, which will be converted one for one into Sage ordinary shares in five equal annual tranches from 1990 to 1994, making a total investment of R71.5m.

Sage's take-up price of the Allied Group shares will be about R1.75, the price at which Sage underwrote the Allied issue.

The deal has the approval of the Competition Board, which does not view it as a concentration of power nor a removal of competition from the market.

On the contrary, the board considers it will enhance competition, particularly in the financial services market.

Both Sage chairman Louis Shill and Allied MD Alan Tindall emphasise that the deal is not a merger. Both groups will maintain their individual identities but there will be an exchange of directors, with two Allied nominees joining the Sage board and Sage having a like representation on the Allied board.

Harold Frishman

Shill says the joining of hands is not the result of a recent decision. The two organisations have worked together closely for the past seven years and there is a close liaison between the executives of both groups, particularly in the personal financial planning field.

Sage has major investments in assurance through Sage Ltd, in merchant banking through Rand Merchant Bank, and in property development through Schacht Cullinan. It also manages the Sage unit trust and several property trusts.

Allied, apart from the building society subsidiary, is invested in Allied Bank, which intends moving not only into the consumer market but also into the corporate area. It also has interests in property and insurance.

Tindall says the two groups' operations dovetail with very little overlap, and close liaison will enable them to create new products to the benefit of clients seeking personal financial planning guidance and advice.

Close collaboration in property development and home building is envisaged.

An area that will bring big benefits and cost savings to both groups is in the computer field. Allied operates a very sophisticated computer system that links its 183 major outlets.

Sage is no slouch in data processing. It provides DP services to the group as well as operating a bureau. Tindall sees a tremendous synergy in this area.

Sage is controlled by a consortium agreement between Shill and the Rupert interests. Together they hold 40% of the total equity, with Anton Rupert owning about 22%. The next biggest shareholder is the Miners' Pension Fund, with a 30% stake.

Allied's new 20% of the equity will dilute present holdings, but Allied will join the consortium agreement, thereby protecting Sage from any takeover threats.

The link-up between the two groups will not have any material effect on earnings and asset values of either company this year, but the directors believe the group linkage will have significant long-term benefits for both.
Tollgate takes over Horizon

By NEILL HURFORD

TOLLGATE HOLDINGS has consolidated its position as top SA private luxury-coach tour operator through the acquisition of Johannesburg-based Horizon Tours and Safaris.

The take-over, for an undisclosed sum, was announced yesterday and is with immediate effect.

Horizon, with an annual turnover in excess of R3m, swells Cape-based Springbok Atlas Safaris (SAS), Tollgate's touring-arm fleet, to 58 vehicles.

"This move reflects our enormous confidence in the domestic tourism market," says SAS CE Paul Braun.

Enlarged fleet

Springbok had in the past month also bought six new luxury coaches worth R3m.

"Our enlarged fleet will comprise small to large luxury coaches strategically based in Johannesburg, Durban, Cape Town, Windhoek and possibly the Southern Cape," said Braun.

Traditionally strong in Cape Town and Durban, SAS has operated on a limited basis in Johannesburg, while Horizon has concentrated on the Johannesburg area.

No 2 in SA

The consolidation put Springbok Atlas second only to SA Transport Services as luxury-coach operators, according to Braun.

He said that while there were operators with larger fleets, none had as many luxury coaches as the Tollgate operator.

He said SAS would not compete on inter-city lines, but would concentrate on the tourism market.

Braun would not disclose SAS's investment in its fleet, but pointed out that the cost of replacement of a superluxury coach was in the region of R500 000.
R125m move heralds joint venture

Allied, Sage agreement

JOHANNESBURG. — A major new financial services grouping was created yesterday in a R125m transaction when the Allied and Sage Holdings groups announced they are to acquire significant minority investments in each other.

The directors of Allied Group and Sage Holdings said agreement had been reached in terms of which the two groups will jointly develop, expand and rationalize various facets of present and future services to their clients.

Allied will subscribe for 5,000,000 variable rate convertible preference shares of 100c each in Sage, at an issue price of 130c per share, constituting a total investment of R71.5m.

These shares will be compulsorily convertible into Sage ordinary shares, on a one-for-one basis, in equal annual tranches from 1990 to 1994 and, after conversion, will represent approximately 29% of Sage's entire issued share capital.

Sage, which has underwritten the current offer of shares in the Allied Group, scheduled to be listed on the Johannesburg Stock Exchange in June, will acquire the maximum allowable of Allied's issued capital, in terms of the Building Societies Act — 10%.

It is envisaged that co-operation between Allied and Sage will take place in building society activities, life assurance, banking, financial planning, mutual funds, property trusts, homebuilding and township development, property investment, development and management, trust company activities, and investment management, mortgage participation schemes, computer services, and underwriting of security issues.

Allied and Sage control assets exceeding R7.5 billion in aggregate.

Allied Group comprises primarily the Allied Building Society, Allied Bank and Allied Insurance Company Sage Holdings is a financial investment and management group with diverse interests in the fields of investment and finance, insurance and financial services, and property and construction.

It is anticipated the proposals will have significant long-term benefits for Allied and Sage and their shareholders. The effect on earnings per share of both companies for their current financial years will not be material. The effect on the net asset value per share of Allied and Sage will also not be material.

The agreement is conditional on the approvals of various authorities and on Sage approving the creation and issue of the convertible preference shares.

The listing of Sage on the JSE, suspended at the company's request on Tuesday, will be reinstated from the start of trading today. — Sapa
Oil lubricates Starke’s progress

By AUDREY D’ANGELO

BASIL STARKE — the rapidly growing civil engineering group based in Stikland — is only at the start of its expansion programme, says financial director Colm Glen.

Its reverse take-over of the Ovenstone group (Ovygroup) and Ovenstone Investments (Oi), announced this week, will make it easier to acquire other companies which fit in with its existing interests.

“We see many opportunities and it will be a great help to have paper we can use for this. Before, we had to utilize cash resources to the full to make new acquisitions.”

On the advice of Glen, a former partner in a firm of actuaries, Starke had for some time been looking for a suitable vehicle through which to obtain a listing on the Johannesburg Stock Exchange (JSE).

Apart from any tax advantages, Glen saw a reverse take-over as the cheapest way to obtain a listing in certain circumstances because “we don’t have to give away a staggering profit”.

The Oil group seemed ideal, with its pyramid to give flexibility.

But it was Oil’s loss-making subsidiary Premier Wire which first attracted Basil Starke’s attention.

“We like Premier Wire and we are not unhappy with that situation. We are getting a very nice manufacturing facility at the beginning of the upturn.”

It will be run by Autotube MD Kobus Lombard and Glen said “We are confident that we shall be able to turn it round.”

He said he had found in the past that the secret of a successful turnaround was a positive attitude.

Managements running into trouble because of a shortage of cash tended to make the mistake of lowering morale by cutting down on things like stationery “and they are scared to employ a new guy when they know they need him because they are worried about finding his salary”.

Premier Wire employs 300 people which will increase Basil Starke’s total work force to 1,400 “That is a big responsibility,” said Glen.

Basil Starke started in a small way as a civil engineering contractor in 1958 and its first big break came in 1973 when it obtained a township development contract in Atlantis. This was followed by a bigger one in Mitchells Plain “which put us on the map.”

Its first diversification came in 1981 when it started a light engineering company, Autotube, providing automotive components primarily to Atlantis Diesel Engines, as well as products for the furniture and construction industries.

In 1982 it acquired Sobotti Construction (Pty), a company specializing in concrete engineering, and in 1983 it started the building operations which now provide a third of group turnover.

In 1984 it acquired 100% control of National Tractor (Cape) Pty, which is engaged in the earthmoving business.

AND in Durban, two key prom...
Giant emerges after major business deal

Dispatch Correspondent

JOHANNESBURG — Squires Foods will become a R300m giant with an estimated attributable earnings of R15.4 million a year in a major reverse takeover of Satbel Investment Holdings.

Last night the managing director of Kersaf Investments, Mr Sol Kersner, announced terms of an agreement between Satbel — held equally by Kersaf and Federale Volkaabiegings — Squires Foods and Mike's Kitchen to amalgamate these companies from July 1.

The deal will be consummated by the issue of 335 066 100 new Squires shares. Of these 127 298 100 will be issued at a value of R210 million for Satbel, excluding its interests in Mike's Kitchen.

The balance of 2.8 million Squires shares will be issued for Satbel's 65 per cent in Mike's.

The minority shareholders in Mike's will be offered 120 new Squires shares for every 100 Mike's shares held.

The acquisition of Satbel will not be conditional on the implementation of the proposal to Mike's minorities.

After the transaction, the issued share capital of Squires will increase to 169 million shares from the present 26 713 900 shares.

The new company will have three major divisions operating in film and television production and distribution, cinemas and video distribution and restaurants.

"The company will have a new name. But we do not have it yet. The name will be one suitable for a broad-based South African leisure group," Mr Kersner said yesterday.

The deal will have only a minor effect on the earnings of Squires, which are estimated to increase from 9c a share to 9.3c.

Their net asset value a share, however, should rise sharply by 71 per cent to 36c from 21c.

For the minorities in Mike's, the deal is very beneficial with earnings rising 23 per cent to 11.1c a share from 9c and with net asset value 79 per cent higher at 43c a share.

Mr Kersner said that in the medium term there should be significant benefits from the growth opportunities resulting from the amalgamation.

"This deal seemed sensible because of the synergy to be gained by going in on a broader base in the food and beverage, restaurant and entertainment business. It was with this synergy in mind that we saw opportunities for rapid expansion."

"We have the capacity to move other operations into shopping complexes where cinemas are situated."

The listings of Squires and Mike's shares on the JSE will recommence today.
Prospectus forecast met by Investec

THE SUCCESSFUL merger with Metboard enabled Investec to achieve its prospectus forecast of a 60.9% rise in taxed income to R7m (R4.3m) for the year to March 31, 1987.

Earnings a share increased by 21.7% to 62c (54.5c) and the final dividend of 10c (9.25c) boosts the total payout for the year by 18.4% to 18c (15.25c) a share.

CE Ian Kantor says the company is confident of achieving its forecast taxed income of R10m for the current financial year. "We are aiming for consistent earnings growth of 20% a year," he said.

The R25.5m raised through the October listing of Investec on the JSE lifted shareholders' funds 112% to R53.2m (R25.2m). Total assets increased by 91.9% to R423.6m (R220.8m).

Funds under administration rose to R1.12bn, 44.7% up on the R742m last year.

Fine performances by all operating divisions reflected the benefits of the merger of Investec Bank and Metboard.

"Investec has been restructured, its operations rationalised, and it is now operating as a single organisation," said Kantor.

Group functions now fall within clearly delineated and focused operational and staff areas. The three major operational areas are merchant banking, general banking and asset management and property.

The group's results will confound many critics who regarded the merger with Metboard as a damp squib.

Negative publicity at the time of the listing resulted in the share trading for several weeks below its issue price of 460c.

The shares have since rebounded to reach a high of 525c and were trading at 510c yesterday, placing the shares on a dividend yield of 3.6% compared with the average 4.4% yield for the banks and financial services sector.

Marketing manager Bernard Kantor said: "The market penalised us for a lot of things but we have achieved what we set out to do. The cultures of Metboard and Investec have been merged and we are now beginning to feel the benefits.

"We have decided to market the group under the Investec umbrella to eliminate doubts about the merged operations. Certain Metboard activities will maintain their identity under this umbrella.

"We are a partnership of financial practitioners with a strong institutional discipline. The people we employ are highly skilled in their areas of activity.

"The reorganisation has resulted in a group with direction and determination which will prove effective in its marketplace," he said.
Basil Read scoops Clifford Harris

By JANE ARBOUS

CIVIL engineer and building contractor Basil Read Holdings has bought Cape Town-based Clifford Harris, a wholly-owned subsidiary of Mitchell Cotts.

The acquisition will give Basil Read a sound base in the Cape," says Basil Read’s financial director, Dave Wassung.

The acquisition, effective from July 1, is for a cash price of R3.3m, to be adjusted subject to the performance of certain current contracts.

Mitchell Cotts CE Martin Mealm, who flew to Cape Town yesterday, said he did not anticipate retrenchments as Clifford Harris had a number of current contracts staff would be needed.

No immediate effect

According to sponsoring brokers Martin and Co and merchant bankers Hill Samuel, the acquisition will have no immediate material effect on the asset value and earnings per share of Basil Read.

Clifford Harris is a construction company engaged in civil engineering, road construction and tunnelling, with a current turnover of about R35m.

A subsidiary company is involved in civil contracting for the mining industry.

Wassung said the benefits that would accrue to Basil Read include the acquisition of a skilled workforce, ranging from skilled operators and artisans to foremen, surveyors, engineers, construction and company managers familiar with conditions in the Western Cape.

Employees are experienced in complex tunnelling, pumped storage and hydro-electric projects.

The acquisition offers additional benefits of a wide range of well maintained construction plant, participation in the proposed Mossel Bay project, and the acquisition of a successful mining company based on the Witwatersrand.
DEREGULATION

Hope for hotels

While Pretoria's much-vaunted policy of deregulation ambles along, there's nothing like seeing special interest groups calling for it. Perhaps the main reason for such a call at this week's conference of the Federated Hotel, Liquor & Catering Association (Fedhala) was the recognition of imminent self-destruction.

Fedhala president Mike Kovensky expressed it in these terms: "There is uncertainty regarding virtually every aspect of our business. For an industry with an investment in excess of R6 billion, directly employing 120,000 people with 700,000 dependants, we cannot accept the status quo."

But Kovensky's most telling comment, and one that cuts through virtually every sector of SA, dwells on the effects of competition. "Unlawful and criminal practices are rife and the authorities often seem unable to control these situations."

The solution, Kovensky suggests, lies in the intention behind the Hotels Act Amendment Bill, which is to "deregulate the industry and streamline the grading system." Facilities related to the hotel industry could become accredited with a grading system — if the Bill is accepted. "Standards are falling in the SA tourist industry. This negative trend can only be remedied by sensible imaginative action."
C G Smith shares at new peak

Earnings climb

43% to 174.4c

From MERVYN HARRIS

C G SMITH shares advanced 75c to a new peak of R1.41 yesterday, ahead of glowing results for the half-year to March.

Earnings a share climbed 43% from 123.8c to 174.4c and shareholders are to get a 25% rise in interim dividends to 82.5c (50c).

The results are significantly better than expectations at the beginning of the year when chairman Warren Clewlow forecast a reasonable improvement in earnings.

He cautions, however, that while trading is expected to continue at current levels, earnings were on a higher base in last year's second-half and that growth in the same period this year will therefore not match the 43% first-half improvement.

Tiger Oats

The fine interim performance came in the wake of a sharp increase in the contribution to earnings by all major subsidiaries, improved operating margins and a lower interest bill.

The 48% growth to R45.4m (30.7m) in the contribution from its 82%-owned C G Smith Foods reflected good performances from ICS and C G Smith Sugar, Tiger Oats and its subsidiaries.

Adcock Ingram and Oceana Fishing, again turned in creditable results.

Nampak increased its contribution to earnings by 34% to R30.5m (R22.8m), while Romatex boosted its contribution by 187% to R5.6m (R2.1m).

The improvement in margins enabled operating profit to rise 33% to R306.6m (R239.3m) on a 15% increase in turnover to R4.16 billion from R3.66 billion in the same period last year.

R290.9m profit

The 27% reduction in the interest bill to R45.9m (R63.1m) reflected lower borrowings and interest rates.

But the gain was partly offset by a 14% decline in investment income to R30.2m (R35.3m).

This left pre-tax profit 44% higher at R290.9m (R202.5m). This was partly diluted by an increase in the average rate of tax from 40.3% to 44%. Taxed profit was consequently 34% up to R161.5m (R120.9m).

A relatively lower slice to outside shareholders improved growth to 43% at the attributable level from R57.1m to R81.7m.

The balance sheet was further strengthened with gearing down and current ratios stronger.

The performance augurs well for Barlow's when it reports on Monday.
Ovenstone 'decimated' by losses, Bloom says

By TOM HOOD, Business Editor

The full extent of losses by the two Ovenstone companies are disclosed today by the chairman, Mr. Tony Bloom, in the preliminary report for the year to March 31.

They amounted to R46-million for Ovenstone Group, the main company, including R37,7-million write-offs and R40-million for the holding company, Ovenstone Investments, including R32,7-million written off.

Net asset value of shares have been "decimated," in the chairman's words, to less than a cent (0,6c) from 77,8c for Oyi and 8,2c from 69,8c for Ogrou.

These figures are even worse than shareholders expected Ogrou's net asset value was put at 19c six months ago, plunging from 120c five years ago.

Premier is to take over Ogrou's fishing interests but the preliminary report still gives no clue to what Premier will pay.

Shareholders will have to wait until after Premier publishes its results before they learn how much they will be offered for their shares.

The more than 8,000 shareholders have been told they may elect to either hold on to their shares, swap them for Premier shares or accept a cash offer.

The year was undoubtedly the worst in the group's history, says Mr. Bloom, who blames losses by overseas fishing companies and Premier Wire and high interest charges.

Borrowings, a major cause of Ovenstone's losses, peaked at R133-million during the year and have been trimmed from this "dangerously high figure" to R88-million - "still unacceptably high," says Mr. Bloom.

Interest absorbed more than R8-million of each company's profits, though this was about R1,5-million less than in 1986.

Earnings included only six months' profits from the hived-off construction, property and home-building companies which made profits of R10,5-million before tax in the 1986 year.

After allowing for this, Ogrou's earnings a share plunged from 6,4c to a loss of 11,8c, while Oyi's earnings fell from 7,1c to a 15,1c loss.
DEREGULATION

On the tracks

Under the aegis of the Competition Board (CB), deregulation policy is on track. Important developments on the "massive restrictions" facing black traders in urban areas can be expected soon, following the completion of the CB's investigations.

Addressing the junior congress of the AHI in Bloemfontein, CB chairman Stef Naudé spelled out progress since the policy became official last June.

- Recommendations that 90 000-100 000 black taxi be allowed to operate with minimum official interference were incorporated in the Transport White Paper.
- Simplified food regulations have been recommended.
- Over-regulation in licensing requirements administered by the provincial councils is being investigated. Naudé says some 75-80 economic activities suffer excessive licensing, while only a dozen or so need health or safety precautions.
- A comprehensive report on excessive restrictions in industrial centres has been handed to government. "Many entrepreneurs are criminal before they lift a hammer," says Naudé; and

- Town planning, housing and local government regulations are being investigated.

"But it's naive to expect instant action in any of these areas. Private-sector organised labour and political vested pressure groups have to do more to prevent deregulation than the bureaucrats," says Naudé.

Its minimum requirements are freedom of entry, freedom of choice and preventing suppliers from enforcing conditions of sale (as in the case of cartels and monopolies) "Our outlook is to weigh up the cost-effectiveness of legal regulations - if not cost-effective, they are candidates for deregulation," says Naudé.

He says the Temporary Removal of Restrictions on Economic Activities Bill has mostly a symbolic value - the essence of deregulation is to change the system, not just do away with specific laws or regulations. He also warns against following US experience, where anti-trust legislation led to the protection of the inefficient against the successful.
SA BIAS

Listings phase

Activities: Manufactures clothing accessories and trimmings. Divisions handle trade and working capital financing, commodity trading and corporate investment services.

Control: C Seabrooke controls 51% of the equity.

Chairman: M N Newman, managing director C Seabrooke.

Capital structure: 17.4m ords of 2.5c each

Market capitalisation R115m

Share market: Price 650c. Yields 1.7% on dividend, 5.7% on earnings. P/E ratio, 17.6.

Trading volume last quarter, 2.6m shares.

Financial: Year to December 31

\[\begin{array}{cccc}
\text{Year} & \text{1983} & \text{1984} & \text{1985} & \text{1986} \\
\text{Debt} \\
\text{Short-term (Rm)} & n/a & n/a & 10.8 & 4.1 \\
\text{Long-term (Rm)} & n/a & n/a & 1.4 & 4.0 \\
\text{Debt equity ratio} & 0.43 & 0.54 & 0.47 & 0.25 \\
\text{Shareholders' interest} & 0.62 & 0.52 & 0.58 & 0.66 \\
\text{Int. & leasing cover} & 4.1 & 2.3 & 2.4 & 1.6 \\
\text{Debt cover} & n/a & n/a & 0.45 & 1.6 \\
\text{Return on cap} & 17 & 15 & 18 & 24 \\
\text{Net profit (Rm)} & n/a & n/a & 8.1 & 10.3 \\
\text{Taxed profit (Rm)} & 3.2 & 3.9 & 4.2 & 6.4 \\
\text{Earnings \(c\)} & 18.9 & 21.5 & 23.0 & 37.0 \\
\text{Dividends \(c\)} & 5.6 & 6.2 & 6.6 & 11.0 \\
\text{Net worth \(c\)} & 113.8 & 130.2 & 147.4 & 163.2 \\
\end{array}\]

* Adjusted for share split in June 1986

With so much planned for the current year, the group's results for the year to end-December are likely to be significantly improved. They were, nonetheless, noteworthy, with profit up by 52% to R6.4m after an increase in the contribution from both SA BIAS Bunding Manufacturers and trade and finance division Merhold. A 51 share split last June generated renewed interest in the share, and the price has more than tripled since October.

At year-end liquidity had improved thanks to better asset management and the repayment of R5.1m debt. Gearing dropped to 25% from 47% in the previous year and to cap the performance, dividends were raised by 22% to 11c a share (6.3c).

Meanwhile, attention has switched to the SA BIAS Bunding listings and acquisitions planned by MD and major shareholder Christopher Seabrooke. First up is the July 3 listing — through a rights offer to SA BIAS — of Merhold's ordinary shares. Although Merhold's two classes of preference shares are quoted, its 16m ordinary shares, held by SA BIAS, have yet to appear on the boards.

In August comes the listing — also through a rights offer — of SA BIAS's pyramid company, Subwest SA BIAS. Originally planned to list its controlling company, Circulo, but Seabrooke says this didn't turn out to be practical, hence the Subwest route.

Slightly longer-term is the proposed 1988 listing of SA BIAS Bunding. "If fundamental investors have a better view of the company if its divisions are listed separately," explains Seabrooke. "The wider disclosure achieved by separate listings highlights the strengths and weaknesses of the division and as a result leads to a better rating of the shares." For Merhold, the main reason for the listing of its ordinary shares is to raise funds, and to have the capacity to issue scrip for two sizeable acquisitions currently being negotiated. "We have missed a number of opportunities in the last year because we did not have the paper to make the acquisitions," admits Seabrooke.

The R5m rights offer, with conversion of cumulative prefs, will reduce SA BIAS's holding to around 80%. Although the exchange terms for the prefs will only be determined once the listing price is announced, the company's post-listing market capitalisation is likely to be around R45m.

One company that could be taken into the SA BIAS fold early next year is beleaguered engineering group Dundee, on which SA BIAS has a 12-month purchase option. While no decision has yet been taken, it seems likely that Seabrooke will hold on until the last moment. What is more, he's only interested in Dundee's steel manufacturer, Houston Steel, which — in a move that will save SA BIAS around R600,000 a year — has already been housed in the group's once-vacant Marathon Packaging warehouse. Dundee's motor spares division is to be listed on the DCM, while its furniture division has already been sold.

On the whole, the changes make it difficult to assess the group's future earnings. Seabrooke has stated that SA BIAS earnings will be up by at least 30%, while conservative growth of 15% is predicted for Merhold. With the group's industrial division free of operational losses — through the sale of unprofitable companies — and existing acquisitions in store for Merhold, both forecasts should be surpassed. The market has already endorsed this optimism by giving the share a high rating.

High expectations are evidently being based on the assumption that Seabrooke will maintain the recently dynamic performance.
Talks on big insurance merger deal

Financial Star 232

CAPE TOWN-based Colonial Mutual, South Africa's second oldest insurance company, is holding merger talks with the industry's giant, Old Mutual.

A merger of the two companies would result in total assets of more than R20-billion.

Colonial Mutual, which was established in Cape Town in 1883 by the Colonial Mutual of Australasia, is the 12th largest life insurer operating in South Africa. Its assets amount to R585-million.

Managing director Mr. Doug Cleland today refused to comment on the talks.

Old Mutual has assets of R19½-billion.

Negotiations between the two companies "with a view to the merger of the Colonial Mutual's-South African business with Old Mutual's" were confirmed today by Old Mutual's managing director Mr. Mike Levett. A further statement could be expected shortly, he said.
Government issues 'cartel' warning

By CHRIS CAIRNCROSS

GOVERNMENT has found it necessary to re-issue a stern warning to businessmen that they will face stiff penalties, including possible imprisonment, if they persist in making use of collusive practices and cartels.

In a statement released in Parliament yesterday, Economic Affairs and Technology Minister Danie Steyn indicated that the gloves have now been taken off and the authorities intend to take harsh action against anyone transgressing the laws laid down in May last year.

The "alarming incidence of collusion in the economy" which resulted in a clampdown being imposed has apparently continued.

According to Steyn, the stage has been reached where businessmen who continue with these practices and have not been given official exemption will have to bear the consequences.

These mount to a maximum fine of R100 000 and/or imprisonment of five years.

He said the past official practice of informally informing businessmen and companies that they were contravening the law is to be abandoned — and more direct action is now in store.

The prohibition relates essentially to the five well-known restrictive practices of resale price maintenance, price collusion, collusion on conditions of supply, collusion on market sharing and collusive tendering.

Steyn said these five practices were selected because of their general occurrence in the economy, their serious restrictive effect on competition and because they cannot easily be justified in the public interest.

He said that 91 applications for exemption for the prohibition have been received, but exemptions had only been granted to members of the Newspaper Press Union, the advocate profession, the Association of Ship’s Agents and Brokers and the International Air Transport Association (IATA).

Steyn said that temporary exemptions have been granted in 44 cases, mainly to enable the parties concerned to phase out their relevant practices.

Periods of exemption have varied from three months to three years.

Steyn said that a final decision on what to do over conditions in the building industry — which has applied for exemptions — will be reached by the middle of the year.
Sarima unhappy over rates

Insurance ‘cartel’ under fire

HELENA PATTEN

THE transfer of one of the largest corporate insurance portfolios in SA, running into millions of rand, from an insurer who had held the business for many years, to another insurer, has led to a Business Day investigation into the existence of an insurance cartel.

A Sarima (South African Risk and Insurance Management Association) spokesman said association members had become increasingly dissatisfied with what appeared to have been a cartel-type arrangement between most short-term insurers during the past three years.

Sarima was formed last year to represent the interests of most of the largest corporate insurance buyers.

It said the arrangement, loosely known as the “market agreement”, had severely curtailed what should be a free market and had secured massive rate increases for its adherents.

The agreement operates by laying down that a “signatory” will only accept business of another party at the same rates and conditions the holding insurer is offering. The agreement holds unless there is a significant difference in the type of risk to be covered, or revised rates offered by the holding insurer are 20%-25% higher than the previous rate.

Sarima said it was aware of the movement of several other insurance portfolios, also motivated by “the intolerable negotiating positions insurance buyers have been placed in by the agreement”.

The Sarima spokesman said legislative barriers to the entry of new insurance companies worked against an environment of genuine free enterprise if existing registered insurers used their privileged position to enforce rate increases through cartel arrangements.

He said insurers had a duty to allow free competition, given their advantageous position. “In fact, we feel it is in their interests to guard their protected position jealously by avoiding any suspicion of cartel arrangements, let alone any proof.”

Those corporations with large insurance portfolios, and often with assets

To Page 2 ➤

P.T.O.
Old Mutual makes merger move

OLD MUTUAL and Colonial Mutual have entered into negotiations with a view to a merger involving Colonial Mutual's South African business. An announcement yesterday by Old Mutual MD Mike Levett gave no further details, but said a further statement would be made in due course.

If the present negotiations reach a successful conclusion, Old Mutual will reinforce its position as SA's largest assurer, its assets increasing to about R19,5bn with the addition of Colonial's assets of around R584m. The net premium income of both companies together would amount to about R2,4bn a year.

Old Mutual's closest competitor is Sanlam, with assets totalling R9,6bn and net premium income of R2,1bn. Sanlam also controls Metropolitan Life with assets of R1,23bn and net premium income of R213m. The two companies are, however, separate entities.
Barlows earnings show a 31% rise

DAVID COHEN

BARLOW RAND continued its upward trend, with earnings a share for the six months to March rising 23.3c to 120.8c, a 31% increase over the same period last year.

The earnings rise, significantly higher than most market analyst expectations of about 25%, suggests healthy contributions from the wholly owned subsidiaries Middelburg Steel and the Motor Appliances & Tractors division whose results are not public knowledge.

Barlow's CE Warren Clewlow said yesterday that "the wholly owned had turned in much improved performances over last year's interim results".

The interim dividend rises 6c to 30c (24c), with superior earnings boosting dividend cover from 3.3 to 4.0 times.

Looking ahead, Clewlow said that although trading activity could be expected to improve, growth for the next six months was unlikely to match the improvement for the half-year to March.

A feature of the results was the substantial growth recorded by the industrial interests, which accounted for 25% (17%) of attributable taxed profit. This offset the declining contributions from international and mining operations. "Mining showed a small decline, mainly

Barlows boosts earnings a share by 31%

due to lower coal export receipts," said

Clewlow. A 13% rise in turnover to R114.16bn (R7.132bn) failed to keep pace with inflation, but translated into a disproportionate 31% rise in attributable earnings to R217m (R168m). Clewlow put this down to "improved margins, lower average borrowings and interest rates and an average tax rate, which reduced from 42.6% to 40.3%".

The group trimmed its interest bill by R25m to R145m and achieved the 2.4% lower tax rate as a result of assessed loss.

However, a disturbing aspect is that Barlow's — whose turnover last year of R14.623bn accounted for 11% of 1986 gross national product — made no real contribution to unemployment statistics, reporting negligible additions to its 232,000-strong work force.

The balance sheet was strengthened, with gearing down 8% to 55%, and current ratios slightly improved, compared with the September year-end. The 1% rise in stock and debtors in the face of a 13% increase in turnover was due to tight asset management, said Clewlow.

He felt the results would boost general confidence in the economy.

He felt the results would boost general confidence in the economy.
Danie Steyn drops soft approach

Govt poised to mop up cartels

The Competition Board and government are preparing to crack down on companies and industries that still operate illegal cartels.

Officials are losing patience with operations that continue to ignore legislation laid down in May last year under the Maintenance and Promotion of Competition Act.

In a statement yesterday, Economic Affairs and Technology Minister Danie Steyn said offenders had so far been approached informally by the Competition Board and persuaded to abandon their illegal practices.

"The stage has been reached, however, where businessmen who continue with these practices but have not been given official exemption from the prohibition, will have to bear the penal consequences." Penalties include a maximum R100 000 fine and up to five years' jail.

Last year's legislation, designed to outlaw business collusion and cartels, was aimed at five practices: price collusion, collusion on conditions of supply, collusion on market-sharing, and exclusive tendering.

Steyn said the list was selected "because of their general occurrence in the economy, their serious restrictive effects on competition and because they cannot easily be justified in the public interest".

Out of 91 applicants for exemption, 44 have been granted temporary relief and 17 have been granted permanent exemption. Among these are:

- Members of the Newspaper Press Union seeking price maintenance on newspapers and magazines;
- Spar supermarkets, Lucky 7 and Four Square outlets, and Plus pharmacies, bonus pharmacies and Family Clic pharmacies for horizontal collusion on prices and conditions;
- International Air-Transport Association (IATA) for collusion on prices and conditions, market-sharing and tender practices.
Squires-Spur discussions dropped

SQUIRES Foods and Spur Steak Ranches have walked away from discussions over a possible rationalisation of interests in the wake of the Spur decision to proceed as planned with the listing of Spur Holdings on June 4.

However, Spur directors have advised shareholders to continue to exercise caution because the group is still involved in other discussions which could affect the share price.

Kersaf, prompted by the recent Mike's Kitchen deal, hoped to absorb Spur and the four Spurbold restaurants (Spur and Hardrock) into its leisure giant by acquiring it through Squires on similarly favourable terms.

Spur MD Allen Ambor said yesterday: “The main stumbling block was that they wanted to proceed with the acquisition of the Spur group right away, whereas we could only proceed after Spurbold's listing on June 4.”

Kersaf deputy MD Ian Heron said: “Talks were very amiable, but the Spurbold listing proved too much of a complicating factor.”

Spur's share price, which had risen sharply from 168c on the back of rumour, yesterday fell 15%, shedding 30c to 170c to record the day’s second-biggest fall ahead of the announcement. Brokers attributed the drop to market sentiment that the deal would not be as favourable to Spur as originally predicted.
Short-term insurance cartel probe

THE Competition Board has launched a probe into allegations carried in Business Day this week that the short-term insurance industry is operating a cartel.

Earlier this week the SA Risk and Insurance Management Association (Sarima), representing 80 of the largest corporate insurance buyers, said a market agreement was operating in the short-term industry, in terms of which "massive rate increases had been secured for its adherents".

Competition Board chairman Stef Naude said yesterday if evidence were found that collusion on premiums or market-sharing was indeed being practised, it would constitute a serious offence. He said such an offence was punishable by a maximum fine of R100 000 or five years in prison, or both.

The board’s move came just days after a government warning of a crack down on companies and industries still operating illegal cartels.

An official said yesterday the board would investigate whether the short-term insurance industry was acting in contravention of a government notice published in May last year, which listed five unacceptable business practices.

□ Re-sale price maintenance;
□ Horizontal price collusion;
□ Horizontal collusion on conditions of supply;
□ Horizontal collusion on market sharing; and
□ Collusive tendering.

He said sometimes exemptions, permanent or temporary, were given when certain actions were judged to be in the public interest, or not against the public interest.

Insurance Association chief executive Rodney Schneeberger said yesterday the short-term industry had been granted certain exemptions, including two international agreements, whereby no SA insurer would carry insurance risk for war, civil war or nuclear disaster.

"Insofar as there is any agreement in the market, it would have to be a very loose understanding because the market is ultra-competitive, especially now that profitability has been restored to the fire, commercial and industrial markets."

HELENA PATTEN
Staff, policyholders ‘secure’

Old Mutual and Colonial Mutual tie up merger

By AUDREY D'ANGELO
and CHRIS CAIRNCROSS

OLD MUTUAL and Colonial Mutual (SA) — the two oldest mutual life assurance societies in the country, both based in Cape Town — have agreed to merge.

Old Mutual will take over Colonial Mutual's local assets and liabilities.

Colonial Mutual policy holders will become Old Mutual policy holders and a joint statement issued by both societies yesterday said that "the policies taken over will be dealt with in an equitable manner."

The merger will mean no loss of jobs for Old Mutual, which has about 9,000 employees, has agreed to absorb all 800 working for Colonial Mutual.

Yesterday's statement ends speculation arising from the announcement early this year that Colonial Mutual (SA) was cutting ties with its Australian parent and looking for a local partner.

A spokesman for Old Mutual said meetings were still being held at which "the nuts and bolts are being worked out."

He said one of the reasons for deciding on the merger were the similarity between the two organizations.

"Their markets are very similar to ours and their administration systems are fairly compatible."

The statement issued yesterday said "No consideration of any kind will pass between the parties."

It pointed out that Old Mutual has the largest asset base in the SA insurance industry and is ranked No 1 in premium income.

Its total assets were given as R190m in the Financial Mail special survey of top companies this month, which ranked it fourth in the SA giants league behind Escom, Anglo and SABC.

Colonial Mutual, which has been operating in SA since 1883, is currently the 12th largest assurer in the country, with total assets in excess of R600m.

Premium income for the 12 months to December 1986 was R60.7m.

The Competition Board (CB) has "reluctantly" given its green light to the proposed takeover by SA Mutual of Colonial Mutual, the CB's chairman, Stefan Naude announced in a statement released in Cape Town yesterday.

He said this decision was taken in spite of the fact the takeover would constitute a further concentration in SA financial sector, and the life insurance industry in particular — now the subject of a CB investigation.

Naude said that Old Mutual and Colonial Mutual had consulted with the CB over the acquisition, and the latter had found that there were no circumstances which do not justify the deal in the public interest.

Among reasons he gave for taking this decision were that

1. The interests of existing policy holders with Colonial Mutual must be protected, and a merger with another small life insurer in these circumstances would not ensure a similar degree of protection, and

2. The merger will entail an increase of about 1% in Old Mutual's market share — an increase which the CB believed would not significantly affect competition in the industry.
Insurance merger: 
Competition probe

THE Competition Board is to investigate growing concentration in the finance sector after announcements that the Old Mutual and Colonial Mutual plan to merge.

The board's chairman, Dr S J Naude, said smaller life assurance companies were finding it increasingly difficult to compete effectively.

"Part of the reason for the merger is that Colonial Mutual has various reasons for wanting to sever its links with Australia, where the company was founded in 1873."

The Old Mutual and Colonial Mutual are the oldest mutual life assurance companies in South Africa. Old Mutual has the largest premium income in the country and Colonial Mutual is the 12th largest assurer.

Old Mutual said in its take-over announcement yesterday that Colonial Mutual policy-holders would become Old Mutual policy-holders and Colonial Mutual's assets and liabilities would be taken over.

Old Mutual will accommodate all Colonial Mutual staff. — Sapa.
Assurers' merger gets green light

28/5/87

CHRIS CAIRNCROSS and HELENA PATTEN

yesterday.

The companies said the transfer was effective from January 1, 1987, and involved the merger of the two oldest mutual life assurance societies in SA. Colonial Mutual policyholders would become policyholders of Old Mutual and assets and liabilities would be taken over by Old Mutual.

Premium income for the 12 months to December 1986 was R80.7m.

The companies said the transfer was subject to all statutory requirements being complied with prior to the date of sanction by the Supreme Court. Representations had been made to the Competition Board and the Registrar of Financial Institutions.

Naudé said Colonial Mutual was a mutual society with origins in Australia, which now wished to sever its connections with SA for various reasons.

At the same time, the CB was also aware of the size of Old Mutual in the insurance industry, as well as its role in the economy as a whole.

Naudé said "It was, therefore, with some reluctance that approval for the transaction was given."

The mergers took over the operation of both organisations.

Old Mutual would accommodate all the staff of Colonial Mutual in its operations. No consideration of any kind would pass between the parties.

The companies said the merger was a logical move as both parties were mutual societies based in Cape Town and had complementary markets.

With assets in excess of R25bn, Old Mutual had the largest asset base in the insurance industry and was ranked number one in premium income.

Colonial Mutual was established in 1873 in Melbourne, Australia, and had operated in SA since 1883. It was the 12th largest assurer in the country, with total assets in excess of R600m. Its...
BARLOW RAND

Industry takes over

Late last year it became clear that Barlow Rand would have to rely on its industrial division if it was to remain on the growth path set in the 1986 year, when earnings jumped by 29%. A stronger rand and sanctions-related pressures on mining revenues were bound to curb the contribution from Rand Mines and the international division, J Bibby.

As became clear from the flow of good results over the past fortnight, in the six months to end-March both the industrial and the food interests more than made up for weaknesses elsewhere. Group attributable earnings jumped by 31% and the interim dividend was lifted by 25%—so the diversification has enabled profit growth to continue without a pause.

Most of the industrial companies did better than in the second half of last year, while earnings from the food companies were ahead of some analysts' expectations. Deputy chairman and CE Warren Clewlow says the industrial sector's contribution to group attributable earnings increased from 17% to 27.8%.

Despite profit improvements from Tiger, C.G. Smith Sugar and ICS, the food division's contribution to group profits held steady at about 11%. "Benefits of our entry into the food business a number of years ago are being seen now," says Clewlow. "In the quiet years we made very nice inroads into market shares."

Impressive aspects of the industrial division's results included returns to respectable profitability in problem areas such as Reunert and ICS, and the generally firm tone of performance at operating level. Better capacity utilisation is certainly helping to improve trading margins, but is unlikely to be the only cause. At least seven of the major listed industrial companies reported better operating margins, and group pre-interest profit rose by 16% on a 13% advance in turnover.

Clewlow is confident that trading margins can improve further. "While the productive capacity in our factories is a lot better than a year ago it is still well below full," he says. "Some of our biggest plant installed during the early Eighties is only now being used. As volumes pick up and capacity is taken up, the margins will keep improving. I certainly hope they do because that is one of the things that will help inflation."

Among the unlisted interests, Middelburg Steel & Alloys continued its profit growth despite the rand. Clewlow says that Middelburg, which produces both ferro-alloys and stainless steel, is now benefiting from improved markets at home. Although no figures are disclosed, the earthmoving equipment, motor and appliance division reflected the general trend in the industrial interests. It produced "excellent" results, derived from higher turnover and better margins. Even building supplies company Federated Blaikie returned to profitability.

Profits from the international investments held in London-registered J Bibby were disappointing, as EPS in sterling terms rose only marginally from 10,04p to 10,06p, although attributable profits were up by 23.5% at £15,468m. The earnings decline was largely attributable to lower sales volumes in part of its packaging operations, owing to competition, adding to the negative effect on the contribution to Barlow was the stronger rand against sterling. Bibby's dividend was maintained at 2.75p, but Barlow has in any event tended to use this cash abroad.

The acceleration of the increase in Barlow's dividend—25% compared with 14% for the 1986 year—obviously indicates confidence. As Clewlow notes, "We've set pretty high targets for performance." For the current year, the group should continue to enjoy the benefits of past investment in grass roots projects and acquisitions. Meanwhile, management continues to keep its eye on longer-term growth needs. Capital investment dropped to R649m in 1986 from the previous year's R86m, but various expansion projects on the drawing boards could lift investment very sharply over the next few years if they go ahead.

After consolidating for several months around R20, the share recently shot up to above R26. The market is unlikely to be disappointed with the interim performance.

Andrew McNulty

Barlow rises

Barlow's pace

<table>
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<tr>
<th>Six months to</th>
<th>May</th>
<th>Aug</th>
<th>Nov</th>
<th>Feb</th>
<th>May</th>
<th>Aug</th>
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<td>Turnover (RSh)</td>
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<td>7.4</td>
<td>8.2</td>
<td>8.8</td>
<td>7.2</td>
<td>7.4</td>
<td>8.2</td>
<td>8.8</td>
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<td>Pre-tax profits (Rm)</td>
<td>690,3</td>
<td>626,0</td>
<td>696,7</td>
<td>728,1</td>
<td>690,3</td>
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<td>Investment income (Rm)</td>
<td>728,1</td>
<td>94,1</td>
<td>78,8</td>
<td>165,9</td>
<td>214,9</td>
<td>218,8</td>
<td>22.6</td>
<td>118.8</td>
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<td>Attributable profit (Rm)</td>
<td>728,1</td>
<td>94,1</td>
<td>78,8</td>
<td>165,9</td>
<td>214,9</td>
<td>218,8</td>
<td>22.6</td>
<td>118.8</td>
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<tr>
<td>Earnings (c)</td>
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<td>118.8</td>
<td>130.8</td>
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ings leap and a R100m rights issue of preferred ordinaries. The rights issue, with all of the funds effectively to be used for a resumption of capital investment, must signal that management and controlling shareholders Sankorp are confident the tide has decisively turned.

A decision to hold a rights issue was made easier by the steady share price appreciation since last August, when it climbed from about 150c to last week's 435c. For some two years, when the debt equity was well above 100%, management said that a rights issue was not planned. But the tripling of the share price has made an equity issue a great deal more attractive financially. Also important, as MD Dave Marlow notes, the substantial improvement in profitability should help to ease any impressions that a rights funding exercise should be interpreted as a sign of desperation.

There is no doubt the results for the year to end-March show major progress. With trading margins widening, operating income rose by 16.2% to R71.1m on turnover growth of 12%. Net financing costs, long the biggest bugbear, dropped by 11.7% and that allowed pre-tax income to jump from R2m to R18.8m. Given further help from a rise in the tax credit to R16.4m (R6m), attributable earnings soared to R42.1m from R8m.

The fall in net interest costs was derived from lower rates, but there was also a fall of R94m in net interest-bearing debt. There must be some risk that earnings could become vulnerable should rates swing significantly upwards again. Presumably Sentrachem and Sankorp feel confident this won't happen in the short term, and, perhaps that profits will allow further debt repayment.

However, the decline in the ratio of debt to fixed capital from just over 100% to 82% during the second half of the financial year suggests cash flow has gained considerable strength. There must be every prospect the debt ratio will continue to improve. For long-term holders of the share, there must be some relief that the group is again investing in its future. Between about 1983 and 1986 the group was essentially concentrating on survival, and on ensuring that existing operations were lean and tightly run.

Capital commitments aimed at expansion have been lifted from virtually nil to some R140m, which will be spent over about two years. The funds are to be spread across all activities except the most depressed divisions, rubber and agriculture. Unlike the projects of the Seventies and early Eighties, projected payback periods on these expansions are only two to three years.

Some of those shareholders who had hoped of receiving a dividend once Sentrachem's gearing dropped below 100% may well be disappointed at instead being asked to contribute more funds. By Monday the share was trading at R4, down by 35c on the price before the results. At R4 the price is 15.3% below net worth which by year end had climbed to 472c (408c). But once the rights issue is out of the way, and with the capital base strengthened, payment of a dividend at the end-September interim is probable.

Andrew McNulty
New shape emerging

Activities: Holding company with divisions operating in investment and finance, insurance and financial services; and property and construction.

Control: Remgro, Louis Shill and Mines Pension Fund partly hold control.

Chairmen and managing director: H L Shill

Capital structure: 21,8m ords of R1 each. Market capitalisation R392m.

Share market: Price R18. Yields 2.8% on dividend, 4.8% on earnings; PE ratio 20.3, cover 1.7 12-month high, R19, low, R9. Trading volume last quarter, 132 000 shares.

Financial: Year to December 31

'83 '84 '85 '86
Total Assets (Rm) 414.2 518.9 653.8 1033.8
Performance:

'83 '84 '85 '86
Taxed profit (Rm) 16.5 16.0 21.2 20.7
Earnings (c) 87.7 92.1 83.7 86.1
Dividends (c) 42.0 48.0 48.0 60.0
Net worth (c) 406 420 462 421

Sage’s share price has nearly doubled since early December, reflecting investor interest in recent developments, including the acquisition of National Mutual, 10% of Allied Building Society and the planned purchase of Northern Trust. The likelihood of the listing of the property and construction interests, as well as Sage Life, has also attracted some investors to the share.

Sage’s results have not been the spectacular kind that have drawn investors to other companies, though EPS increased last year after a decline in the 1985 year. Acquisition of the outstanding balance of the equity in Sage Life caused minority interests to fall from R4.9m to R2m, this was the reason for borrowings, which have fallen to R70.7m from R110.8m last year.

With the National Mutual acquisition, and the expected listing of Sage Life, interest must centre in this area. Normal growth, plus the inclusion of National Mutual, has meant a doubling of the Life company’s assets to R798m, and new business premiums have shot up from R259m in 1985 to R712m in 1986.

Though chairman Louis Shill declines to give any indication of the impact of earnings of the acquisition, he says that “National Mutual assures us of substantial growth in the area of insurance.” Though the departure of the US of former Sage Life MD Ian Solomon, is seen by some as a setback, Shill points out that he has been in insurance most of his life and has himself become executive chairman. “In due course we shall appoint another MD,” says Shill, “but this will not be for some time. Because of the importance of Sage Life in the group, we think it best that the group CE also be the CE of the Life company.”

Shill also suggests that it is necessary to use top rate people if a company operates

### SAGE’S PROFITS

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<th>1985</th>
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<td>R’000</td>
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<td>3 638 22</td>
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<tr>
<td>Property and construction</td>
<td>3 793 23</td>
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With all the changes still taking place in the profitability of the group, it is difficult for any investor to give an accurate assessment. The experience of the last few months has been a very significant upturn, but he points out that on a net basis, there is no doubt of the group’s success. With the change to the PTA, the share price should see a similar benefit, maybe not to the extent of the previous year...but with the new developments, we are in a very good position to increase the value of the share price.

Sage is a very difficult company to work with, but we believe that the group is well placed to continue its growth.

Sage has a strong balance sheet and is well placed to take advantage of the recent changes. With the new developments, we believe that Sage will continue to be a strong performer.
Cartel crack-down
By Udó Rypstra

The Competition Board has declared war on business cartels and is looking further than the insurance industry for possible offenders.

The Minister of Economic Affairs and Technology, Danie Steyn, and the board have reacted to fresh allegations of a short-term insurance cartel.

Although allegations of such a cartel are not new, the Competition Board will launch a new investigation.

The allegations, this time from the SA Risk and Insurance Managers Association, had barely been made public when Mr Steyn issued a warning.

He said the Competition Board would not hesitate to prosecute alleged offenders.

Penalties are a R100 000 fine or five years' imprisonment, or both.

The South African Insurance Association has denied the existence of a cartel, it says that where agreements exist among its members, they are "very loose" because of competition.

But Mr Steyn has warned business that the "informal" days are over.

"The stage has been reached where businessmen who continue with these practices, but have not been given official exemption from the prohibition will have to bear the penal consequences."
Parks dept in privatisation talks

By Shirley Woodgate, Municipal Reporter

Johannesburg's aggressive moves into privatisation have now extend to the entire gas department and certain facilities in the parks and recreation department.

Parks officials have arranged a meeting with the private sector on February 10 at 10 am in the A-level basement lecture theatre at the Civic Centre to exchange ideas.

Mr. Paul Louwser, general manager of the Parks and Recreation Department said: "The cost of our operation is R40 million and the net loss is some R2 million."

"Theoretically 25c in every rand paid by each ratepayer goes to this department. This means that privatisation of this non-essential service should be a matter of concern to everyone in Johannesburg."

"We are open-minded about privatisation. We intend getting businesses involved in the provision of worthwhile facilities — but the entire department is not being privatised and we are not selling off parks."

He said the town clerk, Mr. Mame Venter, would be one of the speakers and would explain the aspects falling under the control of the department.

Commenting on an investigation by a private company interested in negotiating a takeover of the gasworks, acting general manager of the Gas Department, Mr. Melvyn Watson, said: "We believe the gasworks is an ideal utility to be run as a profit-making concern."

Last year the capital outlay on the gasworks was R26 million and the capital expenditure was R2 million, Mr. Watson said.
SA can ill-afford to ignore privatisation

The Free Market Foundation recently helped launch the new Privatisation Centre under the auspices of free marketer Leon Louw and Roger van Niekerk, with Rick Valente as chairman and two eminent international experts on privatisation as members of the advisory board.

They are Dr Madsein Pirie, president of the London-based Adam Smith Institute and Mr Robert Poole, Jnr, president of America's Reason Foundation and Local Government Centre.

Policy option

"Faced with a multitude of economic problems, South Africa can ill afford to ignore the solutions offered by this policy option," says Leon Louw.

The SA Privatisation Centre carries an important database, having recently negotiated access to the world's two top data banks - the UK's Adam Smith Institute and the US's Local Government Centre.

The local Privatisation Centre is building up a Southern Africa Database, which together with the overseas information, is now available to members and clients.

"Confidentially will be maintained where requested," says free marketeer Leon Louw, who launched this month the Afrikaans edition of his best-seller "South Africa - The Solution" together with Rand Merchant Bank.

"Private service providers are encouraged to supply details of their services for dissemination to local authorities," says Mr van Niekerk, who runs the Centre. "We are here to help South Africa implement imaginative privatization strategies. While the principles are universal in their application, strategies will vary from country to country, from local authority to local authority."

"Certain key issues must be addressed at the outset," says Dr Madsein Pirie, the president of the Adam Smith Institute, who recently addressed two South African Privatisation Conferences organised by the Free Market Foundation.

Dr Pirie, who is a key figure in the Thatcher privatization programme, says the main issue is to obtain the support of all groups who are affected by the privatization initiative.

"Get management and the workforce on your side - then the public and the politicians upon whom the responsibility for decision making ultimately rests," he stresses that before management embarks upon a privatization programme, all employees should be given the undertaking that they will not be worse off after the event.

Resistance

"Failure to keep employees abreast of developments and to win their confidence will, almost certainly, result in resistance to the programme." The Centre provides information on privatization at local and national level, as well as a specialist consultancy service, using both local and overseas experts. It is also in the process of assembling a resource base on local authority privatization and of services that can aid in the process.

The Centre, however, points out that there are both benefits and hazards attached to the privatization route.

"A succession of cost efficiency programmes, at both central and local government levels, have predictably produced poor results for governments as diverse as the UK and Bangladeshi," according to the Centre's own Privatisation Newsletter. "Privatisation, on the other hand, can be remarkably successful, when properly applied, resulting in considerable savings and greatly improved services. "But in order to equal the achievements obtained over the seas, it is critical that privatisation in South Africa be implemented in the correct manner - meaning that certain essentials - which have crystallised out of the international experience - be rigorously observed."

The Centre emphasizes that privatization consultants should be chosen with care for many mishaps have already occurred due to non-professional advice - of cowboys and mavericks setting themselves up as privatization experts.

"South Africa has already seen cases in which management consultants have created opposition to privatization in their eagerness to effect business efficiency improvements without adequately considering the welfare of its labour force."

"The utmost circumspection is required in dealing with privatization since an employee backlash in any local authority has a ripple effect throughout the country."

Privatisation is not a business efficiency exercise, but rather a process of allowing the private sector to provide goods and services in a more economic and efficient manner than is possible for the current provider - public sector. "It is equally important to realise that privatisation is a process whereby former public officials are brought into the private sector, reducing the overall tax burden and depoliticising economic issues."
Privatisation of prisons

In contemplated legislation on private prisons, France's Minister of Justice claimed that 25,000 places in approximately 60 to 70 private prisons during the next three years are envisaged to house the overflow of inmates in France.

The French government expects to have to pay the private establishments approximately FF300 a day for each prisoner. Prison staff would be privately employed but would be subject to the same conditions of service as in public prisons, including a total ban on strike action.

Although the present cost of looking after a prisoner in public prisons is FF170 francs a day, it is reported that the French government feels it can no longer afford the capital outlay of FF200,000 per new prison on the scale required.

The prison system, as in Britain and in SA, is suffering from gross over-population. French prisons are said to house more than 47,000 inmates although, in theory, it has a capacity to house only 32,000 inmates.

Moreover, the prison population is said to increase at an average rate of 8,000 to 9,000 a year. Under the circumstances, the French judicial and penal authorities feel that the construction of new facilities is urgently required.

It is, therefore, the Justice Minister's plan to accommodate up to 25,000 new inmates in the next three years in new, privately built and managed prisons. He believes that the private prison plan will be far less costly than a public programme of new prison construction.

Under his scheme, the French government would offer land to private contractors to build and subsequently run the new private prisons, expected to house between 200 to 450 inmates each.

It is proposed that government retain control of the private prisons and that the private contractors manage them on the basis of an 18-year renewable contract. Private guards, previously trained by the state, would be hired.

French construction, catering and hotel service groups have expressed a great measure of interest in the envisaged programme, but prison unions, on the other hand, seem somewhat concerned, fearing the impact it might have on the jobs of state prison guards.

French parliamentarians have visited the US to acquaint themselves with the way the system works there and have received offers of assistance from American consultants.

Like France and other Western countries, Britain's prisons are also overcrowded. As a result, the idea of privatising some British prisons is beginning to take form. It has been suggested that Britain could perhaps follow the example set in some American states, where this new type of prison enjoys a high standard of cleanliness and accommodation, is of imaginative design, has impressive work experience and educational programmes. Moreover, they are said to run efficiently and at low cost.

They are run by private contractors, who leave the running of central bureaucracy to state officials — which lays down standards — while they concentrate on providing a decent service.

Since the SA Cabinet committee responsible for privatisation is due to consider various State activities which could be privatised, would it not be possible for it to investigate the advisability of privatising some of our prisons, in view of the fact that our prisons are also grossly overcrowded?
PRIVATISATION

SAAS ready for take off?

While Sats representatives officially deny suggestions that national air carrier SAA is due to be hived off from Sats from April 1, they admit that the question of privatisation for the airline will come before parliament on February 12.

The FAO understands that Transport Minister Eli Louw will take advantage of the Sats Part Appropriation Bill to raise the issue on that date.

The recommendations of the (Wim) De Villiers Commission of inquiry, appointed last year to look into a new management and financial structures of the possible privatisation of Sats' divisions, is already in government hands and will form part of the Budget discussion.

It seems that a "new relationship" between SAA and Sats is in the offing, but sources are adamant no details can be revealed before the parliamentary debate.

Whatever the immediate outcome, it seems clear that government's stated objectives to reduce its involvement in the economy and to include privatisation and deregulation in economic policy are to be undertaken. This is bound to influence response to the De Villiers recommendations.

The imminent privatisation of British Airways (BA) — expected in the next few months — has added impetus to the debate on SAA. Questions now being asked involve the raising of funds and whether deregulation should precede, accompany or follow privatisation.

"This is not a simple issue," says Howard Williams, MD of international tourism consultants Horwath & Horwath. "BA's privatisation, involving the sale of shares to the public, follows a political decision. This differs from British Telecom's successful experiment of selling shares to employees.

"And while BA is one of the world's largest airlines, SAA has a limited routing schedule. Its local services also differ markedly from those flying distances and large passenger components enjoyed by BA. Other points have yet to be made by the South African Travel Agents about the strategic need for a less developed country to operate a national carrier. Finally, SAA's mixed economy does not offer the same competitive base found in First World countries," he adds.

SAA's latest annual report — for the year ending March 31, 1985 — shows that the airline then had 40 aircraft in its fleet. In that year, passenger trips increased 13.1% to 4.4m and freight volume increased 7.6%. Total income rose 23.5% to R1.278 billion. But, with expenses rising 23.8%, net profit fell 50.7% to R2.2m.

Fedhassa operations director Fred Theron says that, apart from profitability, the extent of deregulation accompanying privatisation will be critical for any private sector investment decision.

"While Fedhassa supports the principle of privatisation, other considerations also play a part. Sanctions pressures might strengthen the arguments that we need a national carrier. It could be preferable to have private sector management, while the State retains ownership," he says.

Fares regulated

But even with privatisation, airline fares on local and international routes are still subject to regulation, thus limiting competitive pricing and undermining the principle of free competition.

International Airlines Travel Association (Iata) regulations prevent price-cutting on routes where closed-rate agreements between carriers apply. Although the US and Australia have broken away from this iata principle.

On the local market, SAA monopolises profitable routes through the current licensing system, thus negating the possibility of cheaper fares.

Williams says deregulation is therefore vitally important, but he adds that this cannot happen overnight in SAA's unique economic and political situation.

"While privatisation will definitely improve any already good airline, current regulations nullify competition and prevent price cutting," adds John Bing, secretary of the Association of SA Travel Agents.

Williams says, however, that a danger flowing from deregulation is that it could lead to the disappearance of smaller airlines and the creation of unofficial cartels and oligopolies. This has already been seen in the US. The second option may thus be worse than the first.

"Firstly, what is needed in SA is the creation of more smaller, independent airlines which can operate in competition with SAA on certain routes," says Williams. "Internationally, charter companies should be allowed to compete with official carriers and to offer cheaper fares to encourage mass tourism."

Under a cloud

Although the four big tire companies have not had as rough a road to travel as their cousins in motor manufacturing, there is still considerable uncertainty about their future.

The comfortable days of the price cartel ancient which finally disappeared a year ago, have been replaced by vicious price competition between General Tyres, Dunlop, Firestone and Goodyear, with companies announcing price rises independently.

FINANCIAL MAIL JANUARY 30 1987
DEREGULATION

Changes in the air

The umbrella body of SA's private airlines, the SA Airlines Association (SAAA), has picked up the ball on the privatisation of SAA (Business February 20).

The SAAA has come up with specific suggestions on how to give private airlines a bigger stake in the country's limited airline market. And if its proposals are accepted, private sector operators will be given more power to compete in the air.

The association has proposed that private operators should be allowed to tender for licences on limited routes. Specifically, it sees private operators bidding for scheduled services on routes like Johannesburg/Bloemfontein, Johannesburg/Kimberley, Johannesburg/Upington and Johannesburg/Keetmanshoop.

"This would be a positive advance," says SAAA chairman and Comair MD Peter van Hoven. "Hopefully, they could then be given the right to offer services from these centres to coastal destinations."

Although no statistics are available, the routes suggested could represent 15%-20% of SAA's total domestic operation, he adds. If these routes were farmed out "regulated competition" would result.

Van Hoven says while SAA currently controls about 90% of SA's total air traffic, the remains 10% is divided among some 16 private operators.

SAA currently operates on these routes in terms of exclusive licensing agreements with the National Transport Commission (NTC). But there are indications that SAA's suggestion has fallen on receptive ears. While SAA will obviously try to protect its monopolies, Transport Minister Elie Louw has already intimated that government is in favour of more private sector participation.

With a general election in the offing, however, the matter is unlikely to be taken further before the transport budget vote is discussed on May 26, says SA Transport Services spokesman Leon Els.

Meanwhile, the twin issues of privatisation and deregulation are receiving constant attention in terms of the basic guidelines laid down by the minister. His brief is that "closer co-operation" be sought with the private sector in the whole transport field.

Van Hoven says airline deregulation should start on the economic front rather than in the technical area.

"Free market principles should be allowed to operate with less outside interference. But this will take time, if the example of the US is to be followed."

"There," he notes, "the Deregulation Act had several 'sunset clauses,' allowing the gradual phasing-out of internal and external route licensing."

SA's economic regulations prevent freedom of route entry in terms of exclusive licensing arrangements which have given SAA virtual control of 90% of SA's air space. The NTC currently grants licences for a maximum of seven years, based on the applicant's aircraft type, the route to be serviced, flight frequency, timetable and fare.

Licence renewal depends on the ability to provide the service, the existence of sufficient infrastructure to support it and public need.

Says Van Hoven, "The principle of security of route underlies the system. Government has already agreed in principle with White Paper recommendations on more free competition, but what we now need is action. Granting licences to private carriers to operate more routes will allow market forces greater freedom."
Plans to privatise city's public facilities

By Shirley Woodgate, Municipal Reporter

The Johannesburg zoo, sports fields and even cemeteries are included in wide-ranging plans to privatise services and facilities in the city's Parks and Recreation Department.

"We are completely open-minded," Mr Paul Loubsor, general manager of the department, told businessmen yesterday at a well-attended meeting to launch the concept of privatisation.

Delegates included representatives from property developers, sports clubs, engineering companies, landscape gardeners, architects, show businesses and nature conservation societies.

Town clerk Mr Mane Venter said it was felt that the Melville Koppies and the Klipspruit Nature Reserve should be excluded, "but you might prove us wrong"

Applications could range from a one-man operation, providing one or two activities, to a multimillion-rand complex which could include artificial turf-playing surfaces, restaurants and other indoor facilities open 24 hours a day.

Mr Venter said

CAUTIONED

"With the help of private enterprise we want to provide new or upgraded facilities which could supply the public with improved services at lower prices. But the schemes that are put forward will have to be able to stand on their own feet. We do not want bankrupt members of the private sector trying to make money," he warned.

Mr Venter also cautioned that any plans to privatise services or facilities would have to take note of restrictive title deeds. A case in point was the Hermann Eckstein Park.

Mr Loubsor laid down a March 31 deadline for proposals. "What was needed were concepts and basic sketches, not detailed plans prepared at great cost.

He assured delegates that all schemes would be treated in confidence. He also assured members of the Parkview and Brimarendtia ratepayer's associations that resident's opinions would be considered in deciding between the council and the private sector.

Schemes would be submitted to council before they were formally approved.

...
Ownership and Control
1987
March – October – December

The post-Rubicon rand, with dollar-based recoveries in precious metals and diamond markets, dealt kindly with shareholders in the Anglo American/De Beers groups. Since September 1985, Anglo’s market capitalisation on the JSE has soared from R6.9 billion to R20.4 billion, while De Beers’ capitalisation has climbed in the same period from R4.1 billion to some R19.5 billion.

If taken together, the two groups have a combined capitalisation of almost R40 billion. Together they have significantly out-paced the growth in the combined capitalisations of GFSA, JCI, Gencor, Anglovaal and Rand Mines. These telephone numbers are not simply to suggest that big is beautiful. But if investors are right, their bullish valuations on Anglo/De Beers are encouraging, and not only for investors.

For much of this century, the broad Anglo/De Beers group has been one of the larger engines in the South African economy. Whether the concentration of economic power that began to grow out of the mining house system 100 years ago produced an ideal structuring of the economy can be, and often is, discussed at length. That’s beside the point. The hard fact is that the Anglo/De Beers grouping remains SA’s largest single foreign exchange earner and one of the private sector’s largest investors of capital.

The mining industry, with its multiplier effect through the many service industries it has spawned and fostered, remains the backbone of the economy. Anglo executive director Zach de Beer rightly told a Stellenbosch University seminar last week that SA needs...
to develop an export manufacturing industry capable of rivaling today's gold mining industry by the mid-Nineties. That, sadly, won't happen easily or quickly.

Despite the extraordinary breadth of its interests, mining remains the core of Anglo's business. The six administered gold operations in the March 1987 year produced 250,21 t of gold, amounting to 39.2% of SA's gold output and some 19% of 1986 non-communist world production. In the March 1987 year, gold contributed 39% of Anglo's investment earnings against 29% in 1970. The next largest contributor was industrial and commercial with 19% and another 10% was from finance and insurance. Other significant contributions came from mining, diamonds (12%), coal (7%), platinum (8%) and other minerals (2%).

With no less than 68% of investment earnings derived from mining, Anglo, and its share price, cannot but be sensitive to fluctuations in commodity markets. When Gavin Rely assumed the chairmanship on Harry Oppenheimer's retirement at the beginning of 1983, the group's attributable earnings declined and then stagnated in the following two years.

For a large mining house such short time spans are of minor importance compared to the necessity to ensure survival and growth in the long term. By these criteria, the group has strengthened its position. Key investments have been made in local banking, financial and industrial sectors, while existing mining operations have continued to expand.

Three of the important locomotives that will ensure Anglo's long-term future have been, or are being positioned for growth — or, at least, for security of earnings. In gold mining, Anglo is thought to be evaluating more potential mining projects or expansions than any other mining house; in the diamond sector, 34.3%-held De Beers is enjoying buoyant and broadening markets, and in the international arena, 39.1%-held Mincor (De Beers holds another 21%) seems ready to invest more aggressively in natural resources.

As shown by JSE ratings of smaller, more focused mining houses such as Johnnes and Anglovaal, the stock market is currently attaching premiums to mining finance shares on the strength of mineral rights and prospects of future mines. Johnnes, for example, last week stood only 10% below current net worth, compared with the 30% gap of two years ago. On that basis, Anglo — even accepting that a single new gold mine would not have as large an impact on its widely sourced income — could still be undervalued, with its price this week 22% below the March 31 net worth.

A number of analysts believe Anglo has secured a lead position in a gold exploration
scramble that started in the early Eighties. In the Free State, it is thought that the house could develop at least one, and possibly two major new mines in the region of Beatrix, a 45% owned Anglonew Oryx. Anglo's 1986 annual report referred to "encourage values obtained from several reefs in the area of Beatrix." Another prospect could exist south of Harmony and east of Joel. Like Oryx, a mine here would be deep, high-volume and costly.

In the Transvaal, Anglo is believed to hold more than 50% of the so-called "Potchefstroom Gap" area. By the mid to late Nineties, mining analysts estimate that Anglo and its associates could develop three mines in this area, which may eventually become a new goldfield.

Apart from the potential grassroot projects, various extensions to existing operations could extend the lives of these mines significantly, as well as help to control costs in some cases. In the Transvaal, for example, a current evaluation of the Moab area south of Vaal Reefs should result in a large expansion.

In the Free State, Freegold is currently spending R2.5 billion to open up new mining areas, and will develop another two shaft systems in the next five to ten years to maintain output. All the larger mines are spending heavily. Vaal Reefs is spending R2.35 billion on Deep Levels and other projects. In the Transvaal, Freegold's R411m. The significance of these spending programmes extends beyond future gold production; they are aimed partly at improving control over operating costs and efficiencies, and, where possible, achieving flexibility.

Indeed, the formation of the massive tonnage "super mine," of which Vaal Reefs and Freegold (with GFSA's Driefontein), are outstanding examples, has done much to help management cope with inflation and pressures from trade unions. Mechanisation is playing a part here too.

Mechanisation of gold mining has attracted much good will from Johnson's Randfontein and Western Areas mines, where geological conditions have allowed the introduction of trackless mining methods. Trackless mining is being used elsewhere, such as at Western Deep Levels' No 1 shaft. But mines such as Western Deep, Vaal Reefs and Freegold have been making steady progress with other less conspicuous forms of mechanisation and automation.

With recovery grades and pay limits generally declining, unit working costs rising in real terms and trade unions demanding wage increases well above the inflation rate, flexibility has become an important strength in gold mining. At least half a dozen reasons - technical, economic and financial - have been cited for the Freegold merger. One unsung benefit that management has derived is an enhanced ability to respond to industrial relations problems.

Anglo has been in the forefront in encouraging amonisation, which it continues to advocate. At the same time, it has experienced some less attractive effects of organised labour. Several years' experience of work stoppages, boycotts, stayaways and even violent clashes at such mines as Western Deep have evidently encouraged management to build defences - and to take a stand. During last month's strike, not only was Anglo, supposedly the most "liberal" of the mining houses, the only house to fire striking workers, it actually dismissed 30,000. In its September 1986 year, Freegold, with merger benefits beginning, held its existing working costs down to 12.1% against an 18.3% CPI rise. Future costs and gold production will be influenced partly by industrial relations, which look unlikely to ease; but economies of scale and other efficiencies should curb costs.

It is, of course, impossible to separate Anglo from De Beers. That's not only because of the considerable dividend flow derived from the 34.3% interest in De Beers. Cross-shareholdings, such as De Beers' 38% of Anglo, and De Beers' direct holdings of 25% of Amic, 23.3% of Anglo American Pacific, 21% of Luxembourg-based Minoro, 4.5% of Johannesburg, and 21.2% in Anglo American Corp of South America - mean that De Beers remains near the heart of the empire.

De Beers, with much of its own equity traded overseas and much of its income derived from marketing more than 80% of the world's diamonds through the Central Selling Organisation, is the most international of large SA-based companies. The diamond recession of the early Eighties and its aftermath appears to have tightened De Beers' control. Among such events was the R800m odd deal at mid-year when De Beers took over the rough diamond stockpile of associate De Beers Botswana (Debswana); strategically significant terms of the deal were that Debswana issue 20m shares and two Debswana directors join the De Beers main board.

Chairman Julian Ogilvie Thompson has noted a considerable broadening of the diamond market, particularly into Pacific Basin countries. He has also noted the risk of severe market turbulences in future, and should help to maintain growth momentum in the long term. Meanwhile, De Beers should benefit over the short to medium term from rising sales of its own better quality gems, and from higher prices. In its December 1986 year, De Beers made pre-tax profits of R1.515m against Anglo's pre-tax figure of R1.541m in its March 1987 year. After recent results, it would not be surprising to see De Beers outpace Anglo.

Apart from De Beers, the group's extensive international interests have always been impressive in terms of assets and promise rather than in important or cash receipts. Overall, results have been disappointing Minoro, which holds most of the foreign investments, has been a dour performer and a low yielding share. Good figures by some interests have been vitiated by losses elsewhere, notably in Inspiration Resources. Minoro's most profitable investment was the holding in Salomon Inc, acquired in 1974. This week the Salomon investment was finally wound down half was sold in 1985 for a large capital gain, and on Monday Minoro sold its remaining 14% for US$80m cash, creating an extraordinary gain of $40m.

Anglo has been churning away at its foreign interests Minoro aside, attention has been given to facilitating expansion of the directly managed operations in South America and Australia Anglo American Corp of South America, for example, is mainly in Brazil, it will produce 11t of gold this year and 14t in 1992. Executive vice-president of these operations is Guy Young, former MD of Anglo's gold division.

Australian Anglo American derived much of its income from the Mount Morgan gold; it's re-treatment project. In the past year, however, it has acquired a stock exchange listing and changed its name to Anglo American Pacific. It acquired 18% of Poseidon Inc, whose main asset is 24% of Kalgoorlie Minning, the largest Australian gold producer, but the interest was since sold. The company is to be Australised and should have a bigger future there.

Last week changes were announced for Minoro Not only were 1987 net earnings up by 69% at US$122m and the dividend hiked by 8%, but there is to be a new investment emphasis Minoro is to move away from acquiring minority passive investments and return to ownership and operation of resource-based assets. That clearly infers more active expansion.

Meanwhile, a resurgent Cons Gold - the 29% interest is now Minoro's largest asset - this week moved to acquire 49.9% of US-based Newmont, whose Newmont Mining is thought to be North America's largest goldfield. Currently reporting exceedingly high prices in metals and mineral markets could offer the best growth opportunity in years.

Non-mining investments at home have not been neglected under Rilie's chairmanship. There's been the 13.2% Anglo stake in the President Corporation (De Beers and Johannesburg have additional amounts), the 20% minority control of the enlarged Southern Life Association (SLA), and, with SLA and De Beers, the controlling interest in First National - all these will contribute to Anglo's income, particularly during the present upturn.

As Rilie has argued, though, the durability and vigour of a domestic economic recovery will remain closely linked to socio-political factors. Meanwhile, coal is in recession, and a future price war in platinum must be a real possibility. But in the long haul the Anglo/De Beers groups' gold, diamonds, platinum and foreign assets could represent the solid cornerstone for growth. It is probably the only large South African company that has the brown and other resources to develop and expand a truly international grouping. In the past two decades 44 Main Street has been through a long learning curve abroad. Now management needs to show it has the courage to accelerate offshore growth.
Store chain in drive to sell shares to staff

By TOM HOOD, Business Editor

MR. RAYMOND ACKERMAN has abdicated the managing director's throne of his supermarket chain after 20 years to undertake his mightiest marketing effort.

He will stump round his Pick n Pay empire of more than 100 stores to persuade the 17 000 full-time staff to become shareholders of the chain.

Employees are soon to get a free offer of at least R1 200 worth of shares — the value of which could double in a short time — in the country's biggest profit-sharing scheme so far.

Mr Ackerman's aim is to make 50 percent of the staff shareholders as soon as possible after explaining what shareholding means and its benefits.

Business lead

"Instead of expecting the Government to do everything to secure the country's future, business should take the initiative in developing more houses and giving staff a stake in the company and try to make South Africa a home-owning and share-owning democracy," Mr Ackerman said.

Pick n Pay is also planning to expand its housing scheme. Sixteen percent of the company's staff — 2 703 workers — already own shares. Store managers get shares on appointment, others are given 100 after 10 years' service and executives receive more as they are promoted.

"We want people lower down to get shares. It will involve a tremendous marketing effort. My job is to go round the country explaining this to 17 000 people who at the moment do not understand the share market."

From dividends

Shares will be "sold" to employees through a share trust scheme. The company provides share-purchase loans which are repaid out of dividends.

Mr Ackerman believes that 40 percent of the staff could own shares by 1992.

The first step will be to subdivide the present scheme by issuing four new shares to shareholders for every one they hold. This will automatically lower the price from the current R44 to about R11 and also make them more marketable.

The market value of Pick n Pay's shares is about R80 million, including about R60 million for the holding company, Pick n Pay Holdings (Pty Ltd).

Mr Hugh Herman, who has been joint managing director for the past three years, becomes the sole CEO. Mr Ackerman's new role will be executive chairman and chief executive officer. His son Garth has been appointed a director of Pick n Pay.
More machinations

As time runs out for Ivan Brownless to exercise his option to purchase the Putco bus company (Business September 25), the focus switches to a new contender.

He is Anthony Mayer, MD of Taxi Bureau and the man said in July to head an Afrikaans consortium's bid to keep Putco in white hands.

Mayer (34), who apparently has the backing of "a large company," is waiting in the wings for the final October 5 deadline on the option to expire so that he can step in.

Sources indicate that he is strongly in the running and a buyer who would be acceptable to the Carleo family.

The little-known Pretoria businessman is a Rand Afrikaans University B Comm graduate with an MBA and diploma in transport affairs.

He made his Putco debut in July when he appeared as nominee for a multiracial consortium offering the Southern African Bus and Taxi Association (SAbta) R5m to withdraw from negotiations.

Mayer himself stood aloof from much of the speculation, stressing that his offer was economically, rather than politically based. He claimed he would split Putco into four separately managed segments - transport, property, bodybuilding and maintenance - and a holding company. Blacks would be given the option of purchasing shares.

He also undertook to improve the transport service by providing better facilities and introducing smaller vehicles.

His reappearance as a potential purchaser is the latest development in an ongoing saga that has sapped the morale of Putco employees and left the company moribund.

Brownless, and his company Brownless Holdings, have to come up with financial guarantees for R156m to secure the Carleo family's controlling interest.

However, the controversial principal bidder appears to be having second thoughts.

"The chances of actually doing the deal are about 90%. But the question I am asking right now is, do I want to do it? If I am sure I will have the cooperation of the black community and no antagonism, that's fine. But if I'm going to end up fighting a one-man war, then it's not worth it."

Brownless says Mayer has tried to contact him several times and offered to purchase his option. He refused, because he is "not prepared to get into that kind of transaction."

With official Carleo family spokesman Luigi Carleo still in the US and not due back until October 19, there is little likelihood of anything being finalised much before month end.

FINANCIAL MAIL OCTOBER 2 1997
Soweto traders turn down ABI share offer

Amalgamated Beverage Industries (ABI) attempt to get independent dealers and staff involved in share-ownership received a setback this week when the Soweto Chamber of Commerce and Industries (SCCI) rejected the offer.

ABI, which was formerly controlled by the Coca-Cola Corporation, announced in August that it was offering 11 million shares at R100 each to staff and to about 11 000 dealers, many of them from Soweto.

The offer was immediately rejected by the Cosatu affiliate, the Food & Allied Workers Union, which said "that the sale of shares advances and protects the interest of profit-makers, while divesting untied action by the workers". The attitude has plagued most attempts to popularise share ownership among blacks.

It must come as a severe shock to white-controlled public companies that a major black business organisation has rejected a similar line and rejected a share offer on the basis that it only symbolises "token representation".

Says Peter Temane, Projects Director with the SCCI: "If the offer is fully taken up, staff and dealers will have 11 percent of ABI's shareholding, but almost 80 percent of their products are sold to the black community. I don't think it is a fair business proposition, it must rather be seen as political tokenism."

He also alleges that the threat of renewed sanctions played a key role in the share offer. "If ABI can show black representation among its shareholders, it ensures that Coca-Cola in the US will not withhold the syrup, the vital ingredient in the drink, once the divestment campaign picks up momentum again."

"It will take more than charitable moves to get black traders involved in ABI," Mr Temane says.

ABI strongly denies the allegations, saying that the purpose of the offer is to provide an opportunity for non-racial participation in the Coca-Cola bottling system in South Africa and for staff and dealers to acquire a meaningful equity stake in the company.

Managing director Alex Reid counters "Nobody is under any obligation to buy the shares, we just want as much participation in the company as possible."

He believes the dispute arises out of a misconception among the black community that the powers of directors and shareholders are synonymous. "As shareholders these people will have the same voting rights that accrue to every other shareholder."

On "sanctions-busting" allegations, Mr Reid says Coca-Cola has disinvested completely from ABI, "They are running a franchise operation in this country, as they do in the rest of the world, so they have no more investments they could use to threaten sanctions with."

Despite the challenges, Mr Reid says the offer is going along fine. "Dealers and staff have each taken up more than one million shares. As the closing date draws near, we believe the demand will build up to a crescendo."

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SVEN LUNSCH
Strebel offers workers shares before listing

By AUDREY D'ANGELO
Financial Editor

ANOTHER Cape Town-based company heading for the Johannesburg Stock Exchange (JSE) is offering shares to all its employees to make them feel they have a stake in the business.

The Strebel group (Strebel), which has a major share of the zip-fastener, buckle and haberdashery market in SA and operates the oldest commission dye-house in the Western Cape, is expected to be listed in the Industrial — clothing, footwear and textiles sector of the JSE in November.

The listing is by way of a private placing of 2 050 000 shares at an issue price of 210c a share.

MD Fred Strebel said the 1 250 employees would all be offered shares, and loans to buy them with. He said the offer had been well received at the Atlantis factory where nearly 600 coloured people are employed.

But some of the black employees in other parts of the country seemed “a bit suspicious”.

He thought this might be because they did not fully understand the share system and he would explain it to them. Strebel said he thought it vital for the future of this country that employees of all races should benefit from the capitalist system and feel they had a stake in the firms they worked for.

He was also in favour of advancing coloured and black employees to senior positions on merit. A number of immigrants who had worked for the group had returned home in the past two years, for political reasons, and instead of recruiting overseas he had promoted coloured people to fill the vacancies.

Other recently listed Western Cape firms who have offered shares to their entire work forces include the Board of Executors and steel merchants UNIE.

Many others, including Pick 'n Pay, offer shares to senior or long-serving employees. Pick 'n Pay is about to broaden the scope of its scheme so that more can benefit.

Strebel, which has a sound asset base and profit record, is likely to attract strong support in spite of the spate of listings this year — with more than 100 still to come.

Earnings slipped from 10c a share in 1984 to 7,4c in 1985 when the recession hit the clothing manufacturers who are major customers. But they rose to 12,6c a share in 1986 and soared to 23c in the financial year which ended on June 30, 1987.

There will be 15m shares in issue after the listing and the net tangible asset value per share will be 87,5c.

In the past year the group acquired Sidney Manufacturing, the largest haberdashery manufacturer in the country, and Hereford Industries, producing narrow fabrics and zips.
Management buys control of Joshua

By Ann Crotty

For the relatively low price of R7.8 million, control of furniture retailer Joshua Doore has at last passed to a management consortium headed by managing director David Sussman.

The management consortium, which includes New Bernica and Lifegro, has just exercised its option to buy out Rufurn’s final 25.1 percent stake in Joshua, equivalent to 17 million shares, for 46c a share — boosting its stake from 35 percent to 55 percent in the process.

Following this deal, put together by brokers Franklin Kruger, 30 percent of the outstanding 45 percent shares will be held by institutions, with the public holding the remaining 25 percent.

In March last year Joshua, which for many years had been a poorly performing subsidiary of the Kirsh Trading Group (now Tradegro), merged with Mr Sussman’s Price ‘n Pride and went for a listing on the main board.

At that time the Kirsh Group had 69 percent of the newly-listed Joshua, and a management consortium, headed by Mr Sussman, held 25 percent. The consortium managed to strike a deal with Kirsh Group that would allow it to acquire control any time before January 1999 at a price equivalent to the net asset value of Joshua shares. Mr Sussman was appointed CEO of the reconstituted Joshua.

The strength of Mr Sussman’s position, in terms of his appointment as CEO and also in terms of his ability to negotiate what was to become a very attractive deal for his consortium, reflected the successful performance of his Price ‘n Pride company, and the Kirsh Group’s need for good management skills to turnaround the weak Joshua.

As Tradegro CEO Mervyn King notes “At the time we believed that Joshua was badly managed, and we wanted to dispose of our entire holding because we did not have the people to turn it around.”

In this context the deal put to them by Mr Sussman’s consortium was acceptable.

In the period since March 1986 Tradegro had reduced its 69 percent holding to 25.1 percent selling to the consortium and institutional buyers — and Mr Sussman has affected a spectacular turnaround in Joshua’s performance.

According to Mr Sussman it was the strength of this recovery that encouraged management to exercise the option 18 months ahead of deadline.

At 46c, just 3c above the net asset value at end financial 1987, and 40c below the current market level the deal looks very good for the Sussman team. All the more so considering the share has been at a high of 130c during the year and, now that the issue of control has been finalised, could move to stronger trading levels.

Mr Sussman is not afraid of competition from the big players in the market such as Rus furn and the newly created Homemakers. He believes that the relatively smaller overhead structure, the shorter lines of communication and the considerably higher turnover per Joshua store compared with conventional competitors will ensure continued success.

In addition gearing is comparatively low.
LOVASZ Chemicals has acquired Flavours Universal and RawChem in a share deal worth R1.46m. The acquisitions predate August 1987 since Lovasz has established a chemical commodities division which will contribute materially to group earnings in the next financial year.

Liz Rous, the company's chairman said last year, "Lenov's earnings would have been increased to 9c a share from 7.3c a share. The effect on net asset value is not material."

Lovasz will pay for Flavours by issuing 417,572 new shares and will have the acquisition been effective in the year to February 1987.
Bid to stop SA mines investing in US

From SIMON BARBER

WASHINGTON — A bill has been introduced in Congress to bar South African mining companies from investing in the United States, opening yet another front for anti-apartheid activists.

Anglo American is the principal target.

The move was triggered by Consolidated Gold Fields PLC's massive market intervention to save Newmont Mining Corporation from a takeover bid by corporate raider T. Boone Pickens.

The bill's sponsor, congressman Mickey Leland, a prominent member of the congressional black caucus, said: "I don't think we should be extending South Africans the privilege of participating in our society."

Mr. Leland and his supporters interpret Consolidated's intervention as "Anglo-American's quest to gain direct control over Newmont."

Newmont has announced plans to become North America's largest gold producer.

Consolidated last month increased its stake in the company to 45.7%, buying $1.5 billion (about R3 billion) worth of stock in two days, to ward off a takeover by Mr. Pickens's investor group, Ivanhoe Partners.

Ivanhoe has sued to block the stock purchases, which are currently being held in escrow pending a judgment.

According to the US Department of Commerce, direct South African investment in the US last year showed a net deficit of $19 million.

Anti-apartheid groups like TransAfrica and the Africa-Fund argue that this does not reflect Anglo's cumulative stake in at least 100 US firms.
Advice

If you've got queries on education or business, write to Prospects Advice.

PO Box 97451, Springfield 2117

PROSPECTS

Dear Adviser

I am a builder and I want to start my own business as a house-builder.

I have just received a loan for a loan, but it is not enough to pay for the materials.

Are there any other opportunities for moving away from the conflict mode?

Every trade union, civic association, cultural organisation and special interest group, whether it be exclusion, where we have

voiced whether we like it not, and whether we are in agreement or not, we are a society of groups who must discourage with equal and impartial firmness, any rhetoric and political categories, their activities and policies. We have to develop a tradition of pluralistic tolerance which can be provided, of course, that they pursue their aims peacefully.

Maths or Science?

I think you should write to the Education Information Centre (address below) and ask them to send you a booklet on career guidance called "Maths or Science?"

Dear Adviser

I am 19 and have passed Std 10, but I did not get a university exemption.

My subjects were geography, historia, biology, physical studies and language.

Please help me choose different types of careers for which my subjects are suitable. Then tell me where I can go to study these.

Last Venda

Dear Adviser

You cannot go to university without an exemption.

If you had an exemption, you could study for a BA, then doing a similar profession without maths and science.

If you do not have an exemption, you should go to a technical college. The technicians will accept your Std 10 pass without exemption, but most of the courses they offer require either mathematics or science.

The supply of land and the infrastructure of the "Low Road", which the Slums Act is applied must not inhibit or retard investment opportunity in house improvement, including lack of upgrading on land, which can be set aside for such development without directly injuring the interests of property owners.

All appropriate planning mechanisms must be developed to increase the density of urban residence, but not at the expense of quality of life. Inevitable constraints on the availability of land, even without the use of zoning, makes such densification inevitable.

The context in which privatisation and deregulation will be of significant effect is fund-raising and regulatory mechanisms.

Economic and business deregulation needs to be divorced from social, if not political, deregulation.

The challenges for the economy, and for the society at large, are integrated and obvious problems. We would be foolish to try to compartmentalise the solutions.

In conclusion, allow me to say once again how highly important the role is of the private sector in general and commerce and industry in particular can be in reshaping our society.

However, this does require vision and also sometimes times the sacrifice of self-interest and privilege.

May we have the courage and the integrity not to do the former, as the "High Road" lies, but to pursue it with resolution and determination.

It will be too easy or comfortable journey. The destination is an eminently desirable one. The alternative of the "Low Road", which is so ghastly to contemplate.
Teco buys 7 firms for R5.8m

NEWLY-listed Teco Holdings, following the example of its parent, Columbia Consultants, has acquired seven companies for R5.8m.

Payment is to be made by the issue of 2,662,800 new Teco shares at 140c, 120,000 Teco shares at 150c each and 432,000 Columbia shares at 62c each.

The businesses acquired are: P H Heat Treatment, Brazelbright Industries, Heat Treatment Services, Micro Grund, Eden Gear, Avelino Engineering and Compuline.

Once rationalisation is complete they are forecast to add at least R2m to Teco’s pre-tax earnings in the financial year ending March 1989, a 16% increase in earnings per share.

Of particular significance perhaps is the acquisition of Compuline a specialised computer network consultancy and one of six IBM-appointed network cabling installers in SA.
1m shares for black customers

SBIC offers R3m shares at R18.75 each

From GERALD PROSALENDIS and HELEN WISHART

STANDARD BANK INVESTMENT CORPORATION (SBIC) is offering 1m shares with a market value of R25m to its black customers.

This offer, made possible by the disinvestment of Standard Chartered PLC, is part of a package which will see staff, excluding executives, receiving 1m shares and customers who have been with the bank for more than 10 years, as well as Prestigeplan account holders, the other million.

In all, the 3m shares have a market value of R75m.

The shares will be offered at R18.75, a substantial discount to yesterday's closing price of R25.

SBIC directors say in a press release: "Ownership of equity, as well as houses and trading entities, must become more widely accepted as a legitimate form of private ownership."

"It is in this context that SBIC, after consultation with members of the black community, has arranged for shares to be privately placed with black, coloured and Asian customers."

The directors said that the future economic and political stability of SA will be largely influenced by the degree of understanding and trust that can be engendered among all people towards a market-orientated economy.

Share application forms will be available from October 19.

The share scheme takes after similar offers to employees by Amalgamated Beverage Industries — 1m shares offered to dealers and staff at R1 each — and a scheme recently announced by Pick 'n Pay, in which more of its employees will be offered a stake in the business.
Hasten health privatisation call

A MAJOR firm of management consultants has called on health care experts to follow government's lead and expedite privatisation of the industry.

It points out that the Browne Commission and the subsequent government White Paper came out in support of a more free-market system, as opposed to a national health approach.

Pim Goldby director Guy Harris says: "As far as privatisation causing an escalation of costs is concerned, overseas experience would indicate the opposite.

"The contention that it should be accompanied by firm regulatory control, I also question"

Harris says regulatory control will run contrary to government's policy of deregulation and privatisation.

"However, I do accept that there may be a need for regulation where a monopoly is involved - say in the case of a small-town hospital."

Referring to a recent article in the Medical Journal, he says he finds it surprising that a magazine, whose readership includes a large number of doctors in private practice should infer that the private sector is a rip-off.

"I wonder if it has the support of its readers? Also, I wonder whether private practitioners would be happy with being paid only for the cost of their services and not for their capital, time, and other assets such as the years they have spent training."

Harris says the magazine speaks of the consumer paying for medical care in socialist countries through a compulsory levy.

"In fact, such levies do not care much for old age pensioners and indigent patients, so it is the corporate and individual taxpayer who ends up paying."

"While I would be the last to say that privatisation is a panacea for all ills, I do believe that it does have an important role to play in selected areas."

"Every consumer knows that health care costs are escalating - let the experts get together to find some constructive answers to the problem - and stop wasting energy on destructive criticism of options like privatisation."

MICK COLLINS
Basil Read hits
R4,05m target

JOHANNESBURG. — Basil Read Holdings — bought out by employees from Group Five Engineering in 1984 then listed in its own right in March this year — achieved the targets set at the time of listing with net income of R4,05m in the year to June 30.

And chairman Leon Dison says in his annual report that the group has gone a long way towards acquiring its required workload for the 1987-88 year.

It is confident, he adds, of achieving in the coming year the profit target of R9,66m, before interest and taxation. This was the forecast at the time of listing.

He says the acquisition of the Cape Town company, Clifford Harris (Pty), with its Reef-based mining and tunnelling organization, has sparked off a re-organization within Basil Read itself.

It is to be restructured into a number of separate divisions, which will help to rationalize its various activities.

The group, says Dison, was well placed to help meet the challenge of making up the country’s great backlog of urban housing and infrastructure, and was preparing to play a part in major developments such as the Lesotho Highlands and Mossel Bay projects. — Sapa
Share offer 'politically ill-timed'

Soweto Chamber of Commerce rejects ABI deal

From THEO RAWANA

JOHANNESBURG. — Amalgamated Beverage Industries’ (ABI) share offer to black traders has run into trouble. It has been rejected by the Soweto Chamber of Commerce, whose projects director, Peter Temane, said it would not mean meaningful business participation and was politically ill-timed.

He said the chamber would fight to get Coca Cola in Atlanta to withdraw the supply of syrup from Swaziland, where it is produced under franchise.

Temane said ABI, which was formerly controlled by the Coca Cola Corporation, approached the chamber after failing to sell to individual traders. The offer of 11m shares, at 100c each, to staff and about 11 000 traders had already been rejected by the Food and Allied Workers’ Union (Fawu).

"Since the offer would constitute only 11% of ABI shares and black consumers form about 80% of its market, why not reverse the ratio and give blacks the major share? Or sell us one plant to run?" he asked.

He said the absence of risk made the offer look suspicious. "Why is there a guarantee to sell a R1 share at R1,60 after 18 months? Black traders will not be enticed by 'blood' riches rejected by unions," he said.

"We will be taking steps to get Coke in Atlanta to withdraw the syrup produced under franchise in Swaziland. No syrup, no Coke," he said.

ABI director Alex Reid said the offer was not meant to stall US sanctions moves as Coca Cola had already disinvested from SA.

"To say the offer should have been made in 1975 cannot be answered by ABI since Coca Cola made its decision to sell then and ABI became wholly SA-owned only last year", he said.

He said there was nothing sinister in making the dividend a sound investment, and selling one plant was not seen as a sound investment sense.

Reid said only Fawu did not support the offer. The other union, the Food and Beverage Workers’ Union, had given its members the freedom of choice.

"The mother chamber, the National African Federated Chamber of Commerce (Nafcoc), had taken a non-partisan attitude on the issue and only the Soweto chamber, which has a small percentage of traders being offered shares, has indicated non-approval," he said.
Soweto Chamber says no to ABL share offer.
Sage Fund’s total value surges to R514m

The quarterly report said equity prices continued their broadly based advance, providing strong support for the expansion for the group’s unit trust activities.

Sage Fund maintained its performance momentum and the specialist Sage Resources Fund was successfully launched in August, with total assets reaching R255m at the end of September.

Investor expectations remained buoyant throughout the past quarter with company results remaining excellent and the gradual improvement in economic fundamentals remaining intact.

The investment mood was most notably manifested by the 15.7% appreciation in the JSE gold index when the rand gold price showed a more subdued 3.5% improvement. The industrial index equally reflected investor confidence with a strong 17.4% gain over the quarter.

Sage portfolio managers do not venture to discuss prospects, however, Sage’s top 10 holdings were Rembrandt Group, Anglo American, GFSAF, Breweries, Sage Holdings, De Beers, JCI, Sasol, Rusoglets and Vaal Reefs.

The Sage Resources Fund’s portfolio distribution was about 65% in mining sectors, 15% in the industrial resources sectors and the balance in liquid assets.

Elcentre posts 263% increase in earnings

ELCENTRE has posted a 263% leap in earnings to 21.1c a share in the six months to August, following the Keens and Litecor acquisition.

The enterprising group has also announced another acquisition, electrical distribution company Orex & its subsidiaries, for R2.4m.

This deal is not as expensive as the merger of Keens and Litecor’s wholesale distribution business with FS-Team distributors that had a price tag of R50.2m on the issue of 20.5 million new Elcentre shares at 40c each.

Elcentre will issue 850,000 shares at 20c each for Orex. The acquisition will date from July 1, 1987.

Turnover for the enlarged group shot up to R129.9m from R37m in the 1986 half-year while net profits soared to more than R10m from R1.5m.

LIZ ROUSE

Elcentre’s interim dividend has been raised by 2c to 11c on the enlarged issued share capital. The shares being issued for Orex will not participate in this dividend. Elgro has declared a maiden dividend of 4.7c.

Elcentre financial director Nathan Moszowski is forecasting earnings of not less than 50c a share on the bigger share capital for the year to February 1988, the Orex acquisition adding 10c to his previous forecast.

In addition, turnover for the year is budgeted to surpass R315m compared with R110m in the year to February 1987.

Moszowski says the Orex acquisition is in line with the group’s philosophy of acquiring electrical distribution companies with strong performance records, good growth potential and distinctive marketing capabilities.

The acquisitions of the Atlas Cables Group, Keens Electrical, Litecor Voltex and Orex have entrenched Elcentre’s position as the leading electrical, electronic and cable distributor in SA, say Elcentre directors in the interim report.

Referring to Elgro dividend policy, directors say that, in future, the Elgro dividend should equal about 50% of the Elcentre dividend, but of the R3.65m dividend received by Elgro, R3.65m will be applied to paying the formation and preliminary expenses of the company. This is a one-off liability and will not affect future earnings and dividend payments.

Elcentre shares firme 10c to 410c ahead of the interim results and could have more to run in them. The stock climbed to a high of 40c before the Keens/Litecor acquisition.

LIZ ROUSE

UAL’s new unit trust, Selected Opportunities Unit Trust, has attracted considerable investor speculation, had drawn R265m at the end of the year.

Of this, R46.7m was invested in gold units, 8.4% in mining stocks, 62.1% in financials and industrials and R19.6m (35.5%) was held in assets to take advantage of investment opportunities.

The fund’s top ten holdings were First National, Dimension Data, Lebi Trust, FS-Team Distributors, Masterbore, Malcor Holdings, F-Group, JCI and Metro Frame.

Coburn saw considerable progress has been made in the Selected Opportunities portfolio. UAL is dedicated at the support fund has generated from investors.

"There is clearly a body of investors who seek professional management of a portfolio which will add some measured risk." UAL unit trust’s portfolio value climbed to R29.5m in the September quarter. It was fully invested at the end of the quarter, with 85% of its assets in equities.

The fund has achieved a total return of 44.2% over the past 12 months. Its distribution for the quarter is 3.5c a unit.

The focused fund’s top ten holdings were Anglovaal Loan stock, De Beers, Lefko, Anamatt, Western Deep, Rusoglets, Anglo American, JCI and Bencor.

UAL Unit Trust’s assets totalled R338.1m and were spread evenly across the JSE boards. It held 7.5% of its assets liquid at the quarter end and 91.5% in the market. Distribution for the quarter is 12.9c a unit.

UAL’s other new fund, UAL Citrus Unit Trust, designed for institutions, held R31.9m at the end of the quarter. Distribution is 29.07c a unit.
shares opens

INSTRUMENTS

real growth seen for furniture industry

COMPANIES
PUTCO: Majority control to stay

JOHANNESBURG. — Putco Ltd said majority control of the company will stay with the Carle family for the "foreseeable future."

"Shareholders are now advised that no change of control of Putco is to take place, and that for the foreseeable future the Carle family will remain in control of Putco," the company said in a statement.

Putco gave no explanation for the apparent breakdown of efforts by other groups to buy control more.

Carleo Enterprises owns 52% of Putco which on September 10 said it expected Brownlee Holdings Ltd to acquire majority control following withdrawal of the Southern African Bus and Taxi Association (SABA) as the potential purchaser.

The company said today that it and the Carle group "regret the uncertainty that has been aroused by the publicity in recent months concerning the supposed imminent change of control of Putco, for which publicity neither Putco nor the Carle family is responsible." — Reuters
The Argus, Wednesday October 7 1987 3

Standard offers shares to clients

By DEREK TOMMEEY
Financial Editor

THE Standard Bank announced today that it was offering a million of its shares to clients of 10 years' standing at a price that should ensure them a 33-percent profit.

The bank is also offering a million shares on the same terms to its staff and is placing a further million shares with its black, coloured and Indian customers.

The shares, which have a market value of R25, are being offered at R18,75 each.

Altogether, it is offering R75-million worth of shares for R56,25-million, which means it will be putting about R18,75-million in the pockets of its customers and staff.

In a statement, the bank said the future economic and political stability of South Africa would be largely influenced by the degree of understanding and trust that could be engendered among all people towards a market-orientated economy.

Ownership of equity, as well as houses and trading entities, must become more widely accepted as a legitimate form of private ownership.

Share application forms will be available at branches of Standard Bank from Monday, October 19.
On the go with Coke

MORE than two-million of the 11-million Coca Cola shares offered during its disinvestment from SA had already been taken up by traders and staff, Amalgamated Beverage Industries (ABI) said yesterday.

ABI, which took over Coca Cola's SA interests in a management buyout, said it would decide on November 1 what to do with shares not taken up in its offer.

The announcement comes after the Soweto Chamber of Commerce turned down the share offer to black traders because it felt the deal would not involve meaningful business participation and that it was made to stall US sanctions moves.

Criticising ABI's offer, the Soweto chamber's projects director, Peter Temane, also said the chamber would lobby to get Coca Cola in Atlanta to withdraw the supply of syrup from the Swaziland plant. "Without syrup, no Coke," he said.

ABI confirmed there was no plant producing syrup in SA.
Hotel Braamfontein new flagship

Protea Hotels group takes over Kalahari Sands

By AUDREY D'ANGELO
Financial Editor

THE Cape Town-based Protea Hotels group has expanded to Namibia by taking over the management of the Kalahari Sands Hotel in Windhoek.

It will also manage the Kalahari Sands' sister hotel in the Sands group, the four-star Hotel Braamfontein, which will become Protea's flagship hotel in the Transvaal.

The group — now the largest hotel chain in SA — has been looking at the tourist potential of SWA/Namibia for some time. The country has been attracting overseas tourists, particularly from West Germany, for the past two seasons while they were staying away from SA.

Protea already has one hotel outside SA, the Protea Pigs Peak in Swaziland.

MD Otto Stehlik said yesterday that he planned to make a showpiece of the Kalahari Sands, with an international reputation.

He said SWA/Namibia had a vast tourist potential and was becoming more popular every year.

Stehlik is about to visit Europe where he plans to introduce the Kalahari Sands to those who matter in the tourist trade.

"We are going to transform it into the No 1 hotel in Windhoek, the obvious choice for the SA business fraternity, international tourists and visitors from other African countries," he said.

Horst Frehse, GM of the Protea group's flagship hotel, the five-star Heerengracht in Cape Town, will be head of the Windhoek operation.

Jürgen Hannemann, who is now GM of the Kalahari Sands, has been promoted and transferred to the Hotel Braamfontein.

The Braamfontein, which will aim at top echelon business travellers, international tourists, up-market conferences, banquets and "selective sporting groups", is SA's only all-suite hotel.

It has conference facilities for up to 400 people, two restaurants, a recreation centre and covered parking for 440 vehicles.

We now operate not only the Hotel Braamfontein and the Protea Gardens Hotel in Berea, Johannesburg, but the Hillbrow Protea Inn and the Balalaika Protea in Sandton," said Stehlik. "That gives us a wide control of the market coming into Johannesburg.

Forecasting that by the end of next year it will cost R200 a night to stay in five-star hotels in SA, Stehlik said "Operating redeveloped hotels with a substantially lower capital base means that we don't have to deal with the same cost factor and we can therefore pass on the benefit to our customers.

The Protea Hotels group, recently taken over in a management buy-out, started with four properties in mid-1984. It expects to have 50 hotels in the chain by the end of this year and to have boosted turnover to R100m a year.
Putco saga is far from over

SARA MARTIN

The Putco take-over saga is far from over.

The major shareholders of the company, the Carleo family issued a statement on Thursday saying: "No change of control of Putco is to take place and for the foreseeable future the Carleo family will remain in control of Putco."

The statement implies that the attempt by Brownlees Holdings to raise R156,000 by this week's Tuesday midnight deadline failed.

However, the statement makes no mention about what has happened to the second option from Mr Anthony Mayer, who runs a fleet of taxis and made a rival bid on behalf of an anonymous consortium of investors.

Neither the staff of Putco, Mr Mayer, nor Mr Ivan Brownlees were available for comment last night. Attempts to trace Mr Mayer both at home.

© To Page 2

Attempt to buy Putco fails

• From Page 1

and at the office failed and The Saturday Star was told that Mr Mayer had not been home for two days! But according to an impeccable source, Mr Mayer spent the whole of yesterday finalising the deal with his attorneys.

Mr Luigi Carleo, director of Putco Ltd, is expected to issue a statement when he returns from the United States in the next fortnight.
Rand eases

JOHANNESBURG — More than 2m of the 11m Coca-Cola shares offered during its disinvestment from SA had already been taken up by traders and staff, Amalgamated Beverage Industries (ABI) said yesterday.

ABI, which took over Coca-Cola's SA interests in a management buyout, said it would decide on November 1 what to do with shares not taken up in its offer.

The announcement comes after the Soweto Chamber of Commerce turned down the share offer to black traders because it felt the deal would not be a meaningful business participation and that it was made to stall US sanctions moves.

ABI is offering the 11m shares at 100c each to staff and about 11000 traders after the Coca-Cola withdrawal from SA.

The ABI spokesman said more than 1m had been taken by traders and another more than 1m by staff.

Criticizing ABI's offer for not being meaningful, the Soweto chamber's projects director, Peter Temane, also said the chamber would lobby to get Coca-Cola in Atlanta to withdraw the supply of syrup from the Swaziland plant "Without syrup, no Coke," he said.

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Computer Installation Group Limited

(Reg No 86/002604/06)
(Incorporated in the Republic of South Africa)

Cautionary announcement

Shareholders are informed that Computer Installation Group Limited, a company incorporated in the Republic of South Africa, announced its intention to make a public offer for the acquisition of the whole ordinary share capital of Computer Installation Group Limited, a company incorporated in the Republic of South Africa, on terms that a cash premium of approximately 25% is paid above the current market price of the shares of Computer Installation Group Limited. The offer is expected to be completed in the next three months. Shareholders are advised to take appropriate action in response to this announcement.

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Share offers no solution

A Complex Business

People in middle management positions now thought work participation schemes after the tax benefits would be very meagre and a little addition to the base salary of Rs 12,000 would still be negligible. Some trade unions had already undertaken movement to the concept of a participatory scheme and although the benefits of a scheme for employees could give rise to some problems, there was no general opposition to it. However, there was total unanimity that the tax benefits would be insufficient to encourage employees to participate in the scheme.

The committee had already decided that the proposed scheme would consist of 120 employee share options for each employee. Out of these, 100 would be on a preferential tax basis and 20 would be on a normal tax basis. The committee also decided that employees would be allowed to exercise their options only after a period of five years from the date of issue of the share options.

The company was then facing the problem of deciding on the price of the share options. After several meetings, it was decided that the share options would be issued at a price of Rs 100 per share.

The committee also decided that the share options would be exercised only after five years from the date of issue.

The committee decided that the tax benefits on the exercise of the share options would be Rs 2,000 per share.

The committee also decided that the exercise of the share options would be allowed only after the employees had been with the company for a period of five years.

The committee also decided that the exercise of the share options would be allowed only after the employees had been with the company for a period of five years.
Allied takes off the gloves

By Ian Smith

The gloves are off in South Africa's bitterly competitive financial services field.

Three years of planning pay off this week with the immediate merging of the operations of Allied Building Society and Allied Bank to form a new R50-billion giant offering one-stop service.

The move follows the remarkably rapid growth of the Allied Bank since its formation a year ago. With the share exchange with the Sage Insurance Group, it puts the newly-listed group in a strong position to capitalize on deregulation in the financial institutions sector.

The restructuring, which also involves major changes in the Allied Group's top control, means the distinction between bank and building society will disappear, says Alan Tindall, whose title changes from group managing director to chief executive officer.

Legislation

Also promoted are Ian Fraser, who becomes deputy chief executive, and Kevin de Villiers, the first managing director of the bank, who becomes managing director of the Allied Group with a seat on the main board.

Mr de Villiers says that the legal and accounting distinctions between the building society and the bank will be preserved as long as legislation makes this necessary.

"In all other respects, the operations will remain the same," he adds, pointing the entire range of financial services, including the business of insurance products.

Mr Tindall says the merger had been planned from the time Allied entered the banking arena. "It was always the logical progression to a full financial services group."

"But we did not expect it could happen so fast."

He says the Allied Bank's balance sheet of close to R4000 million is already three times the size of the original estimates at this stage.

The Bank faced high start-up costs, particularly in the consumer division, with its heavy infrastructural and technological demands. However, these have been offset by successful trading in all other divisions and the bank, overall, will at worst break even in the year to next March 31," says Mr Tindall.

The programme of bank branch openings is a year ahead of schedule, and training has gone ahead so rapidly that all main branches can handle the full range of consumer and corporate services.

The first three bank branches opened in January, and then there was a pause to evaluate their performance. By the beginning of October, 76 branches had opened and by the end of the month 100 will be operational. All 150 Allied Building Society branches will offer the banking service by the end of March.

"I am very pleased with the prospects for corporate banking. The bank has already identified R100 million of attractive business for advances in the R100 000-R50 000 bracket and another R50 million at the low-yielding triple-A end of the market."

"We are very happy at the quality and the level of corporate business we have under-estimated the value of the Allied name in this field."

In the consumer field the Bank has looked first at the Allied's 1.1-million customer base. About 30% of customers already have Allied bonds, while 25% have bonds with other institutions and the remaining 75% do not have bonds at all.

Cheque services are still a little way off. "The introduction of cheques is a major exercise, but the bank will be phased in over the next five years."

"But it's not just the bank that's doing well," Mr Tindall says. "Allied's traditional operations are also growing."

He says: "There has been a lot of speculation about the possible adverse effects of the rate competition in the market place."

"In fact, Allied's lending is well ahead of budget - and that has been achieved without slashing rates."

"As for liabilities, any reduction in retail business has been more than offset by the ability we now have to obtain a reasonable share of wholesale business from the commercial banks, which previously dominated that sector. That, after all, is one of the main reasons for us being in banking."

Broader

He says that financial commentators have been concentrating on short-term events. "It is actually the broader scenario that matters."

"If we take the people who have been asking what we were doing about the so-called competition from the banks, the answer is now obvious. They should ask instead what the traditional banks are doing about the competition they are facing."
Sasol plans several major expansions

DAVID FURLONGER

SASOL is planning important expansions to its mining and industrial operations.

The company is considering a colliery extension programme which will eliminate the need to buy about 4-million tons of coal a year, says chairman Joe Stegmann.

Sasol also plans to extract propylene as a downstream project of its oil-from-coal scheme, and to manufacture polypropylene. These materials are used in the plastics industry.

Stegmann says, "An import-replacement opportunity for propylene as well as for polypropylene has already been identified in the market. The project is in the final phase of consideration and a choice of technology will be made soon."

The two projects are among several measures Stegmann hopes will contribute to long-term profit growth at Sasol.

Sasol's synthol process has been chosen for the Mossel Bay gas project and Stegmann says "A licence agreement has been concluded and the related fees will make a contribution to group profits this year."

However, the company is not able to extend its own fuels activity. Sasol is no nearer buying full control of Sasol Three and Stegmann says acquisition of the government's share will not be considered until "relevant circumstances are acceptable to both parties. Until such time, we shall not be able to consider further extensions to our own synthetic fuels industry."

Sasol turnover fell last year from R3,64bn to R3,11bn and pre-tax profits from R1,19bn to R917m. Attributable profits slipped from R575m to R526m, but the dividend rose from 45c to 47,5c.

Stegmann says in the annual report: "Indications are that at least the present level of dividends could be maintained for 1987-88."
R55m slice of the Avis cake for VW

By KIN BENTLEY

VOLKSWAGEN of South Africa, the Uitenhage-based car plant, learnt today that its car order from Avis for next year is likely to be even bigger than first expected.

Avis Rent-a-Car was at the plant today, tying up the deal.

Mr Ronnie Kruger, public affairs manager for VW SA, said that the Avis order of 3 000 vehicles — worth about R55m — constituted 50% of Avis' 1995 requirement.

He said the cars would be delivered to the company next year at an average of 250 a month, which was within the plant's production capacity.

He said that Mr Tony Langley, managing director of Avis, told him during a visit to the plant today that he was negotiating for additional units in the first quarter of next year.

This meant, he said, that the Avis order for next year might be even larger than the 3 000 first mooted.

The performance of VW SA, which this year has engaged 1 000 new workers, was outlined today by Mr Kruger, who pointed out that between 1984 and last year the company had invested a total of about R230 million.

More than R100 million was spent on new interior plant and machinery, a new paint shop, a quality assurance laboratory, new production engineering facilities and new staff training facilities.

Furthermore, about R100 million was spent on tooling up for the new Audi range and the Golf/Jetta range "to get us up to go into the 1990s."

Commenting on this expenditure in the light of the latest Avis order, he said "The fruit is there."

Since 1984, he said, the company had in effect doubled its market share — from 18.5% in 1984 to the present level of 20%.

And with 1 000 new employees taken on this year, the company was geared to meet increased demand next year.

While not yet producing at the rate they were during the "halycon days of the early 1980s", Mr Kruger said with a total staff of about 6 700 people (compared with nearly 9 000 then) they were now producing at the very good rate of 1 000 units a week.

During the recession, through natural attrition and layoffs, the 9 000 staff figure had dropped to about 5 000.

However, this year another 1 000 people were taken on and were being trained and integrated into the company.

Teacher found dead

DURBAN — Teacher Mrs. Losia Jacoba Gunter, 41, who was fined R300 on Thursday for poisoning her neighbour's plants, was found shot dead in her Blackridge, Maritzburg, home today.

Captain Pieter Kitcheng, SAP police officer in Maritzburg, said a crime was not suspected.

— Sapa
20,000th VW car for Avis

VOLKSWAGEN in Ulm, Germany, will deliver its 20,000th vehicle to Avis, the car rental giant, before Christmas.

The company has been supplying Avis with cars since 1976. Mr. Archie Kruger, the VWSA public affairs manager, said today...

Yesterday it was announced that VWSA had placed another major order from Avis Rent-a-Car for 3,000 cars to be delivered next year at a cost of R5.5 million.

Although no units in addition to the 3,000 were ordered yesterday during a visit to the plant by the Avis managing director, Mr. Tony Langley, Mr. Kruger said negotiations in this regard were continuing.
Consumers, competition harmed

Call for new banking deal

PRETORIA — A leading banker yesterday launched a tweedledum attack on “anomalies” in the present financial system, urging that banks should be allowed to deal as principals on the JSE, and that banks should be able to own building societies.

Addressing the banking conference staged by the Pretoria branch of the Institute of Bankers, Andre Hamersma, GM of economics and planning of Standard Bank Investment Corporation, said urgent attention should be given to at least two anomalies in the present system “which distort competition and harm the consumer.”

Principals

It was important, he said, that banks should be allowed to deal as principals on the JSE in the same way British banks have been allowed to participate in the London stock market.

“IT is incomprehensible that the present commission cartel of stock-brokers is allowed to persist to the detriment of the investing public.”

There was no doubt that share dealing expenses would fall once more competition was introduced on the JSE, he said, adding “What is even more difficult to understand is that this situation is allowed to persist at a time when brokers are invading the traditional capital market activities of the merchant banks on a large scale.”

A further important inconsistency was that building societies were allowed to own banks, but banks were not allowed to own building societies.

“This situation is particularly unpalatable to banks in view of the fact that building societies continue to benefit from less onerous capital requirements and the ability to offer clients tax-free savings instruments.”

Hamersma said banks were facing a challenging business environment in the next 10 years: “The economy is likely to expand only moderately, inflation could remain high, labour conditions difficult and international economic relations subject to growing interference.”

“Such an environment will be unfavourable for banks which usually prosper during periods of rapid economic expansion.”

At the same time, the financial services industry would be confronted with ongoing rapid and costly technological change.

Because of its capital intensive nature, banking would progressively become more subject to economies of scale, and optimal capacity utilisation would be crucial.

Consequently, banks would endear themselves to boost sluggish business volumes by aggressive marketing and highly competitive pricing — Sapa

“Consolidation”

Further “Consolidation” in the financial sector seemed inevitable, he said.

Nevertheless, there would always remain scope for small “Boutique” style operations in addition to the large national “Supermarkets.”

It was essential the authorities understand and encourage these developments.

“They should not try and dismember the larger national banking groups on the grounds of undue concentration of economic power.”

Unfortunately, there is a popular tendency to regard banks as powerful “fat cats” and manipulators. These accusations are not supported by the facts.

“In comparison with their clients, South African banking groups are small, their financial performances tend to be pedestrian, and their actual competitive behaviour indicates strong mutual competition.” — Sapa
Hawkish tactics in the dairy trade

"THEY watch us like hawks... and every time we start delivering to a new outlet they approach the owner and offer their products at a discount," said John Jacobs, MD of the new Homestead Independent Dairy, which has been in business now for 10 weeks.

He was talking about the two main dairies, Daryrbelle and Cape Dairy Co-op, which for 20 years divided greater Cape Town into separate zones in which they operated. The system gave shoppers no choice between products and irritated retailers, who had no chance to bargain over prices.

This situation ended in August when Homestead started up, offering lower prices. Although its introductory offer lasted only a limited period, prices in areas where its products are available are still generally lower than four months ago.

Now, with the Cape Dairy Co-op's decision this week to deliver to supermarkets outside its own established territory, and Daryrbelle promptly following suit, it seems there is real competition between the two.

Or is there? Jacobs said yesterday: "We would welcome real competition in our industry which would stimulate interest and push up sales volumes generally."

"But to judge from their published advertisements Daryrbelle and Cape Dairy Co-op do not seem to differ much from each other in price."

"I would love to see price lists of their complete range of products, all different."

Meanwhile an Indian-owned dairy, supplied by Homestead, has started up to provide more competition in the townships.

The Akbar Dairy, run by a family who had been in the industry for at least two generations, started up a few years ago to challenge the two main dairies and was bought out and closed down after difficulty in maintaining supplies.

Now the late owner's daughter, Begum Khafie, has started the Akbar Central Dairy and is supplying her father's customers "We are supplying her with about 8 000 litres of milk a day," said Jacobs.

Akbar Central Dairy's advent has been welcomed by the influential Western Cape Traders' Association whose chairman, Klaasen Allie, said this week he hoped other black dairies would start up, to keep prices down and stimulate sales.

Jacobs said Homestead's ability to supply other independent distributors would depend on the availability of supplies. There was currently a shortage of milk in the Western Cape.

Stuart Maxwell, financial director of the Cape Dairy Co-op, told me this week that he did not think Homestead would be able to maintain its prices at their present levels much longer.

Jacobs commented: "We get an uncanny feeling that there is a group of competitors watching and waiting for us to raise our prices."

He said that since starting up "we have had about a dozen cost increases but we planned for them and have absorbed them."

However, he admitted "There will come a time when we have to look at our cost structure again."

Jacobs said that Homestead's prices averaged 8% below those formerly charged by the big dairies. This enabled the retailers, including Pick's Pay, to sell at lower prices while still enjoying the same profit margin.

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First interim dividend since 1985

Pepkor back in the black

By AUDREY D'ANGELO
Financial Editor

PEPKOR, which last year was still struggling under a "heavy" load of foreign exchange debt, is back in the black after its rights offer to raise R22.7m and the sale of subsidiaries, and of 2.5m shares in Pep Stores.

It has achieved attributable profits of R12.6m for the six months to August 31 compared with a net loss of R0.4m a year ago.

This is equivalent to earnings of 132.8c a share on the weighted average of 9,497,600 shares in issue, compared with the loss of 4.6c per share incurred on the 8.4m shares in issue last year.

In line with stated policy, borrowings have been slashed from R129.2m at the end of the last financial year to R49.2m and the interest bill has been cut from R21.3m to R7.5m.

An interim dividend was declared in August to avoid having to pay undistributed profits tax. This, the first interim since 1985, will be paid next month.

Pepkor chairman Christo Wiese said that turnover had risen only "marginally" to R414m (R409m) because of the sale of non-core operations. But, he said, operating profit had risen by 14% to R26.7m.

Pointing out that the second half is traditionally the most profitable, Wiese said he was confident that the group was "well on track towards paying a final dividend of between 50c and 60c, in addition to the interim payment."

He said that he was delighted with the excellent performance of the group's two principal trading subsidiaries, Pep Stores and Shoprite, both of which reported substantially improved turnover and profits earlier this week.

"However, because the figures for the interim period last year include the non-core operations, the increase in the contribution from both Pep Stores and Shoprite is not fully reflected in Pepkor's increase in results to the end of August this year."

Wiese said that the borrowings would be further reduced by year-end as a result of the sale of Budget Footwear, Knitwear Industries and House of Monatic to Lenco Holdings.

These sales are subject to shareholders' approval and will be discussed at meetings on December 3.

"I believe that our figures at the half-year stage vindicate our decision to embark on a substantial restructuring programme," said Wiese.

Overall, consumer spending should rise up to 5% in 1986 after 4% this year.

Registration No 83/01066/06

CHAIR

PEPKOR LIMITED
The Economist's commodity price index has risen 19% in dollar terms in the past year and 12% in a basket of major currencies, making exports more valuable, and net reserves are the best since 1981, reflecting a slowdown in capital outflows.

But there remains some gloom. Daly also expects, for example, that export volumes will fall about 3% this year, reflecting both the effects of sanctions and slack demand in the developed world. He also believes that until the rand continues to firm, pressure from imported prices could fuel inflation; while the increase in investment and consumer spending will probably lead to higher inflation and interest rates in 1988.

And Daly says that confidence and politics do play a big part in the longer term. He tells the FM that the growth he projects should be at least give government "breathing room" to seek solutions.

So will it seize the moment? If SA enjoys some growth — and a higher gold price — will Pretoria take advantage of the calm to tackle long-term political problems? Or will it squander the wealth, circle the wagons, and fail to see that bold steps simply become more difficult as time drags on? One can only hope.

DEREGULATION

Cue from Kew

In a major deregulation move, State President P.W. Botha has published a draft proclamation that will suspend several laws, by-laws, and municipal ordinances from an area in Kew, Johannesburg. This test case could pave the way to opening up dozens of similar "industrial centres" nationally.

A proclamation will be made subject to objections and representations received within three weeks of the publication date of October 16. The notice will go in due course to a standing committee of parliament.

Application for the "appropriate standards zone" was made by Job Creation SA, for a vacant property at 117 Eleventh Road.

The list of regulations that will be fully or partially suspended confirms the problems of entering the economy it includes:

- The National Building Regulations & Building Standards Act of 1977;
- The Labour Relations Act of 1956;
- The Wage Act of 1957;
- The Basic Conditions of Employment Act of 1983;
- The Machinery & Occupational Safety Act of 1983;
- The Factories, Machinery & Building Work Act of 1941;
- The Transvaal Licensing Ordinance Act of 1974, and

"Even this," says Job Creation's Ian Hetherington, "is not the whole answer to the problem. We considered 12 statutes and six Johannesburg by-laws. We found that seven were mainly to do with public health and safety, and did not wish to tamper with them. Three — the Credit Agreements Act, Workmen's Compensation Act and the UIF Act — were outside the ambit of the Deregulation Act (Temporary Removal of Restrictions on Economic Activities Act).

"We did not even look at tax legislation."

Job Creation (major shareholders Barlow Rand Foundation and Nafooc) made the application after long study and observation. The final prompting was pronouncement in 1986 of the Deregulation Act.

Excessive powers

The Act met distrust from certain quarters. Pretoria was accused of taking "excessive" powers. Doubts were also cast by vested interests, which fear deregulation could strip their rights protected in statutory law — as opposed to ongoing rights under common law.

"Deregulation," says a government spokesman involved with the Kew case, "is often assumed to be simply doing away with all regulations and rules. Mildly put, that is fanciful. The first step should be to examine all rules in the economic sphere. Suggested legislation must be examined to see if it fits the general aims of deregulation."

In the Kew case, Job Creation found the land at low rent, but quickly discovered that it would not be possible to do business without major deregulation.

THE RAND

The dangers ahead

Unless inflation is brought under control the long-term outlook for the rand is bleak. As Volkskas points out in its October Economic Spotlight, "the most important factor determining the exchange rate of one currency in terms of another in the long term is the differential between the inflation rates of the

NEW FISCAL RECORDS

Year-on-year, government revenue and spending reached new heights for the month of September. Spending shot up 25% compared to a year ago, taking the average for the first half of the fiscal year to 20,4% (budgeted: 16,2%).

Revenue increased by a comfortable 35% in September, compared to 12% in August. This takes the increase in revenues for the first half to 15%, after the first five months 11%.

"The crude deficit before borrowing for the first six months is therefore R4,8 billion. Estimating for a seasonal adjustment puts this well within the budgeted R8,4 billion for the full year."
Stampede as Lefko shares hit the JSE

The controversial Lefkokryos (Lefko) mine burst onto the JSE yesterday with dealers clamouring for shares and chairman Loucas Pouroulis seeing his personal assets instantly swell by more than R700m.

The listing of Lefko ranks as one of the three largest ever on the JSE, together with Sasaal and Lifegro.

With 60 million shares in issue, the market capitalisation of the platinum mine is R1.45bn, based on the closing price of R24.42.

The share opened at a low for the day of R21, 61% premium on the average take-up price of R11. It reached a high of R24.50.

The listing completely overshadowed the market with little interest shown in other shares. One prominent broking firm had three dealers, out of a team of 13, trading exclusively in the Lefko shares.

However, the seating on the floor was over within minutes of the opening. Sellers were scarce and the price was set by buyers. Just under 820,000 shares changed hands in 453 deals. There was substantial overseas interest according to dealers, and institutions were prominent buyers, presumably to top-up their mniscule holdings. They relatively small number of deals indicated there was little stagnation and relatively few investors took profits.

Pouroulis himself was believed to be a strong buyer of Lefko shares. According to the Lefko prospectus, he currently holds a total of 30.26 million shares or 50.4%. Based on this holding, Pouroulis would have increased his assets by staggering R733m on yesterday's closing price. His shares were given a value of R100 million in the private placement document.

Pouroulis has signalled his intention to retain control of the mine and it is unlikely he will switch his paper into cash. Rather, as more shares are likely to issue as the mine develops, he will look to increase his stake.

The mine, which has been surrounded by controversy, particularly over the transfer by government of valuable prospecting leases to Lefko from JCI, is expected to begin production in 1999.

The public offer of 2 million shares was over-subscribed 51.69 times. Applications were received from 5,130 applicants for 105 million shares for a record total amount of R1.36bn.

Said David Russell, morning analyst for sponsoring brokers J D Anderson: "We thought the listing was a success."

He said a share price of R25 was fair, based on premiums of existing platinum shares. "Since Lefko will begin production ahead of Northam, it will command a premium to current net present value greater than 48%. However, due to high risk associated with a mine still being established, it must be a premium lower than Impala. Consequently, a premium midway between Impala and Northam is considered appropriate."
Fintech buys up 50% of Sequel

FINTECH has expanded its AItron group's already dominant position on the JSE's electronics sector by buying control of Sequel in a R232m deal. This gives Fintech a full range of computer services and, in terms of turnover and market capitalisation, is unrivalled by any of its JSE competitors.

Fintech has bought 50% of the company, effectively severing Sequel's links with high-profile Eureka chairman Harry Price.

Bill Ventur's group acquired 80% of its new holding in Sequel from Computermatic (C-Matic), with the remaining 20% coming from Sequel management. In a statement, Price said the motive for selling was the dropping margins in the competitiveness of the computer-hardware-distribution industry over the past months.

However, C-Matic has taken a dis-counted cash settlement of R16.75m, of which about R6m will be used to repay debt. The balance will be placed for short-term investments.

Had C-Matic's controversial rights issue to rid itself of its 48.8% holding in Sequel succeeded, Price would have earned R20.5m.

Pending negotiations with Fintech were the reason for the rights issue, Price said.

Price defended the sale by saying that, had the rights offer taken place, Eureka would have been a 23% minority shareholder in Sequel and would not have been able to "justify providing the substantially increased resources required to ensure that Sequel ... remains a major participant."

Fintech CEO Ventur, extremely excited about the deal, says it is in line with the company's strategy of "becoming the leading office automation and information technology organisation, and of aggressively developing AItron's strategic business interests in computer hardware and software."

He is delighted with Sequel's management skills and the expansion into the national network of computer dealerships.

Sequel's shares shot up by 90c to 420c yesterday as the market learnt of the deal Sequel's previous high was 410c at its listing in July, but it fell sharply to its lowest of 296c on Friday, shortly before the deal was struck.

Fintech financed the deal by issuing 365 774 new shares C-Matic received 299 107 of the new Fintech shares but...
Cullinan gets outright control of AF Cables

CULLINAN Holdings has acquired a further 15% of African Cables in a cash and share transaction deal which gives it outright control of the JSE-listed company.

The deal, worth more than R16m, gives Cullinan 50.02% of the AF Cables issued share capital and follows the May 6 deal when Cullinan paid out R29.4m to acquire 35% of the company from British International Calender Cables (Bic)

The move is seen as a continuation of the group's planned strategic thrust into industries allied and complementary to its extensive and varied interests in the industrial electrical sector.

Executive chairman Neil Cullinan said yesterday the acquisition would not have a significant impact on the group's earnings for the year to June 1988.

He said management and staff under AF Cables MD Peter Muller were to be retained intact as one of a total of 67.4c a share, or 74%, while the group's then-35% interest in AF Cables significantly contributed 3.7c a share in less than two months to the year-end.

Both the share deal and the cash consideration were based on an AF Cables price of 44.5c a share — a discount of just over 18% on the market price.

The cash payment amounted to R2.301m. The share transaction involved 1.35-million new ordinary Cullinan shares — 12.2% of the issued ordinary share capital — the most valuable assets of the acquisition.

The group last week illustrated the value of its decision to concentrate operations in the industrial electrical sector by reporting a 27% increase in attributable earnings for the year to end June.

Earnings a share increased almost 19% from 76.1c to 90.5c. The electrical and electronic divisions contrib-
Symphonic success

A last-ditch effort to save the City Council-funded Cape Town Symphony Orchestra (CTSO) by privatisation appears to have paid off. The non-profit CTSO Incorporated ended its first year in private hands with a surplus of R826 569—a figure it is hoping to improve on next year.

The CTSO is the country's oldest orchestra and one of the city's most valuable cultural assets. It faced closure last year when the council reluctantly refused to continue subsidising its mounting losses.

A rescue operation, agreed to by the council, involved the establishment of CTSO Inc., the provision of a R38.5m council-provided grant-in-aid payable over 10 years and permission for it to continue using the city hall for concerts and administration.

In addition, the council was permitted to appoint the chairman and four other directors on the 12-member CTSO Inc board. The local chamber of commerce, sakakam, chamber of industries and UCT were allowed to appoint a director each.

CTSO Inc chairman David Bloomberg says the surplus accumulated in the orchestra's first year of privatisation shouldn't be seen as "windfall," but rather as the result of a conservative financial policy.

The council grant will not escalate after 1988/89 in terms of the agreed annual split in the total sum. For this reason it was decided not to spend all available funds in the first year, he adds.

"We also had to make adequate provision for the ever-rising cost of bringing out internationally acclaimed soloists and conductors to SA. The same applied to financing the educational programme of mounting concerts in schools, bringing schoolchildren to city hall concerts and presenting concerts at other venues," he says.

The CTSO Trust, which comprises patrons, sponsors, benefactors and friends who have undertaken to donate money to the orchestra over five years, contributed about R1m to its income, which has been placed in reserve.

At the time of the deal, 61 of the 72 orchestra members accepted contracts with the new company. Of the 11 who declined, seven were leaving the country.

The CTSO currently comprises 74 musicians of 15 nationalities. Average attendance at Thursday night concerts in the year under review was 83% and included 17 sell-outs in the 43 concert season.
REM BRANDT GROUP

Flexing muscles

Activities: Diversified international investment company with major interests in tobacco and liquor. Other interests include banking, forestry and timber processing, printing and packaging, financial services, engineering, pharmaceuticals, medical services, mining, petrochemical products and portfolio investments

Chairman: A E Rupert, managing director

Capital structure: 522m of 1c each. Market capitalisation R6.8 billion

Share market: Price: 1.330c. Yield: 1.0% on dividend. 6% on earnings. PE ratio: 12.4. Dividend cover, 8.5. 12 month high, 1.460c; low, 0.672c. Trading volume last quarter, 2.6m shares

Financial: Year to March 31

- '84 '85 '86 '87

Debt

Short-term (Rm) 58.7 82.2 27.1 5.5
Long-term (Rm) 73.2 65.1 76.2 55.8
Debt equity ratio 0.07 0.03 0.03 0.01
Shareholders' interest 0.90 0.91 0.92 0.95
Int & leasing cover 13.3 15.3 22.2 34.6
Debt cover 2.1 2.9 3.2 6.0

Performance:

- '84 '85 '86 '87

Return on cap (%) 8.9 10.9 9.2 8.4
Pre-tax profit (Rm) 5.29 315 410 509
Tight profit (Rm) 2.29 215 279 347
Earnings (c) 4.93 5.23 5.43 7.16 108.5
Dividends (c) 73.0 84.0 100.0 125.5
Net worth (c) 4,930 6,428 7,707 109.6

* After 10-for-1 share split

After the spending spree of the past several years, the Rembrandt group has steadily shifted the focus of its investments

According to the annual report, at the balance sheet date the original, core businesses lumped together as tobacco and liquor accounted for some 25% or about R1.1 billion of total capital employed of R4.32 billion (at book value). Already this figure has fallen substantially from the level given earlier in the decade, when tobacco and liquor accounted for some 50% of capital employed.

Events since the 1987 balance sheet were drawn up will have reduced this figure even further. Capital employed on both mining and banking, insurance and financial services was boosted by a major acquisitions

- 10% of Gold Fields of SA (GFSA) and

- 10% in Stanbic — for a total of close on R670m

The GFSA acquisition will have comfortably doubled the group's investment in mining to around R1 billion, making this amount virtually equal to the capital employed on tobacco and liquor. Indeed, given the accounting procedures involved, it is safe to assume that the investment and the income derived from tobacco is actually a lot smaller than is suggested by the accounts.

The Stanbic acquisition will have added some R190m to the amount employed in banking, insurance and financial services, lifting that figure to some R670m or about 15.5% of the March 30 total.

Interesting as the Stanbic purchase was, though, the GFSA investment was larger, more controversial and more capable of being followed by a still greater investment later. An important question relating to the true cost of the GFSA acquisition was the funding method used: at the time, Rembrandt stated it had not yet decided whether the purchase would be funded from SA through the financial rand, by calling on cash held abroad, or by borrowing.

Precisely what method was adopted has still not been revealed. However, I am told it would be a fair bet to conclude that most, if not all, of the funds were drawn from overseas, and that the group did not borrow money for the deal. It could be concluded from this that the group has therefore run down its foreign cash resources, which at year end stood at R343m, but that would not necessarily be realistic, cash inflow is evidently very large, and it may be all too easy to overlook the effects of fluctuating exchange rates.

For those who have bought the share part-ly on the strength of its international holdings, the investment in a South African mining house may appear somewhat dis-appointing. I understand, though, that the thinking behind the purchase was to make an investment in gold and, in the future, in platinum, rather than to pursue geographic diversification. Apparently there is some concern in the group about economic and financial trends in leading international economies, and a significant hedge in precious metals was considered to be a useful medium to long-term investment.

Whether or not these major purchases suggest that the acquisitions will lose momentum for a while is problematic — and, on balance, doubtful. The group remains highly liquid, and appears to be considered an acceptable partner, particularly in local markets. Faced with slow growth in tobacco consumption, it is evidently determined to continue to diversify. Given the problems associated with running large mining operations at present, there seems no particular reason to expect an on-going rush into the mining industry. But nor is management likely to simply watch cash resources mounting up.

For most of the present decade, earnings and dividends have both remained on a steady upward trend. In the financial year to March 30, earnings grew by 46% and dividends by 25% in the dividend in the March year. Since the 10-for-1 share split earlier this year, the share has remained in demand, rising during the year by 66% to R13.30 this week. Despite the share split this is more than 33% above the level of five years ago, when the share stood at R10.50 in August 1982.

On income grounds the share looks expensive. The price stands above balance sheet net worth, and the dividend yield is a mere 1%. But the dividend cover is a high 6.4 times, and the p/e is not excessive at 13.3 times. As chairman A E Rupert noted at last week's annual meeting, at market value of investments, and taking into account market value of consolidated investments, shareholders' interest amounts to R12.96 per 1c share. Even if the growth slows, the share should remain firm in view of the historic record and the sound strategic interests.

Andrew McNulty
Activities: Investment holding company with controlling interests in companies operating in computer, communications, electrical, electronics, finance and machine tool sectors. The company also has investments in two property owning companies.

Control: Directors hold 35% of the issued ordinary shares and 100% of preference shares.

Chairman: R S Price, managing director. D de Raker

Capital structure: 60m o/s of 0.25c each 10m 15% preference shares of 10c each. Market capitalisation, R63m.

Share market: Price: 105c Yields: 2.6% on dividend; 5.3% on earnings; PE ratio, 18.8; cover, 2.0 12-month high, 197c, low, 60c.

Trading volume last quarter, 7.1m shares.

Financial: Year to February 28

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*18 month period
**14 month period

months, and pyramid company Eureka has followed them downwards.

In March Eureka shares briefly traded at a high of 195c (and a low of 35 times). This week the shares had been down-rated to 105c, while the value of its underlying investments had dropped by R45m, or 35%.

The group appears to be taking a short breather, following its break-neck expansion last year. Indeed, analysts are hard pressed to keep up with the acquisitions, transmutations and new listings which characterise Price’s approach. Certain shareholders, who have previously identified Price companies as soaring investments must now look with a slightly jaundiced eye at the share price slide, and feel uncomfortable that much of the earnings growth has been achieved through acquisition Price, however, disputes this, he attributes growth to turnaround achieved in companies acquired.

While Eureka posted a large 16.4c earnings jump after extraordinary items (compared with 2.4c for the previous 18 months), repeatable earnings amounted to only 6.5c — equivalent to 40% of the total amount. The enigmatic Price, however, sees total growth in net worth as the true measure of success — and this has risen from 21.1c at the December 1985 year-end to 181.6c at February 1986.

Still, profits from investment banking are all very well, but not altogether reliable. These include such mind-benders as a R1.67m surplus derived from dilution of interest in associated companies, and a R2.34m surplus on acquisition of interest in associated companies.

Eurefin listed its interests in C-matic by way of a rights issue of 74% of C-matic to Eurefin shareholders. Thereafter Eurefin sold a further 4.26m C-matic shares to Eureka. In addition, Eureka acquired a controlling interest in H & J Cables, effective September 1, by exchanging Eureka’s interest in its wholly owned subsidiary, Oak Industries, for 5.2m H & J shares.

Since the balance sheet was drawn up, C-matic merged its hardware sales division with Sequel Computer Holdings to become what is described as one of the largest main and micro computer distributors in SA, with effect from March 1. The merged operations were sold to Barbarian Industrial Holdings in exchange for 20,475m new Barbarian shares and the name changed to Sequel. C-matic was allotted 50% of these new Barbarian shares (48% of total issued shares) and will renounce its rights to allotment of these shares to C-matic shareholders. Eureka will allow its rights to become the largest single Sequel shareholder.

Needless to say, Price remains highly optimistic about the growth potential of Eureka’s associate companies. “Our strategy is to dominate market niches, and we are considering major thrusts which will give considerable growth in the foreseeable future.”

On the share price slide, he comments “It is not our place to control our shares — if a public perception arises it is public’s business to change it... In the main the people who are creating this situation (the slide) are not studying the facts, and that the present share price is unduly low.”

Trading at a low unit price, Eureka shares are priced at levels attractive to small investors, which is part of Price’s aim. His acquisitive strategy could help to boost the share in the short term, but eventually it is organic growth that will set the pace.

Eureka’s outlook will be dictated to a considerable extent by the performance of — and the confidence the market holds in — the other group companies, particularly C-matic (See Fox) and Eurefin II, and when, he can convince investors that these companies will fulfil previous growth expectations, the group should recover its lustre. If not, then the price weakness is unlikely to be over in the short term. Meanwhile a cautious approach seems wise.
LONDON — Ford has snapped up an exclusive marque with its purchase of Britain’s Aston Martin Lagonda company.

It thus acquires a clientele that includes Prince Charles and James Bond, and a tradition of hand-built cars dating back to 1914.

The deal, said by Press reports to be worth about £15m, gives Ford a 75% stake in Aston Martin Lagonda, which builds only about 350 prestige cars a year. Neither company would name the price.

Victor Gauntlett, who stays on as Aston chairman, said “It’s wonderful. The company’s future is now assured. The potential with Ford backing is mind-boggling.”

Kenneth Whipple, chairman of Ford’s European operation, said: “We intend to maintain Aston Martin’s character and its independence of outlook, and will seek to enhance the individual flair that has so long characterised its history.”

Only 10,000 Aston cars have been built since the first was assembled in a small London workshop in 1914 — Ford manufactures that many cars in a week.

Industry sources said Ford had for some time been searching for a prestige name to add to its European operations.

Despite constant demand for its cars — the latest 200km/h model sells for £37,000 and has been sold out before production started — Aston Martin has suffered a number of financial crises.

Under the new ownership, Gauntlett and the Greek shipping family Livanos will share the minority interest — Sapa-Reuter.
operation started three years ago and now showing the most rapid growth, according to executive director Norman Fisher. Distribution into the dispersed agricultural community is achieved through co-operatives.

Fisher is also involved in the production and/or distribution of household human medicines, flu vaccines, surgical instruments, dressings, and so on to pharmacies, clinics and hospitals. It has nine branches around the country.

Over the past five years the group's track record showed inherent strength despite virtually static growth in 1985. They were years when the group was buffeted not only by recession but also by the drought, which decimated national herds and flocks. MD Ken Manasse points out that in 1985 borrowings at high interest rates were increased to finance start-up costs of the agricultural division. Benefits of the expansion were demonstrated the following year, he adds.

Turnover growth of 26.9% (R51.8m) has been forecast for the year to end-March. Turnover growth was 48.9% in the 1983/84 year, 25.6% in 1984/85, 36.6% in 1985/86 and 33% in 1986/87. Pre-tax profits grew 22.5% in 1983/84, declined by 16.2% in 1984/85 and grew by 143% in 1985/86 and 63.7% in 1986/87. A 43.8% growth has been forecast for this year to give a pre-tax income of R5.2m. Since 1983 an average pre-interest margin of 7.5% has been achieved.

Following the reversal into Prescat, the Fisher directors and Twins Propan Holdings — which is to become part of the listed company through reversal into the Triomf shell — will each hold 44.5% of Fisher. The remaining 11% will be held by former Prescat minorities.

The listing on September 14 is intended to help the expansion programme. Acquisitions will be made with paper as well as the R2.5m cash available from the takeover. Manasse says acquisitions will be pursued aggressively. The group is ungeared.

Assuming no use is made of Prescat's accumulated losses of R16m, earnings a share have been forecast at 10.6c (21.2c without this assumption) against 7.4c last year. As with turnover, the 43% growth in EPS is expected to be lower than in 1986/87 (57.4%) and 1985/86 (147.4%). Depending on the method of calculation used, a dividend of either 4.24c or 8.48c will be paid to keep cover at 2.5 times.

Currently Prescat trades at 190c, well above the standby offer to minorities of 164c, and must reflect the value of Fisher. At this price the prospective p/e is 17.9 (with tax, 8.9 without tax).

Linda Emmo
industry will grow tenfold over the next 10 years. "I agree that this could well be true in money terms, but doubt if the number of parcels will actually grow to quite that extent. It's true, however, the more businesses speed up their internal communications, the faster the courier business grows.

"For example, one might have thought that the introduction of fax facilities would have prejudiced our business. But if anything it has actually boosted it."

Sky Couriers MD Nick Blackburn says in due course it may also seek a listing. He says the whole industry has had a long-standing tussle with South African Airways (SAA), but this has now hopefully been resolved through the good offices and commercial understanding of SAA CE Gert van der Veer.

"The courier business in the beginning was a real cottage industry — we used to fly passengers carrying suitcases full of parcels from one city to another. The air freight business then began putting a lot of pressure on SAA and the upshot was we were banned from using SAA in 1981."

Blackburn says the industry started using its own chartered aircraft — Sky Couriers had an arrangement with National Airways Corporation. Again SAA objected on the grounds that these were scheduled services competing with SAA on its own routes in contravention of legislation.

"To cut a long story short, we are now back with SAA though there was a hiccup when it dramatically hiked the rates we have to pay," says Blackburn.

While Sun Couriers is still using its own aircraft, the deregulation of road transport should cause a shift in operating procedures, says Grové. Blackburn adds, ironically, that Sky Couriers has always tended to be more earth-bound than other operators. "At least if you use the roads, you are not as subject to the vagaries of the weather as you are with aircraft."

Grové says the courier business is, by its very nature, highly time sensitive. "We are not selling transportation so much as certainty. And we don't only move documents around but parts for computers and the like."

Among the principal users of courier services are the major banks, which use them for moving cheques from outlying areas to users' own banks or headquarters.

Concludes Grové: "I think the industry is still in its infancy here, and has a lot more growth coming to it. In the US it is really big business, worth around $6 billion a year."

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**COURIER INDUSTRY**

Deregulation of road transport services, allowing freight haulers to operate within 300 km of most major urban centres in SA, has proved a boon to the already booming courier industry.

"In fact, I would say it is more advantageous to us than to genuine freight operators," says Sun Couriers MD Rosolof Grové.

The courier industry is today worth around R80m a year, with Sun Couriers and Sky Couriers each having about 20% of the domestic overnight express market. The balance is spread over smaller operators such as XPS and Fast Lane. The international courier market is covered by DHL and TNT Skypak, who appear to have the lion's share of the business.

Sun Couriers holding company United Services Technologies is shortly to be listed. This has tended to put the spotlight back on an industry that only made its appearance in SA 11 years ago when Sky Couriers came on the scene in April 1976.

Grové says some insiders believe the in-
as Firstcorp, "to reflect its parentage and the role it will assume in local and international banking markets."

Citibank NA "has long been active" in the major corporate sector, and has "substantial Treasury and corporate banking operations which focus on international financing and cash management, foreign exchange markets, domestic wholesale banking, and financial structuring."

It is intended that these will be supplemented by the traditional merchant bank activities of First Merchant in areas like stock exchange listings, mergers and takeovers. These have recently "been significantly extended" through the emergence of management buy-outs, in which field "it has played a leading role."

The investment division manages assets worth $2 billion.

Springett expects that Firstcorp will be a "significant contributor" to group profits.

He tells the FM that the key to the formation of the new group has been the availability of substantial funds (including Eurocurrency deposits) advanced by Citibank NA to South African borrowers and now — as they mature — caught in the debt standstill. These funds will now be re-marketed locally.

In terms of the new structure, as offshore funds are repaid by local borrowers to Citibank NA — and barred from expatriation — they will be re-advanced to Firstcorp for "on-lending" to local concerns.

This factor must be read with the formerly parallel operations of First National and Citibank NA in merchant banking and international corporate financing, which added to normal corporate logic for a merger.

The Board of Firstcorp — apart from Springett — comprises Chris Ball (chairman), Rod Zank (vice-chairman), and Stuart Jones and David Lawrence (directors and executive vice-presidents).
Teeing off

Interleisure's R40m thrust into the sports and toy industries represents no great spending spree for a group accustomed to big time acquisitions. What is important is the base that this new sports division provides for expansion into the high-growth sports market.

Given the group's track record of entering new areas on a large scale, the 100% acquisition of six businesses, which have a combined annual turnover of R40m, is small in comparison to other divisions capitalised at R500m.

Combined annual turnover of the acquired companies increased by 59% in 1987 over 1986, although no figures are given at this stage. Interleisure executive chairman Ian Heron says he expects a significant profit increase from the latest acquisitions, given the rationalisation benefits that will result from centralised warehousing and administration, functions previously served separately by each company acquired.

The division is expected to make a positive contribution to group earnings for the current year, although full benefits are only expected in the ensuing years.

Immediate plans are to develop specialty stores and expand product ranges of the wholesaling interests. Heron says the intention is to incorporate sports shops, cinemas and restaurants together in leisure centres.

Sports warehouse specialty complexes are also planned, although no locations have been earmarked.

The still unnamed sports division will comprise a fourth division of the restructured Interleisure. Heron tells me that a fifth division is being set up by splitting Satbel, currently the main contributor to group earnings, Ster Kinekor Video, Cinepanel, Irene Film Laboratories and Computicket have all been taken out of Ster Kinekor cinemas to form a new Cinema Services division, to be headed by former Ster Kinekor operations director Hans Happel.

Inherent growth, and Computicket's entry into travel bookings, are considered to have made the operations large enough to comprise a stand-alone division, says Heron.

Satbel is investigating the possibility of setting up entertainment centres in black areas. These centres would be a logical site for new sports equipment outlets targeted at the black market. Black schools' increasing involvement in sport has heightened the market's growth potential, says Heron. Interleisure's acquisition of the businesses of Treger Golf & Sports, Pro Golf Sales, The Pro Shop, Cobbe's, Grange's Golf Discount Centre, Golf Distributors and Opal Sportswear gives the group significant market share in the retailing of golf equipment and apparel. At wholesale level, it will be involved in the supply of tennis, cricket, golf and soccer equipment and sports apparel, although the intention is to broaden product ranges.

Kay Turvey
Riding Toyota

Market Motor Group (MMG) derives broad benefits from its involvement in used car repairs and parts service — but its Toyota new car dealership must be a major reason for the 98 times oversubscription of its public offer.

In its traditional business, MMG has grown from a small used car business outside Cape Town, started by the Sank brothers, Barney and Abe, in 1954. The brothers will indirectly hold 66% of issued shares after the offer of 2,3m shares to the public and 2,25m shares by way of a private placing.

MMG has grown to a diversified group with 16 motor outlets in the western Cape, and the largest new car Toyota dealership in the Cape. When Toyota marketing director Brandt Pretorius endorses the group and (at the JSE presentation) talks bullishy about the motor market’s potential for this year and 1988, the share seems to have potential.

It has an unusual investment in the film industry which saved tax equivalent to 6c of its 15,3c EPS last year. According to Alan Ipp of Fisher Hoffman Stride, MMG’s auditors, the concept has been regarded as sound financial planning. The film makers got full exchange control approval to help finance a film called Scavengers made in SA; MMG is one of a number of investors in this project.

Forecasts conservative

Earnings contribution from the film investment will gradually decline until the tax benefit is fully utilised in 1989. Any possible ramifications of the Margo Commission could thus be avoided.

Along with the rest of the motor industry, MMG had a poorish performance in 1985, when the new car market dived. The group had little profit growth until the 1987 year (June year-end) when earnings tripled to R3m.

Although the group’s film curbed tax, the good performance was also due to a rapid rise in operating profit, which reached R3,8m (R2m) on a 24% increase in turnover to R102m (R83m). According to new financial director Avrom Sank, the 28-year-old son of Barney Sank, “Our forecast is conservative — and doesn’t take into account large expansion currently taking place.”

Turnover is forecast to rise to R122m, but taxed profit is expected to be close to this year’s R3,1m because of the lower tax charge provided by film investment this year.

The share offer will dilute next year’s earnings to 14,1c (15,3c) a share but, even so, the 100c issue price puts the share on an attractive prospective p/e of 7,1 times.

The low p/e and high oversubscription suggests the share might trade higher than the 130c that some analysts have predicted for its September 18 listing. Stags may have another field day — but MMG will have to show longer-term growth to justify a higher rating.

Dave Edwards
CONSON

Payback coming

Activities: Manufactures glass, plastic and paper packaging, plastic sheeting, glass tableware and processes industrial silica sand

Control: AngloGold Industies holds 85% of the equity. AngloGold Holdings is the ultimate holding company.

Chairman: Clive Menell, managing director

Neethling Glass

Financial: Year to June 30

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Sales: 4.60 million, up 10% on '86

Division, to absorb R25m a year, so as to maintain its leading technological edge, says Neethling Glass remains the core of the business, making up 60% of turnover. Neethling believes that group margins have reached competitive levels and should now stabilise.

Consumer preference for returnable bottles in the beer and softdrink market should continue to be reflected in sales volume growth, despite pressure from Iscor-subsidised cans. Medium- and longer-term prospects are encouraging, thanks to increasing spending power among lower income groups.

Major restructuring in the Gundle plastic plants is expected to bring it back into the black in the current financial year. The plants' monthly losses were sharply reduced by the year-end. The bag and sack operations are expected to benefit from new contracts to supply the maize board's corn-slip and other products for reimported jute bags.

Neethling believes the company is in a new growth curve, dependent on productivity and efficiency in all divisions. Revenues are expected to flow through to the bottom line. Given the company's steady record, the chunky traded share is probably one of the better buys in the sector now that the capital investments aimed at diversification are in place. At R4.60, the share offer a p/e of 9.5, lower than that of competitors Nampak (14.3), Metalbox (14.7) and Kohler (10.3).

Ann Turner

Consol's Neethling... benefiting from investments

Consol's glass business, the largest in South Africa, is one of its most profitable. Its glass division, like others in the company, is experiencing strong growth due to increased demand for high-quality glass products.

The effective tax rate has almost doubled from 24.7% in 1982, thereby restraining earnings improvements despite sound performances at pre-tax level, it should, however, stabilise around 45%.

MD Pot Neethling says the company has entered a consolidation phase, which should enable improved contribution from plastics and paper packaging as benefits are felt from the investments of the past few years. However, after last year's breather, spending will accelerate soon. Neethling says investments of R3.3m a year are budgeted over the next three years. This will be financed from cash flow — at R4.6 million for 1987 — as no major expansions or acquisitions are planned.

Spending will be concentrated in the glass
rerating. On turnover of R2,393m, the operating margin was 8.4%, which although below the industry average, is significantly better than the 5.5% reported the previous year. The balance sheet is strong and virtually debt-free. The R2,45m proceeds from the listing were reinvested primarily in working capital (mainly in lines of new products), which increased by R1,95m.

Following last year’s rapid expansion off the small base, AOS might be expected to consolidate. But MD Casie Carstens now talks of hitting R20m turnover this year. Known traditionally as a wholesaler of IBM compatible products, the company is due to promote a limited range of AOS branded products “all to be packaged, assembled or manufactured in SA,” says Carstens.

The firm is not concerned with rapid growth. It is shown in the increase in its staff from 20 to 50 people. AOS is relatively immature, and with that comes a degree of risk. Nevertheless, it has capacity for rapid growth and the share price reflects this.

LONRHO SUGAR

Flattening out

As holding company Lonrho Pic owns more than 99% of the issued shares, it is perhaps not surprising that Lonrho Sugar’s shares last traded in March 1986. If the shares had traded in the past year, I suspect that the price might have moved substantially higher than the current 606c. Although chairman Rene Leclezio’s offers a subdued forecast for 1988, profit nearly doubled to £241m from the year-ago £123m, the Swaziland expansion is at par to the rand.

The sharp improvement was thanks partly to a 12.6% increase in sugar production, with record figures from Swaziland and Mauritius. There was also an average 13.8% rise in the ex-factory selling price, derived from higher world prices and the strength of currencies in Europe, where 27% of the group’s sugar is sold under EEC quotas.

The sugar market remains volatile and world prices are again falling. None of the four countries in which the company operates is without risk. Swaziland’s closest port is Maputo rather than Durban, yet the latter route is preferred because of demurrage and the closure of the Maputo line. Leclezio says the sugar industry in Mauritius is vulnerable as EEC prices are frozen while local inflation will cut margins. In Malawi, although Suco is iron in profit, severe flooding has depressed cane yields at Dwanga. South African production at Glendale was 7% down on 1986 because of the drought, and the outlook is unlikely to make a profit this year.

Given the many variables affecting this year’s prospects, and that many of these are currently in a negative trend, Leclezio expects profits to be above the 1986 £12.3m mark. The low p/e of 2.8 suggests the share offers value, but there is no knowing when the next trade will take place, or whether the trading price will be at a realistic level.

Dave Edwards

DATES TO REMEMBER

Last day to register for dividends:
Friday Sep 18: Bankcorp 20c; Beares 8.5c; Bracken 30c, Cadawp 25c; Coates 8c; Conant 175c; Dunker 15c, Garcon 8.3c; Garlick 26c; Grimco 5.5c; Guardian 29c; Kimross 200c, Leslie 20c; Liberty 180c, Libbold 38c; Libwood 3.8c; Pochell 4c; Pichol 32c; Pichol 60c; Pichol 4c; Remb Bhe 5.11c, Rengro 6.9c; S Atlantic 7.5c, Spitc 7c; Steelc 25c; Tegke 4.48c; TIB 4.75c; Tollgate 10c; Trust Bank 6c; Tweefontein 22c; Ussel 70c; Winkelhau 165c; Wit Cons 3c; Wootro 33c.

Meetings:
Monday Sep 14: Rand Leases (S) (Sandton)
Tuesday Sep 15: UME (S) (Bellville South); Wit Nigal (Nigel)
Friday Sep 18: AOS (Cape Town); Cruelfe (S)

All meetings are in Johannesburg unless otherwise stated
S = Special meeting.

ISSUES

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FINANCIAL MAIL SEPTEMBER 11 1987
The SA Black Taxi Association (Saba) will not take over Putco after all.

This has ended black hopes of running the country's biggest transport system and thereby the emergence of black entrepreneurship on a scale previously unknown in South Africa.

The news is certain to have loud reverberations within the black community.

It now opens the way for a consortium of Afrikaans investors to take up "second option" negotiations with the travel giant's major shareholders, the Carlea family.

At the same time the decision ends many months of speculation that the deal had already been sealed. An impeccable source told The Saturday Star that a formal statement is to be issued early next week.

Until yesterday, indications were strong that Saba would apply for an extension of the final date for clinching the deal from September 15 to mid-October.

By that date Saba would be required to have raised the R150 million to purchase the 52 percent shares from the present Putco owners, Carlea Enterprises.

Rumours were strong that the need for the extension arose from disagreement among Saba members over the Putco deal. These rumours were denied by Mr James Chapman, national advisor to Saba's Executive Committee, who said that Saba was considering all the options.

"The take-over has been given the green light at two different conventions in Bloemfontein attended by representatives from 40 regions of Saba," he said.

According to the source there was a 5-to-10 percent possibility that the deal would be called off. The general

To Page 2
Putco deal collapses

From Page 1

consensus is that it is already off

He would give no reasons for the withdrawal of the bid, adding only that it would not be in the interest of Sabta for the deal to go through.

"The call-off will be triggered by an event this weekend," was all he would say.

But the Johannesburg Taxi Association maintains that the deal was called off because of opposition from several associations within Sabta. This was confirmed by the chairman of the Johannesburg Taxi Association, Mr. William Selebongo.

Mr. Selebongo said that even though he would be defying an order from Sabta not to speak to the press and was risking his life in doing so, he had to speak out and reveal that his organisation was one of several opposed to the take-over.

Because of internal bickering and dissatisfaction with the way money was allocated to member associations, the deal "would only lead to taxi warfare on a larger scale than is happening now."

"I was almost killed on August 22. I was seriously stabbed by members of the two rival splinter groups who have pirated our routes."

"Other members of the association have been attacked at their homes and 15 cars of our fleet have been damaged. So far Sabta had done nothing."

"We are the oldest established association formed in 1936 and foundation members of Sabta. We don't deserve such treatment. Seventeen men have been arrested and are due to appear in court on Tuesday."

With Sabta out of the deal, the next contender is the Afrikaans consortium represented by Mr. Anthony Meyer, of the Taxi Bureau.

The Carlo family, the main shareholding of Putco, have apparently indicated that if this deal is not suitable to the transport industry's future, they will gladly take back the reins.

A spokesman from Sabta late last night said there was "absolutely no truth in the story that the Putco transaction and the Johannesburg taxi dispute are connected. Sabta has refrained from making statements about the dispute because of an agreement with the Johannesburg Taxi Association to keep the matter out of the press. But since the Johannesburg Taxi Association continues to defy that agreement, we have to give our side of the story."

Among other things, so seriously did Sabta consider the taxi association's unfounded accusations, said the spokesman, that it would apply to the Supreme Court on Tuesday for an urgent interdict to prevent the taxi association from "spreading malicious and blatant lies" about Sabta.

He added "If they don't want to abide by Sabta's rules, they can get out."
Conshu ready to run faster

CONSHU management has been treading carefully down the take-over trail since being listed in March this year.

Shares issued at 200c are now trading at 430c and look set to grow in the wake of the company’s expansion.

Subject to Johannesburg Stock Exchange approval, the 12-million shares in issue at listing will be increased to 40.5-million — but the company’s turnover will more than double after the deal with SA Footwear

AGREEMENT

SA Footwear was bought from South African Breweries for 12.5-million shares SAB now holds 26% of Conshu. Sankorp, which has always held a stake, owns 21% of Conshu. The two have reached a controlling shareholders’ agreement.

Conshu managing director Robert Feinblum says “This does not affect our day-to-day operations.

Mr Feinblum’s family has been in shoes since 1935. Conshu was established after a merger between the Feinblum shoe interests and those of Calan.

Mr Feinblum says “We are manufacturers, not importers. Conshu is the largest manufacturer in terms of pairs of shoes produced, amounting to 30% of SA’s production.”

Turnover is expected to reach between R330-million and R350-million in the current year.

A week ago Conshu announced the acquisition of the Pantheon manufacturing division from A&D Spitz. Pantheon was something of an anomaly in Spitz, which is essentially a retailer. About R5-million will be paid in cash, but more than 90% of it is in stocks and debtors.

Conshu’s financial executive Steven Sheln says “It was a good deal for everyone.”

Panther gives Conshu the licence to make the prestige Bally range of women’s and children’s footwear. Conshu seems to have bought goodwill at no cost.

The group comprises 14 operating divisions and manufactures both under licence and under its own brand name shoes such as Barker, Richleigh, Jack & Jill and Bally.

Mr Feinblum says “These brand names are important in recession times when people look for lasting quality”

MILEAGE

In the year to June 1987, Conshu earned 31c a share, 20% more than the prospectus forecast. Although turnover in the current year will more than double, earnings a share will grow by between 40% and 50%, according to management.

Mr Feinblum says “SA Footwear was a production-orientated operation whereas Conshu is a customer-orientated company. We hope to get better mileage out of SA Footwear under our management style.”

SA imports up to 30% of all footwear sold. Mr Feinblum believes that an application for increased tariff protection will be made.

“When the rand was worth US$0.28, it was easy for SA manufacturers to compete with imports, but at almost 20 US cents now, it is becoming a problem.”

Mr Feinblum believes that many cheap shoes are being dumped in SA from Taiwan and South Korea in the wake of American bans against imports to protect its own footwear industry.

Conshu’s balance sheet could not be stronger. It has virtually no debt and the net asset value a share has increased to R15c. The market rates Conshu on a historic PE ratio of 14.

With the expected lift in earnings in the current year, and the increasing urbanisation of SA’s population, Conshu offers steady growth prospects.
Mugabe governemt to take over Delta?

HARARE — Mr Robert Mugabe's government is going ahead with its plan to take control of Zimbabwe's powerful commercial and industrial conglomerate, Delta Corporation, from an 'offshore subsidiary' of South African Breweries.

The deal for an initial 31.5 per cent of Delta Corporation shares, has been advocated by members of the ruling ZANU (PF) party as an essential step towards their socialist goal.

Delta Corporation owns Zimbabwe's beer monopoly as well as its largest supermarket chain, the OK Bazaars.

It is second only to the local arms of the great multi-national mining houses in the Zimbabwean company lists.

The next phase of the Zimbabwean government's plan is to acquire at least a further 19 per cent of the shareholding in Delta Corporation, or a maximum 65 per cent total stake.

Critics of the deal say the programme of acquiring existing foreign-owned companies ties up state funds which are vitally needed to create fresh enterprises, thus providing extra employment for the 200,000 school leavers flooding onto a stagnant labour market each year. They noted that the takeover will mean some 8,000 jobs in Delta Corporation subsidiaries will soon be in the patronage of ZANU (PF).

The Delta Corporation shares are being bought from Tiger, a subsidiary of SAB, which is reported to want to retain a 30 per cent stake in Delta Corporation for the foreseeable future.

In June the Delta Corporation subsidiary Zambabwe National Breweries fulfilled a R5-million beer order from SAB, despite criticism that it was giving comfort to supporters of apartheid.

Firemen to get lessons

Over the moon
Sabta pulls out of Putco takeover bid

The SA Bus and Taxi Association (Sabta) has announced its withdrawal from negotiations to take over Putco because of "unacceptable demands" imposed by third parties.

The executive vice-president of Sabta, Mr. Godfrey Ntlatieng, said in a statement today that the decision had been taken after discussions with the association's financial advisor.

"Rand Merchant Bank advised Sabta to withdraw from negotiations with the Carleo family due to unacceptable demands imposed by third parties," Mr. Ntlatieng said.

He said Sabta was saddened by the failure to conclude the transaction.

"Contractually, the deal had to be settled by today. "The problem with these negotiations has been that Sabta has been talking when they should not have been in terms of the contract," a spokesman for Putco's public relations office said.
Malbak and Gencor in R700m deal

MALBAK has taken control of most of the Gencor group's industrial interests in a R700m deal which will create an industrial giant with annual turnover of R3.2bn and assets of more than R7bn.

The deal between the two Southam-controlled companies cements the restructuring of the two and finalises the transfer of Gencor's industrial holdings, except Trek and Sappi, to Malbak.

It brings the management and ownership of Gencor's industrial interests under one umbrella group, and is seen as a concerted effort to restore these companies to a financially sound position.

After the transaction, Gencor will hold 43.5% of Malbak (Malbak's parent company), making it the largest single shareholder in the group. It will own 28% of Malbak directly.

Malbak's executive chairman, Grant Thomas said yesterday, "This is a major deal, not just for Malbak, but for all of Southam. It will provide a stronger financial base for the companies and will help to create a more competitive and efficient group."

The process of gradually moving across Gencor's industrial interests into Malbak started in September last year when 55% of Haddons passed from Gencor to Malbak. This was followed in January this year by 33% of Kohler moving to Malbak. Also in January, Gencor's 40.7% holding in Carlton and 40% of Malbak's direct holding in Malbank were sold.

Thomas said yesterday, "This is the final stage of the process. We are now in a position to focus on the management and development of the business as a whole."

Analysts say the market will be surprised by the deal. "Both Malbak and Gencor have been undervalued by the market," said one analyst.

The deal will see Malbak's shares traded at 130c, a premium to Gencor's shares, which are trading at 85c. The expected result of the merger is a company with a market capitalisation of R7bn.
New industrial giant in R700-million deal

JOHANNESBURG — Malbak has taken control of most of the Gencor groups industrial interests in a R700-million deal which will create an industrial giant with an annual turnover of R4.2-billion and assets of more than R3-billion.

The deal between the two Santam controlled companies cements the restructuring of the two and finalises the transfer of Gencor's industrial holdings, all except Trek and Sappi, to Malbak.

It brings the management and ownership of Gencor's industrial interests under one umbrella group, and is seen as a concerted effort to restore these companies to a financially sound position.

After the transaction, Gencor will hold 49.9 per cent of Malhold, Malbak's parent company, making it the largest single shareholder in the group. It will own 28 per cent of Malbak directly. In turn, Malhold will hold 64 per cent of Malbak.

The Malbak executive chairman, Mr Grant Thomas, said the deal was decided on to prevent undue speculation and management uncertainty.

In exchange for the bulk of Gencor's remaining industrial interests, estimated at R607-million, Malbak will issue 71.4-million shares to Gencor.

Gencor has agreed to renounce its right to 22.8-million Malbak shares in Malhold's favour in exchange for 8.1-million Malhold shares.

In future, Malhold will again have Malbak as its sole investment.

The company says although the transaction will have no immediate material impact on Gencor, the effect on Malbak and Malhold is significant.

As a result of this deal, both Malbak and Malhold's earnings increase by approximately 10 per cent.

The net asset value for Malbak is estimated to increase by 61 per cent and that of Malhold by 58 per cent.

The effective date of the transaction is July 1, 1987, and all the transactions have been carried out ex-dividend — Supa-RNS.
New industrial giant formed

Malbak, Gencor in R700m deal

From ALTA DENT

JOHANNESBURG - Malbak has taken control of most of the Gencor groups industrial interests in a R700m deal which will create an industrial giant with annual turnover of R4.2 billion and assets of more than R2 billion.

The deal between the two Sanlam controlled companies cements the restructuring of the two and finalizes the transfer of Gencor's industrial holdings, except Trek and Sappi, to Malbak.

It brings the management and ownership of Gencor's industrial interests under one umbrella group, and is seen as a concerted effort to restore these companies to a financially sound position.

After the transaction, Gencor will hold 49.9% of Malhold (Malbak's parent company), making it the largest single shareholder in the group. It will own 26% of Malbak directly. In turn, Malhold will hold 64% of Malbak.

Major deal

Malbak executive chairman Grant Thomas said yesterday: "This is a major deal, but the process of absorbing the companies into Malbak has been going on for some time as the management have been operating as part of a single unit."

The process of gradually moving across Gencor's industrial interests to Malbak/Malhold was started in September last year when 55% of Hadjongs passed from Gencor to Malbak.

This was followed in January this year by 55% of Kohler moving to Malbak.

"Also in January, Gencor's 40.6% holding in Carlton Paper Corporation was acquired by Malhold."

He said it was decided to transfer Gencor's remaining industrial interests, apart from Sappi and Trek, in one fell swoop to prevent undue speculation and management uncertainty.

which have a total estimated value of R607m - Malbak will issue 71.4m shares to Gencor. The deal was based on a Malbak share price of around R8.50, putting a value of R714m on the deal. Yesterday the share was trading at R12.50.

In addition, Malhold will transfer to Malbak its 40.5% interest in Carlton Paper for an amount of R48.4m which will be settled by the allotment of 5.7m Malbak shares.

In future, Malhold will again have as its sole investment its interest in Malbak.

As part of the transaction, Gencor has agreed to renounce its right to 22.8m Malbak shares in Malhold's favour in exchange for 8.1m Malhold shares.

The company says although the transaction will have no immediate material impact on Gencor, the effect on Malbak and its parent Malhold is significant.

As a result of this deal, both Malbak and Malhold's earnings increase by approximately 10%.

The net asset value for Malbak is estimated to increase by 61% and that of Malhold by 58%.

Malbak already controls a widely diversified group with interests spanning chemicals, electronics and electrical supplies, engineering, farm machinery, health care, packaging and mining supplies, clothing and the motor industry.

The effective date of the transactions is July 1, 1987 and all the transactions have been carried out ex-dividend.

Boost

Analysts say it is unlikely the market will be surprised by the deal. Both Malbak and Malhold shareholders have for some time outperformed the industrial index indicating that some move had been anticipated.

They add that the boost in the net asset value will not be matched by an equivalent increase in earnings growth.

In terms of the deal, Malbak now takes control of 55% of Darling & Hodgson, 60% of Elierrine, 36% of Hagnie, 37% of Kehnrym, 55% of Tedelex, and 52% of Standard Brass.

Gencor is also disposing of its interest in certain unlisted companies to Malbak - A S Trans
Hotel industry sees shake-out

NORMAN SHEPHERD

ABOUT 200 hotels — mostly one-star and two-star — have gone bankrupt or into liquidation in the past four years, says Howard Williams. The number of hotels registered with the SA Tourism Board is a fair indicator of this, he says. Registrations fell by 132 from 1,365 in 1983 to 1,233 in 1985, leaving an additional loss of 68 for last year.

During the 1983-85 period, three more four-star hotels were registered while 15 two-star hotels and 116 one-star hotels fell away. The classification of the other hotels that closed is not known.

Williams says the Tourism Board restructured its registering system last year to include black hotels, and this distorted the 1986 total of 1,312.

Information Trust Corporation says liquidations in the wholesale, retail, catering and accommodation industries totalled 611 for the year to July 1987, and peaked at 90 for July.

Williams says: “I believe we may have seen the worst. The hotel industry is turning around. It needed a bit of a shake-out to rid it of people who developed hotels purely to get liquor licences.”
GFSA in move to split shares

SIX Gold Fields of SA gold mining and mining finance companies are proposing share splits ranging from 2-for-1 to 5-for-1, "to improve marketability of the shares concerned".

Plans have been announced to sub-divide shares of four of the group's "West Wits Line" mines: Doornfontein, Driefontein, Consolidated, Libanon and Veldkoppies - as well as those of mining finance and mineral rights holding companies New Wits and Wit Deep.

All of the shares are trading well above R50 at present, with Driefontein top-priced at R99.75 at yesterday's close.

The move, seems likely to be well received by the market, which in recent years has seen many of the better class gold counters move out of range of the small investor.

No plans have been announced for a change to the share structure of Kloof, South Africa's richest mine, currently trading at R55.75, and it should pass Driefontein, at an equivalent current price of R44.58 after a 2-for-1 split, as the highest-priced counter in the GFSA stable.

Libanon, currently at R35, is planned for a 3-for-1 subdivision, giving a current equivalent price of R117.33 a share.

The proposals will be put to shareholders at the companies' annual general meetings in November.
PUTCO AND SABTA

Black taxi deal hits snags

The black taxi takeover of Putco has gone sour. One of the biggest and most publicised business deals in years has degenerated into an unseemly debacle that could end up in the law courts.

The Southern African Bus and Taxi Association (Sabta) has now officially withdrawn from the current series of negotiations on the advice of its financial agent, Rand Merchant Bank, because of "unacceptable conditions imposed by third parties." These are understood to include unusually large commissions and a possible split in the Carlo family's 52.6% controlling interest.

The third parties are agent Ivan Brownlee, a computer consultant and former brother-in-law of Sabta Marketing Co's James Chapman, and his company Brownlee Holdings (BH).

Brownlee, who was originally brought into the negotiation process at the beginning of the year by Sabta Marketing to act as agent for Sabta, has now turned out to be the principal in the deal, through his company BH, with an option (expiring midnight on September 15) for the Carlo shareblock.

He explains the anomaly. "Initially, Sabta only wanted Putco's bus operation. We therefore planned to redistribute the company's wealth and hand over bus ownership to Sabta. A series of negotiations took place on the basis that all parties would get some money at the end of the day," says Brownlee.

"Sabta then decided it wanted the whole company, which meant that previous deals were null and void. So we renegotiated a new deal and a commission amounting to 5% of the selling price, which is slightly high but acceptable, since it was spread over a number of people."

Brownlee would not expand on that other than to say it included an agent for the Carlo family.

"Now, at the 11th hour, Sabta drops this little bombshell and says it is pulling out. The Sabta executive was aware of everything that was done, it has agreed to everything and now they turn around and say they didn't know what was going on."

The Sabta and Rand Merchant Bank side of the story is different. Sabta says the contract signed with Putco called for setting up a company to take over the Carlo controlling interest. It was obviously supposed to be a Sabta company.

BH, however, was set up without its knowledge and effectively hijacked the option. In other words, says Sabta, its agent became the principal without the knowledge of either the association or the Rand Merchant Bank and then proceeded to make new demands.

Under the circumstances, Sabta had no option but to advise its client to withdraw.

Says Chapman, "We held on as long as possible, but were not prepared to continue with a deal in which we were playing second fiddle."

"We and Rand Merchant Bank understood that Sabta was buying control of Putco. Putco understood it was selling control to Sabta. Now it turns out we were all wrong. Sabta is definitely going to take the issue further after the dust has settled."

That could take a while. Brownlee maintains he still believes in the deal and its objective of blacks gaining control of the company that provides their bus transportation. He says financial backing is available from "banks, insurers and other institutions" which he is not prepared to name, adding there is still room for Sabta if it wishes to participate.

He also denies that the Afrikaans business, which tried to wrest the option from Sabta, is in any way involved. "No, they have a second option, because there is no such thing as a second option."

Brownlee has a "couple of ideas" about the possible structuring of the final transaction. One involves forming a trust in which interest could be sold to members of the black community, private bus and taxi operators and any interested Sabta affiliates.

Another involves forming a management company which would take in existing Putco management and employees like bus drivers.

But this all hinges on whether or not he can gain an extension on the option, or fulfill the contract - in other words, come up with the money - by the deadline. He seemed confident at the time the FM went to press.

Meanwhile Putco, which sits uneasily in the middle of the unseemly conflict, remains bound by the signed contract and refused to comment as it cannot be seen to be in conflict with the written agreement.

There remains, however, one more joker in the pack. Whatever deal is eventually structured and agreed must have government approval before it can be finalised.

The Sabta alternative is therefore not dead. If Brownlee is prevented from purchasing the 52.6% shareblock - either by Putco or by government - Sabta could resubmit its original offer or open a new round of negotiations.

One thing is clear - the biggest private bus company in the country, one of its foremost merchant banks and one of the largest trade associations weren't keeping a close enough eye on the ball. 
MINING EQUIPMENT

Local bits and pieces

South Africa has always been strong in mining equipment manufacture. Now it's getting stronger — thanks to rationalisations in the business and the American divestment climate.

While one swallow does not make a summer, recently merged mining equipment manufacturer Baker Hughes Mining Tools (BHMT, formerly Reed Mining Tools) will soon be working to 100% local content — and it is adamant it is staying put.

BHMT forms part of US mining giant Baker Hughes (BH), recently created by the merger of Baker International and Hughes Tool Company. Hughes, again, was founded in the early part of the century by Howard Hughes Senior, father of eccentric millionaire Howard Hughes Junior, who invented the cone-shaped roller design rock bit still in use around the world.

The merger should benefit SA since the local company is the best growth and profit operation in the multinational's 41-country network. Its success was recently exemplified by the manufacture of the world's largest raise-boring system.

BH apparently has no intention of divesting. Although its policy is to make its component companies self-sufficient, it will continue to provide vital research and development (R & D) backup. In fact, some 30% of its R & D funds are devoted to products specific to SA.

While the local content in most BHMT products is far advanced, up to now blast-hole bits were assembled from US kits. However, the merger has given added impetus to expansion.

Says BHMT MD Kevin Engelsman: “Taking advantage of a worldwide depression in oil field work we managed to pick up manufacturing equipment for a song. In addition we have just brought in R1.5m worth of equipment from France and Belfast to expand local manufacture of blast-hole bits up to 100% local content. “We are in the process of moving our manufacturing operations to a new group facility in Jet Park and by the end of the month we will be installed at a cost of only R500 000. This means that for an initial investment of R2m we will have ensured our presence here in the event of sanctions.”

As forgings, dies and tools still have to be manufactured for the new lines, full local manufacture will only be available in 12 months.

With the raise-boring business accounting for R30m a year in SA (R23m if Zambia is included) and blast-boring — currently slightly depressed by the impact of sanctions on coal exports — with the potential to grow to around R15m a year, BHMT is well placed.

Its 50% market share could well increase, should the local manufacturing capability make its products more competitive — or sanctions cut off alternative supply lines.

BHMT exports around the world and provides essential equipment for such unlikely projects as underground oil storage system in Norway.
FORMER master spy Craig Williamson, who penetrated and exposed ANC agents of the South African students' movements and the Trotskyites' group, has emerged in a new role - he has been secretly involved in the Sabinet-Pulcoo leader negotiations.

The facts behind this unexpected turn of events lie deep in the history of South Africa, where the story of Craig Williamson began. After his exposure, Williamson was estranged from the Trotskyite movement and its leaders, the Sabinet group. He then turned to a new life, one that was shrouded in secrecy and intrigue.

The negotiations with Sabinet and Pulcoo began in secret, with a series of meetings held in various locations across the country. Williamson, now a master spy with a new identity, used his contacts and influence to try and bring about a new deal.

The negotiations were tense, with each side fearing the other. However, Williamson managed to broker a deal that was acceptable to both sides. The terms of the deal were kept secret, but it involved the release of certain individuals and the payment of a significant sum of money.

Williamson was the driving force behind the negotiations, using his contacts and influence to bring about a new era of peace and cooperation between the Sabinet and Pulcoo parties.

The details of the deal are still shrouded in secrecy, but it is believed to have involved the release of certain individuals and the payment of a significant sum of money.

The negotiations were a turning point in South Africa's history, bringing about a new era of cooperation and peace between the conflicting parties.

Quiet coup in Hambanathi

BY REVELATION NOTUSA

The quiet coup in Hambanathi, which had been brewing for some time, finally came to the surface when the leader of the Sabinet group, Mr. Sabinet, was overthrown by a group of loyalists led by Mr. Pulcoo.

The coup was precipitated by a series of incidents, including a series of murders and attempted coups that had taken place in the region. The situation had become so tense that the government decided to take action.

The coup was a surprise to many, as Sabinet had been seen as a moderate leader who had always put the interests of the people first. However, it had become clear that he was becoming too radical and was not willing to compromise.

The coup was quickly over, with Pulcoo establishing his control over the region. The loyalists were jubilant, and the government was pleased with the outcome.

The coup in Hambanathi is just one example of the many coups that have taken place in South Africa over the years. The government is always on alert, ready to act quickly to prevent any coup from succeeding.

Act like a remailer on books

By DEREK LUTHAYI

The controversial Group Areas Act, which was designed to separate the races, has been a source of controversy throughout the years. The act has been used to justify the forced removals of millions of people from their homes.

The act was introduced in 1949, and it was designed to create separate areas for each race. The act was controversial from the start, with many people protesting against it.

The act was eventually overturned in the courts, but it has continued to have a significant impact on South African society. The government has been working to implement new policies to address the legacy of the Group Areas Act, but the issue remains a contentious one.

The act is a reminder of the difficult history of South Africa, and it serves as a warning to those who would seek to divide the country along racial lines.
Reverse take-over of Juicy Lucy by Wimpy

JOHANNESBURG. — By means of a reverse take-over, using Anglovaal Industries subsidiary Wimpy Restaurants (Pty), Avbak Food Holdings is to acquire 60% of Juicy Lucy SA — creating SA’s largest and most broadly-based fast food chain.

This operates its own outlets as well as franchising others.

Juicy Lucy’s name is also to be changed and it is to seek JSE approval to transfer its listing from the development capital market to the JSE’s main board.

Announcing this last night, the two companies stated that an agreement had been concluded by which Juicy Lucy acquired all the businesses of Avbak’s wholly-owned subsidiary, SA Wimpy (Pty) with effect from July 1.

From that date, Juicy Lucy has also acquired, or is currently acquiring, certain other businesses or companies that operate Juicy Lucy, Burger Fair, BJ’s Pantry, Peckers and Snoman outlets.

Payment for the latter businesses’ outlets will be made through the allotment of a maximum of 8,743,335 of Juicy Lucy shares, which will necessitate an increase in the company’s authorized capital.

As payment for the take-over of SA Wimpy Restaurants’ businesses, Juicy Lucy will further increase its capital by issuing about 25m shares to Avbak Avbak will then have a 60% stake.

Based on Juicy Lucy’s unaudited June 30 balance sheet, the company’s net asset value was 37c per share, while its income statement shows earnings for the year equivalent to 6,1c per share.

After the take-over, Juicy Lucy’s net asset value will be 115c per share. Earnings for the year to June 30, 1988 are expected to rise to 10c per share.

The agreement depends on certain conditions precedent being met by November 30. These include Juicy Lucy members’ and the JSE’s approval for the Wimpy acquisition and increase in share capital. It will also be subject to a change of name for Juicy Lucy and the transfer of its listing to the main JSE board.

The merger will create a broadly-based food service chain, which, under the Avbak umbrella, will have 350 outlets.

The enlarged group’s board will be headed by John Bryant, an executive director of Anglovaal Industries. Vincent Hays will be MD. — Sapa
'How was R25m spent?'

Shareholders demand info on Brokers

ONE hundred and forty investors in non-listed Broker Securities Group (Brosec) and Broker Venture Capital (Brovent) have threatened legal action if they are not provided with more information about the dealings of the companies.

Their move comes ahead of the close today of an offer to Brosec shareholders to acquire shares in the listed Brokers Investment Company (Brokers).

These shareholders, who have invested R4,25m in the two companies, have demanded information on how the R25m raised by the two companies has been used and full details of transactions by Brosec in the listed Brokers shares.

In a letter dated September 18 to the directors of the companies, they said they had "reserved their rights to take whatever action they may deem fit with regard to securing and safeguarding their investments".

They have indicated that if their demands are not met, they may apply for an interdict "restraining (the directors) from putting the funds invested to any use".

The legal representative for the investors said the letter was in the hands of Brokers' attorneys. Copies of the letter had also been sent to the JSE and the Registrar of Companies.

The deadline for a reply to the letter is 5pm today.

He said the JSE had not confirmed by Friday whether the new Brokers shares would be listed on September 28.

The investors' demands came after an offer dated September 1 by Brokers to acquire the ordinary share capital in Brosec. The offer, which will enable Brosec shareholders to swap one Brosec share for 100 shares in the listed Brokers, closes today.

The shareholders say if they accept the offer they will lose between 60% and 90% of their initial investment. Their calculations are based on a Brokers share price of R26c.

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Brokers' investors want info

varying between its high earlier this year of 250c and the price of about 75c at the time of the letter.

At Friday's closing price of 68c, shareholders who invested R500 in a linked unit of Brosec would obtain Brokers shares worth R0.8. Even at its high of 250c, the same investor would have received R200 based on the present offer.

In terms of the Brosec and Brovent prospectuses, investors were offered one linked unit — consisting of one ordinary share of R1 and a preference share of R1 sold at premium of R498 — for R500.

On April 8 this year Brokers proposed an offer to take over Brosec. In terms of this takeover offer Brosec shareholders would receive 255 Brokers shares in exchange for one Brosec share. Based on this offer shareholders would have received R193,80 of Brokers shares calculated at Friday's price of 68c.

According to the September 1 offer document, Brosec shares had a net worth of R245 on March 31, substantially higher than the R68 worth of Brokers shares shareholders will receive if the present offer is accepted.

■ Business Day was unable to reach Brokers' directors Stephen Courtney and Archie de Jongh for comment.

■ Sapa report that financial consultant Horace Sammel is claiming R250 000 in damages for defamation from the five companies in the Brokers group, Brokers' joint managing directors Courtney and De Jongh, and printers J G Inglis & Son (Pty). Combined summonses have been issued in the actions which concern a circular and a cartoon strip, both allegedly defamatory of Sammel, "wrongly, unlawfully and maliciously published and distributed" in May to June this year.
NEW YORK — Ivanhoe partners and Ivanhoe Acquisition Corp have filed suit against Consolidated Gold Fields Plc, Newmont Mining Corp and Newmont's directors in a Delaware court.

Ivanhoe said the suit sought to enjoin Consolidated and its affiliates from purchasing additional shares of Newmont mining stock pending disclosure of certain information about Newmont and to void the standstill agreement between Consolidated and Newmont.

Ivanhoe said it asked the court for a temporary restraining order and said a hearing had been set for 2 pm yesterday.

The suit alleged that the new agreement between Newmont and Consolidated Gold constituted a "lockout scheme".

Ivanhoe said in papers the scheme resulted in Newmont shareholders receiving a substantially lower price for their shares than is available under Ivanhoe's offer.

Ivanhoe said the suit also alleged that Newmont's directors had assisted Consolidated Gold in its misuse of Newmont's confidential business information to which other shareholders did not have access.

In addition, Ivanhoe said the suit alleged that Newmont and its directors had facilitated a scheme which, if implemented, would effect a change of control of Newmont without all shareholders participating equally and with no shareholders receiving a control premium. — AP-DJ.
Directors, shareholders meet

Brokers saga at crucial stage today

THE Brokers saga reaches boiling point today with four crucial meetings at which concerned shareholders in unlisted Broker Securities Group (Brosec) and Broker Venture Capital (Brovent) will come face-to-face with the companies’ directors.

In developments yesterday:

☐ Brokers directors hit back at a group of 140 shareholders who demanded more information about the companies;

☐ Police revealed they were investigating two cases, one involving a complaint lodged by a member of the public about the correctness of the Brovent prospectus, and another by the directors of the company against this member of the public which may involve insider trading on the JSE;

☐ Brokers’ share price dropped to a low of 45c for the day, down 20c from its high of 25c earlier this year. It closed yesterday at 50c.

This morning’s meetings at a Sandton hotel will give preference shareholders in Brosec and Brovent the opportunity to convert their preference shares of R1 into participating preference shares.

A letter sent yesterday by Brosec and Brovent lawyers to the legal firm representing 140 disgruntled shareholders, argues the directors of the two companies are “not obliged to answer questions from shareholders except at the time and place provided for, that is, a shareholders’ meeting, and then only those questions which may be properly put”. Today’s meetings could provide the opportunity for questions to be fielded.

Last week these shareholders, with an investment of about R4,25m in the two companies, demanded information on how the R25m raised had been used and full details of transactions by Brosec in the listed Brokers shares.

Yesterday’s reply says the shareholders are not entitled to any relief whether by way of an interdict restraining, the directors from putting the funds invested to any use or liquidation or otherwise.

Colonel Deon le Roux, branch commander of the Johannesburg Commercial Branch, told a press conference yesterday the police were investigating possible contraventions of the Companies Act and other statutory offences. He said the investigation of complaints by the directors against the unnamed member of the public included “possible insider trading on the JSE and allegations of criminal libel”.

Le Roux said: “The investigation is, however, not complete. Certain minor aspects are being looked into.” He said the Registrar of Companies had appointed an accountant to assist with the investigations.
Companies in control

There were 2.5% people who held 4.2% of the shares on the stock exchange in 1984. While most directors held only one share, a few held thousands. This is why the stock exchange failed to prevent the concentration of power.

By Barry Steenkamp
Taxi men run off the road

THE Carleo family may still be selling its controlling stake in Putco — but they will not be selling it to black taxi owners represented by the South African Black Taxis Association.

Instead, the man who was Sabta’s agent in the deal, Ivan Brownlees, is now the buyer. He has set up his own company, Brownlees Holdings. Putco announced on Wednesday that Brownlees share option to buy out the Carleos’ had been extended but that BH was the principal in the deal.

Reports at the weekend suggested feuding within the association as the reason for Sabta dropping the deal.

But Sabta executive vice-president Godfrey Ntatleng said on Tuesday that the association had withdrawn from negotiations on the advice of Rand Merchant Bank, “due to unacceptable demands by third parties”.

A Johannesburg financial weekly reports that the “third party” was Brownlees, who effectively hijacked the share option, according to Sabta and its bankers. Not only was commission on the deal unusually high, but Sabta was not told by Brownlees.
CLOAKS AND DAGGERS

Super Spy Craig Williamson, the former security policeman who penetrated the ranks of the ANC and the South African Communist Party, came within an ace of purchasing the troubled black bus company Putco.

Williamson's involvement came via his connection with the Seychelles- headquartered GMR Group, of which he is South African deputy chairman. Williamson, who failed in his attempt to get elected as a Nationalist MP for Bryanston, is now a President's Councillor.

Initiative on the Putco-Sabta deal has since passed to Ivan Brownlee of Brownlee Holdings (BH) as the principal in the negotiations. But Williamson apparently remains in the picture, as BH has "obligations" to GMR which entitle it to compensation. GMR is also still interested in Putco's assets if a deal is concluded within the next fortnight.

BH holds the right — under a signed contract with Putco — to purchase the Car- leo family's controlling 52.6% shareblock.

Williamson was brought into the negotiations by Niel van Zyl, Brownlee's lawyer. He was asked for, and was prepared to pledge from GMR, $US80m — which at current exchange rates covers the full Putco asking price of R156m — derived, he said, from offshore sources.

Williamson tells the GMG that a Putco interest was expressed in some of Putco's assets, including its engineering works, or Putco itself or Putprop (the holding company for a number of properties, most of which are bus depots). The idea was to form a cash shell to help with the listing of another deal we are busy with," which could have incorporated certain of the Putco assets.

“We would have sold off all the assets that didn’t fit into the concept we have," he says.

That would have included the bus operation itself, which, Williamson says, would have been offered to black entrepreneurs.

The offshore finance, he claimed, was available, and at one stage a team of experts was ready to fly to SA to handle the takeover.

Williamson categorically denies any government money was behind the GMG bid for Putco, saying the first time anyone in government even knew of his involvement was when the story made headlines.

"GMR specialises worldwide in the takeover of politically and economically troubled companies and has taken over companies far bigger than Putco," he says.

The potentially sensitive involvement of Williamson — who can hardly be regarded as an acceptable figure to blacks — clouds the picture.

His $80m offer was withdrawn when the Southern African Bus and Taxi Association (Sabta) — originally considered by Putco to be the sole principal — and its financial advisors at the Rand Merchant Bank refused to admit any third parties into the deal (Business September 18). Legal obligations, however, still exist between GMR and BH.

Should BH succeed in meeting Putco's new deadline of raising guarantees for the cash by October 5, GMR could still have a role in the takeover.

The "super spy" issue is only the latest in a bizarre series of twists and turns in the Putco deal, which looks as if it is fast falling apart.

Brownlee maintains the Carleo family failed to disclose two key points: that Putco has a $45m-a-year exclusive use contract with Shell and that Putco properties are bonded against a R30m loan. He remains adamant, however, that he will see the transaction through.

"I have 14 days to get guarantees from reputable financial institutions for the agreed terms. These involve an immediate initial payment of 33c a share, which would mean R4.5m to the Carleos and R4.5m to minority shareholders. One year later they would all get another R2.44 a share, then R1.70 in the second year and R1.66 in the third year. That adds up to a total of R6.13 a share.

"The institutions do not have to put up a penny. They only have to guarantee payment and then they have 12 months to ensure a correctly funded trust to be established which would release them from their obligations.

He says he is giving local and international companies the chance to involve blacks in the mainstream economy. "Our objective remains a pass ownership of the buses to the communities they serve, through a trust and a management company which are viable entities It is a worthwhile goal and only needs white business to get behind it."

However, first prize for Brownlee remains a deal with Sabta. "Sabta can have the whole thing. All we need is for them to clearly state that they want Putco, that the bank will finance the deal and that they will pay R6m in compenstions."

What is becoming increasingly clear is that the current deal — a complex mix of various possible participants, including other bus companies and non-transport companies like GMG, a possible trust, a mooted management company and BH itself — is a doubtful starter.

That would leave the field clear for Sabta and the Rand Merchant Bank, who are keeping their options open, to renegotiate from a clean slate.

In the final analysis, the black taxi operators could yet gain control of Putco.

The Putco Deal

CLOAKS AND DAGGERS

THE PUTCO DEAL

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MERCEDES STRIKE

A R300m loss

The strike at the Mercedes-Benz (MB) plant in East London is now in its eighth week — and accumulated losses suffered by the German multinational already exceed those endured by the mining houses during the miners' strike.

MB SEPP van Hulle puts the production loss at 130 units a day, which means that over the 40-day working days the strike has lasted, the plant has lost production valued at a massive R300m.

This calculation is based on an average retail value per vehicle of R65 000 as the company's production is split roughly 50-50 between MB and Honda on the passenger car side.

At the time of going to press, Mercedes
Freeing the skies

Can SA afford to take the quantum leap required to deregulate its air travel? Opinions differ, but there is no doubt that moves towards deregulating air travel in SA, are gaining momentum.

Conair MD and immediate past chairman of the Airlines Association of SA (AASA) Piet van Hoven contends air travel deregulation will create many opportunities By now the favourable impact of Jimmy Carter’s deregulation of US air travel is well known.

“The market was stimulated, airlines became more profitable and users benefited from cheaper airfares. For years there was a surplus of pilots in the US, but no more. They have all been absorbed by the expansion of US airlines.”

Van Hoven hopes that Transport Affairs Minister Elh Louw will take up the cudgels on behalf of private airlines and force SAA to release the stranglehold it has over some of the less lucrative routes.

“We expect some deregulation of air travel by the middle of 1988,” he notes.

But current AASA chairman Trevor Conlyn of National Air takes a less optimistic view. He points out that “AASA members are scheduled airline operators known as second-level carriers or commuter operators. They have operated in a regulated environment for years and may lose the protection they have enjoyed if deregulation becomes a reality.”

Conlyn is convinced that deregulation in the “near future” will harm domestic scheduled operators outside of SAA “who are already fighting for an existence in terms of making reasonable returns on their shareholders’ investments.”

But while he admits it will take many years before scheduled routes in SA are entirely deregulated, Conlyn says he “hopes that privatisation of SAA’s less dense routes will happen in the immediate future.”

Conlyn is convinced that the less dense routes “which SAA holds on to more often because of pressures from small town communities than due to economic realities,” can become profit sources for AASA members. The net effect would be increased passenger loads and improved fleet utilisation.

Executive director of the Commercial Aviation Association of Southern Africa (CAASA) Cor Beek says CAASA has always supported the Margo Commission’s recommendations for staged deregulation of domestic services to promote controlled competition.

The draft Air Services Bill, which was referred back to the Department of Transport by the industry for updating “more than the principles,” contains the guidelines for that deregulation.

While CAASA wants more competition, it insists the high safety standards administered by the Directorate of Civil Aviation (DCA) must not be tampered with. “We do not want economic control. An operator cannot at present get into a market without a licence from the National Transport Commission,” says Beek.

“We need more competition. We need to free air taxing and a number of other aerial services from economic control. Those who feel they can make money by operating in those markets must be free to do so provided their safety standards are monitored by the DCA.”

But safety is one of the reasons why Van Hoven’s enthusiastic support for the US deregulation experiment is not shared by Beek. About 30% more daily flights now take place in the US than at the start of the decade, with more than two times every day officially logged. Last year alone there was an 8% rise in flight hours by air traffic controllers, while pilots have refused to fly because “non-urgent” repairs were not attended to for up to 30 days.

More than twice the number of airlines now operate than before deregulation and 158 flights take place every weekday between the Washington area and New York. At the same time, some important towns are now no longer served by air.

So while the market does find its own level, safety standards remain paramount. No doubt SA may well require different solutions to the US, with its crowded skies and vast domestic market.
Brokers: new deal for shareholders

GERALD PROSALENOIS
Financial Editor

A NEW deal has been offered to shareholders in unlisted Brokers Securities Group (Brosec) and Brokers Venture Capital (Brovent) by director Stephen Courtney.

These proposals came after four shareholders meetings were held on Wednesday and are subject to approval by the JSE and shareholders.

Courtney said last night in terms of the Brosec takeover offer, which closed on Monday, he had obtained 1,1-million shares in the listed Brokers in exchange for his ordinary Brosec shares.

Those shares would be placed in trust for 12 months and then distributed to Brosec minority shareholders as registered on September 1, 1987, for no consideration on a pro rata basis.

On the listing of Brovent, Courtney said he would have his ordinary shares exchanged for listed ordinary shares. He is proposing a motion to convert 50% of these shares into A voting non-dividend bearing ordinary shares. In respect of the other 50%, the dividends will be credited to the minority shareholders for three years after listing.

He said: "The purpose of the proposals is a goodwill gesture to minority shareholders who have been subject to uncertainty and delays on profit realisation in recent months due to factors discussed at shareholders meetings on September 23."

Brokers: new deal on offer to shareholders

WHERE Colonel Frans Malherbe had obtained information that a warrant was being prepared for an arrest in the Brovent case, as reported in Business Day yesterday. He said no warrant was being prepared by the SAP Commercial Branch. Malherbe could not be reached for comment.

Brokers maintained its recovery on Diagonal Street yesterday when it made the day's best price gain of 20c (28,6%) to close at 90c after touching a high of 100c with almost 339 000 shares worth R305 000 changing hands in 103 deals.

Shares of the company dropped to a low of 45c on Tuesday. The price hit a high of 250c in May.

Police spokesman Lieutenant Pierre Louw said yesterday he did not know...
Miller Weedon buys up Budget Travel

MILLER WEEDON Travel Ltd, one of the largest travel groups specialising in corporate clientele, has bought Budget Travel from the Protea Assurance Group.

The combined operation employs more than 200 at 20 branches and will rank as the second largest travel group.

A consortium headed by Cape Town financier Jack Walsh recently bought Miller Weedon, a public unlisted company, from Bankorp a few weeks ago.

No financial details of the Budget Travel deal were disclosed.

However, it is understood combined group turnover for the current year will be more than R100m.

After-tax profits are expected to be close to R2m.

Both companies were acquired by their respective vendors, Bankorp and Protea Assurance; when financial and managerial problems required a rescue operation.

Both have shown a dramatic turnaround in returning to profitability in the past year.

The two companies will trade as Miller Weedon Travel. There is tremendous synergy between the two and we are well able to face the challenges of a deregulatory and technological revolution at present facing the travel industry worldwide,” said Walsh.

Protea Assurance GM Andrew Tainton said: “Travel is a volume business and the merger makes sense both economically and from a human resource respect.

“It was an essential prerequisite of the merger from our point of view that the staff who stuck with us during the difficult rescue period last year should all be comfortable under the new arrangement.”

Protea is expected to maintain a shareholding in the combined company, which will be headed by Lesley-Ann Swanepoel, with Mike Behan, formerly of Budget Travel, as deputy MD.

Other board members include Louise Altbeker, Geraldine Bruyns, Ana Pasulakis and Norman Peters.

Norman Lowenthal, Isty de Uijfasussy and W A (Tiny) Jones will be non-executive directors.

MD Swanepoel said: “Our organisation’s great strength lies in the quality and versatility of our personnel.

“Miller Weedon’s aim is to provide professional service to our clientele.

“As a group we intend to go places.”

Our skilled travel executives’ areas of expertise encompass all aspects of travel - including the corporate and leisure market, group and incentive travel specialisation, and conference and sports promotion.”
LANA JACOBSON
and ROBERT GENTLE

IN ANOTHER major market move, the F&G group and W&A Industries yesterday announced the formation of a household and furniture conglomerate— with a projected turnover of R300m—by the merging of eight separate companies.

The merged company, to be known as Homemakers, brings together W&A's textile interests and its subsidiaries World Furnishers and Bradlows with JSE-listed Housewares and Fashibe as well as the unlisted Semble-It, Multi-Pine and Harry Coll.

Homemakers will be listed in the Retail and Wholesale sector by way of a reverse listing into Fashibe at a later date.

CE of the new group will be Hilton Nowitz, deputy chairman of Housewares.

Trading in the four shares that were suspended on the JSE—World, Bradlows, Housewares and Fashibe—will resume today.

W & A CE Bryan Joffe said yesterday: "As its initial investments, Homemakers has acquired a controlling interest in the four companies listed on the JSE and four unlisted companies."

Minority shareholders in the four listed companies will be able to participate in Homemakers by way of a share swap deal on the following basis:

- 100 Homemakers shares for 100 Housewares shares held,
- 540 Homemakers for 100 World,
- 1,900 Homemakers for 100 Bradlows; and
- 100 Homemakers for 100 Fashibe.

Nowitz said yesterday that first year's

To Page 2
Computer firm will be listed

Reunert and ISM create R1bn giant

LINDA ENSOR
A R1bn-a-year computer company, Technology Systems International (TSI), which will be listed on the JSE next year, has been formed in a joint venture by Barlow Rand and Information Services Management (ISM) Trust.

The move follows weeks of intense market speculation which resulted in the Reunert share price gaining 50c before its suspension last week. The shares will be relisted today.

TSI will consist of two independent operating divisions, Reunert Computers and ISM.

Announcing the step yesterday, Derek Cooper, executive director of Reunert’s parent, Barlow Rand, said TSI would have the financial strength and expertise to exploit the opportunities which were sure to arise in future in the high-growth information technology industry.

Although there would be optimisation of manufacturing and research facilities, there would not be any rationalisations of the two operations which would continue to operate as separate entities with independent management structures, he said.

In terms of the joint venture agreement reached between the ISM Trust and Barlows, the two subsidiaries are to be wholly owned by TSI, in turn at least 52% held by a private holding company, Technology Systems Holdings which will be jointly controlled on a 50-50 basis by the ISM Trust and Barlows.

About 32% of TSI’s shares will be made available to Reunert ordinary shareholders in proportion to their shareholdings. Reunert will not hold npv.

Barlows, ISM Trust form computer giant

shares in TSI

"If TSI had been in existence for the year ending September 30, 1987, it would have had a consolidated turnover of over R1bn and after-tax profits of about R6m," Cooper said.

Reunert’s earnings per share and net asset value for the year ending September 30, 1987, would have been 42c and 428c respectively if the contribution of Reunert Computers was excluded. This compares with the expected actual earnings of over 110c and net asset value of 568c for the year.

The value of Reunert’s attributable interest per share in TSI’s earnings for this period would have been 66c and net asset value 110c.

The proposals will have no immediate effect on Barlows’ earnings per share and net asset value.

ISM chairman Ken Geelings is to be chairman of TS Holdings and Derek Cooper is to be chairman of TSI.

Geelings said that by the time TSI was listed, the amount owed by the ISM Trust to IBM for the acquisition of ISM would have been completely settled.
Projected turnover of R300m

FS and W & A form new firm

Own Correspondent

JOHANNESBURG — In another major market move, FS and W & A Industries yesterday announced the formation of a household and furniture conglomerate with a projected turnover of R300m by the merging of eight separate companies.

The merged company, to be known as Homemakers, brings together W & A subsidiaries World Furnishers, Bradlows, Selwyn Nieman and Lee Fabrics with JSE-listed Housewares and Fablibe as well as the unlisted Sembel-it, Multi-Pine and Harry Coll.

Homemakers will be listed in the Retail and Wholesale sector by way of a reverse listing into Fablibe at a later date.

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W & A CE Brian Joffe said yesterday: "As its initial investments, Homemakers has acquired a controlling interest in the four companies listed on the JSE and four unlisted companies.

Minority shareholders in the four listed companies will be able to participate in Homemakers by way of a share swap deal on the following basis:

- 190 Homemakers shares for 100 Housewares shares held,
- 540 Homemakers for 100 World,
- 1900 Homemakers for 100 Bradlows, and,
- 100 Homemakers for 100 Fablibe.

Nowitz said yesterday that first year's annualized profit attributable to ordinary shareholders will be R234m, equivalent to earnings 14c on each of the 167m Homemakers shares in issue.

The company intends paying an annual dividend covered at least three times.

Joffe said the transactions would have no immediate impact on the earnings of W & A or Wacor shares, but had the transaction been effective on June 30, it would have increased the net assets value of W & A by R15 a share to R38, and of Wacor by R7 to R45 a share.
Green Light for Saba in a Putco Takeover
Sol lining up a grand fun group

SOL Kerzner's Kersaf has moved into the final stages of the formation of a huge leisure and entertainment group to be listed on the Johannesburg Stock Exchange.

If shareholders agree, new company Interleisure will absorb the operations of JSE-listed Squires Loft and Mike's Kitchen groups, restaurant acquisitions and the cinema, video and film-making operations of Sable. It will have a market capitalisation of more than R500-million, and Kersaf and Federale Volksbeleggings will control about 60% of Interleisure.

**Pizza Inns**

Kersaf deputy managing director Ian Heron, who will be chairman of Interleisure, says: "We have one of the best investment prospects in SA. We have major expansion plans throughout SA, and we will develop entertainment centres in all main centres."

With the Mike's Kitchen and Squires Loft restaurant chains in the net, the proposed Interleisure has moved to extend the food operations in three deals costing R200-million.

First, it acquired Costa Plazas' chain of wholly owned and franchised Pizza Inns and more up-market restaurants like the Bedford Steak House, Dino's and Cafe Bon Bon, then on Thursday a deal was signed to acquire the Porticello group of 13 outlets on the East and West Rand, and it took an option to buy the franchise rights for the Longhorn fast-food operation in the Transvaal.

The acquisitions will be settled by the issue of shares in Interleisure.

The strategy to form the group has to be approved on August 12 by shareholders of both Squires Loft, whose name will be changed to Interleisure, and Mike's Kitchen.

Mike's Kitchen shareholders will have to approve a scheme of arrangement for the company to be acquired by Interleisure in return for shares in the new company.

In creating the new group will have more than 150 outlets.

Interleisure plans to develop a chain of multi-interest entertainment centres. They will be based on the cinemas, which will be reworked, and will include a range of restaurants and theme pubs with live entertainment.

The first will be developed at Johannesburg's Kine Centre, next to the Carlton Centre in the central business district. Work will start on the R10-million internal reconstruction of the rented premises in September, and the centre should be open next April.

The complexes, which will feature high-tech lighting, laser effects and music videos, are planned for Pretoria, Durban and Cape Town. Other centres will follow.

**Film side**

Mr Heron says: "We have come up with a rare concept. We aim to provide something for everyone under one roof. We will provide whatever the market wants, provided it does not conflict with the overall fun and entertainment atmosphere."

If the concept succeeds in SA, it will be taken abroad.

"That is implicit in the new name of the group," says Mr Heron. "We have the skills to make the centres work anywhere."

The development has been encouraged by the fact that last year Sable cinemas showed their first real growth in the number of patrons since television was introduced in South Africa.

Mr Heron says: "Throughout the world the leisure and entertainment fields are showing fantastic growth. Disposable incomes are rising and people have more leisure time."

In Australia, trade unions are seeking a 33-hour working week.

The third arm of Interleisure will be in film production - so far the preserve of Sable's Toron company. Mr Heron says the company's first major production, Nomas, has been released on international circuits and looks promising. Another three are on the stocks for production with international directors and stars.

"We have all the infrastructure ... terms of skills and services and we have an ideal climate and fantastic scenery."

One of the major advantages of the new acquisitions in the restaurant field, says Mr Heron, is that Interleisure will inherit a strong management team.

Managing director of the food operation will be Costa Tomasos, who built up the Squires Loft chain. Anthony Salisbury will head the cinema and video operations and Edgar Bold will control film production.
Whites blocked in Putco control bid

Own Correspondent

JOHANNESBURG — White business has been blocked in its attempt to gain control of JSE-listed bus giant Putco.

After a dramatic about-turn at the weekend, black business is now to go it alone with a black-sponsored R156-million bid.

The move has finally quashed speculation that white-owned business, including Shell and Total, would be behind any bid made by the black SA Bus and Taxi Association (Saba).

It also rules out a takeover by a mystery Afrikaner business consortium whose 25-million offer to Saba for its control has been overridden.

Saba confirmed yesterday that the help of major black businessman — including African Bank's Mr Gabby Magona and Nafoods' Mr Sums tombakane — would be sought.

Saba executive vice-president Mr Geoff Nilaateng said: "They will be contacted to unite black business opinion behind the Putco deal. Saba will not go ahead with the transaction unless fully supported by black business leaders and commuters."

'Exciting era for black business'

"In Saba's view, this is the key to a new and exciting era for black business and we see the Putco venture as the forerunner of many more such deals,

This is an attempt to put the black businessman where he belongs, on top."

Majority Putco shareholder Mr Luigi Carleo arrives at Jan Smuts Airport today to be faced by what was described as a "fait accompli."

Confirmation of Saba's bid has scattered speculation that the deal has to get the green light from Mr Carleo. One analyst said the Saba offer appeared watertight and Carleo did not have any choice but to accept.

Putco liaison officer Mr Vic Coetzie confirmed that Mr Carleo was due to return from the US, where he has been for the past two weeks. He said: "I spoke with him yesterday and he said he will be in his office early today."

Saba is to conduct a market survey among black commuters during the next few weeks to ascertain reaction.

The move to exclude white business interests could halt the slow and burning of buses by blacks, who see the corporation as being run by whites with profits going to white shareholders.

Asked about reports of the bid being backed by Rand Merchant Bank (RMB), Mr Nilaateng said the bank would not have been involved unless it had been put up the R500,000 needed to secure the deal.

He said: "All we have really done with RMB is raise a loan. The bank will also help us with its expertise in our ongoing investigation of Putco."

Investigate

Mr Nilaateng said Saba would investigate all aspects of Putco.

Asked if he perceived a rival bid by a mystery Afrikaner syndicate as a threat to his plans, Saba national adviser Mr James Chapman said he questioned whether it was a serious offer.

He said: "All we know about the Afrikaner nominee, Mr Anthony Mayer, is that he is a Johannesburg taxi-owner. We cannot find any proof that his offer was serious"
Organised commerce, industry, mining and agriculture have welcomed the Government's White Paper on privatisation and deregulation, at the same time urging an "urgent and dynamic" approach and a start to a privatisation programme as soon as possible.

The proposed three-year planning programme should not preclude interim action being taken, it said, and suggested the Committee of Ministers on privatisation be expanded into a formal joint body with private sector representation.

The Private Sector Privatisation Committee, representing the Association of Chambers of Commerce of South Africa (Assoccom), the Afrikaanse Handelsinstituut (AHI), the Chamber of Mines, the South African Federated Chamber of Industries (FCI), and the South African Agricultural Union (SAAU), said in a statement it welcomed "the timely government statement of policy" as contained in the White Paper.

"It will help to remove uncertainty as to the direction in which the economic system must develop."

The overall approach, it said, was broadly in line with intensive representations made on the subject by the private sector.

"The employer bodies," it went on, "accept the view that privatisation must not be seen as an end in itself but, through the reduction of the public sector's level of participation in the economy, as part of a broad strategy for achieving economic development, growth and a stable social environment."

The statement added, "As the business sector sees privatisation as an urgent and dynamic process, it is essential that the programme of privatisation be tackled as soon as possible."

"The proposed three-year planning programme should not preclude interim action being taken, with the help of the private sector."

It was noted the White Paper reaffirmed government's stance by the need to ensure regulatory mechanisms did not unduly impede the functioning of the market mechanism.

"In the sphere of deregulation the private sector will cooperate fully with the relevant regulating authorities, and welcomes the emphasis given in the White Paper to the need for closer liaison and cooperation between the authorities and the private sector." — Sapa
Privatization: Govt gives details

Political Staff
THE government has spelled out its attitude on privatization and deregulation in a white paper tabled in Parliament yesterday by Mr Alwyn Schlebusch, the Minister in the State President’s office entrusted with administration and broadcasting services.

In tabling the white paper, Mr Schlebusch cautioned that the privatization process should not be seen as an end in itself, but essentially as a means of improving economic performance by:
- The more effective use of available production factors such as capital, manpower, material,
- Optimizing market forces in order to allow demand and supply to determine as far as possible the production of services and products,
- Increasing the percentage of private sector, and decreasing the percentage of public sector net fixed investment, thereby reversing a trend established over past years.

Mr Schlebusch declared that government policy will in future be dictated by the following guidelines:
- State consumption expenditure must be curtailed as far as possible,
- Services in respect of which the state accepts responsibility must be provided to an extent and at a standard which the country can afford,
- Social services must as far as possible be focused on the really needy,
- Personnel expenditure must be kept in check,
- Services must as far as possible be provided on an economic basis on the user-charge principle,
- Wherever possible, state business enterprises and public corporations will be run on a profit-and-loss basis with targeted return on capital as the criterion,
- Other semi-government organizations must, wherever possible, be operated on business principles,
- Trading accounts will be institutionalized and business-oriented control applied wherever possible in respect of all of the state’s commercial activities,
- Investment in buildings will be curbed by means of rationalization,
- Viability studies will be conducted before economic projects requiring large capital investments are undertaken,
- Government guarantees for loans will be limited and controlled more strictly.

The white paper sets out the privatization methods government is prepared to countenance, and the guidelines and criteria which dictate those decisions.

Mr Schlebusch said yesterday the government was not in favour of selling public sector enterprises or assets to the private sector just to obtain the non-recurring additional income from the proceeds. But it is prepared to consider the sale of such assets if it is convinced that this will be in the long-term interests of South Africa.

He said the government was also not prepared to sell undertakings in any way that will result in a private sector monopoly.

Partnerships were envisaged where it would not be considered acceptable to transfer an existing state enterprise to the private sector in its entirety, or where the inherent nature or extent of a new enterprise would require the involvement of the state.

Partnerships could include the acquisition of shares by the private sector in new or existing state undertakings as an interim or permanent arrangement.

The report concludes that such a partnership arrangement may be appropriate in the case of natural monopolies or, where, for special reasons, full private ownership is deemed not to be in the interest of the country.

The government is also in favour of arrangements whereby facilities that cannot be used fully by the public sector can be leased to the private sector.

Privatization bid, but no State sales

Political Staff
THE government’s privatization initiative, spelt out in a white paper tabled in Parliament yesterday, stops short of placing the “for sale” sign outside any State or semi-State body.

Government spokesmen have at considerable pains to stress that the sale of public sector assets ranks fairly low in the list of priorities governing privatization.

South Africa is not about to emulate the example established in Britain.

The government stresses that it is not in favour of selling public sector enterprises or assets to the private sector just to obtain the non-recurring additional income from the proceeds.

Nor is it prepared to sell undertakings that will in any way result in private sector monopolies.

Government sources indicated yesterday that the privatization policy outlined in the white paper has purposefully not been specific — because the Cabinet remains divided on which State assets should be sold and how this should be effected.

The white paper does, however, signal the start of a intensified three-year programme, during which special further attention is to be given to privatization and deregulation, with the aim of curtailing the public sector’s involvement in the economy.

This is to be orchestrated directly from the State President’s office, under the stewardship of Dr Alwyn Schlebusch, the Minister entrusted with administration and broadcasting services.
New Altech giant STC is world force

ALTECH Group has merged its two telecommunications divisions, STC and Teltech, to form a giant with a total asset value of R340m and combined turnover of R410m a year. The merger took effect on August 1.

This is the first time Altech has divulged the asset value and turnover of these two divisions. It is believed to be SA's largest telecommunications organisation, and its size puts it in a world competitive position.

Multinational Alcatel NV of Europe is supporting the merger by exchanging its 50% interest in Telecommunication Technologies (Pty) Ltd (Teltech) for a R32m minority investment in the new merger. The merger will trade under the existing STC name.

Alcatel, regarded as the second largest telecommunications group in the world, thereby diversifies and extends its interest in the SA electronics industry at a time of disinvestment in SA, Altech says in a Press statement.

Alcatel is a subsidiary of French-based

HELOISE HENNING
Compagnie Generale d'Electricite. Senior executive Pierre Guichet joins the board of the new STC.

Altron group executive chairman Bill Venter has been appointed executive chairman of the new STC with Altron's deputy chairman Don Snedden as MD.

Snedden said the combined unit was expected to benefit by being able to compete for turn-key telecommunications projects against all the world's major companies.

The combined divisions - manufacturers of telephone switching, transmission equipment and data communication systems - employ more than 3 300 people in Boksburg. Working for the Post Office, these divisions have been proven nationally and internationally.

Until now, Altech, through Teltech, has been in a joint venture with the CGE to manufacture locally and supply the SA

New Altech giant STC has R340m in assets

PO with digital electronic switching exchanges under the SA12E brand name.

STC has represented the American ITT in SA for 60 years, mainly in fiberoptics, data transmission and digital microwave systems.

Rationalisation of the companies was in line with government and PO requests for rationalisation in the telecommunications industry, Snedden said. He added the strengthened positions would add to

hear “rationalisation” in local industry.

“The move is also in line with what is happening all over the world, where markets tend to be shared by not more than two or at best three major suppliers,”

CGE, of which Alcatel is a subsidiary, and ITT merged late last year to form the $15bn sales-per-year company
A cordial invitation to help bail out apartheid

Rembrandt tipped for Stanbic

War and strike talk drive up gold

The state, beset with fiscal troubles, has hit upon what appears a handy solution. With a few non-essential white officials as bargaining chips, the government is trying to get the private enterprise but first, few provisions.

Dutch whisky reports policies forming to deregulate the economy.

In particular, proponents of privatization argue that exchange controls should be lifted, large local companies should be encouraged to take over the reins of companies and thereby reversing the tendency toward foreign ownership in the country. Also, the lifting of import duties on industrial products would promote competitiveness and low retail prices.

However, the pension industry is keen to be careful as it does not throw the baby out with the bath water. Since 1980, South Africa has faced a net exporter of capital, both as a result of the capital flight from the country and the forced remittances of foreign debt. Under these circumstances, it makes sense to promote the growth of the pension industry to protect previous capital abroad.

A similar perspective toward economic exchanges challenges that are said to be increased, but the terms of exchange are gradually leveling. It is well known the government's intention, as set out in the white paper, is to promote a new growth strategy. In realizing this, the government intends to privatize certain public enterprises. In this process, it is expected that the pension industry will be fully involved in purchasing of shares, management and agriculture.

One of the most pressing issues is the privatization of national resources. This involves transferring existing public enterprises into private ownership. There is no intention to create new jobs and the government is concerned about the possible job losses. On the contrary, the government intends to promote a new growth strategy and ensure that all workers are fully protected. In this context, the government is committed to preserving the jobs.

The government has set itself a target of testing the feasibility of privatizing further in the near future, and the private sector's willingness to participate is essential. The government is in discussions with South African banks and trucking companies to evaluate the possibility of privatizing.

The state, beset with fiscal troubles, has hit upon what appears a handy solution. With a few non-essential white officials as bargaining chips, the government is trying to get the private enterprise but first, few provisions.

Dutch whisky reports policies forming to deregulate the economy.
Sabta offer for Putco may be challenged

By Magnus Heystek

The offer by the South African Bus and Taxi Association for a controlling shareholding in Putco, South Africa's largest bus operating services, could still be challenged by a rival group which intends lobbying to prevent government approval being given to the deal.

This is the intention of Mr Anthony Mayer, who runs a fleet of taxi's in Johannesburg under the banner of the Taxi Bureau, and made a rival bid on behalf of a consortium of investors.

He believes Sabta does not possess the necessary expertise to run such a large transport company.

This morning's announcement by Rand Merchant Bank that an agreement in principle has been reached between Sabta and the controlling shareholders in Putco, the Carleo-family, made it clear that the deal was subject to the approval by the Department of Transport which issues permits to bus and taxi operators.

Although no price was mentioned it is thought to be in the region of R150 million. If the offer is accepted by the Carleo-family a similar offer will have to be made to minority shareholders. Rand Merchant Bank, controlled by Dr Anton Rupert, has indicated that they might be interested in acquiring a stake in Putco should the offer be accepted.

Although Putco made a loss in the 1986-financial year, due mainly to foreign exchange exposures, a rapid turnaround in profitability has been forecast by some analysts.

Analysts, however, are sceptical about the rumoured price of R150 million for only 52 percent of the company. This offer amounts to more than R8 a share as opposed to the closing price of 365c a share on the Johannesburg Stock Exchange yesterday.

The main attraction of Putco is the vast fleet of more than 3,100 buses which are valued in the annual report at an average price of R30,000.

The replacement value of these buses is more than R130,000 each. Putco also owns vast tracts of lands in strategically placed positions which could be sold off for development in the future.

The Carleo-family has indicated that they will be making a final decision on the offer some time today.
PRIVATISATION AND DEREGULATION

White Paper or white elephant?

This week’s White Paper (WP) on deregulation and privatisation is a good example of a seemingly many government statement that’s really devoid of serious commitment. In the result SA is no nearer a smooth programme paving the way to more economic freedom — more than two and a half years after privatisation and deregulation became official policies.

Though detailed comparison would be futile, more than two-thirds of the world’s countries have embarked on various programmes of deregulation and privatisation. A month ago much of the world celebrated in heady atmosphere at a Privatisation Conference in London.

SA, meanwhile, tables a WP that does not give even one example of a saleable State-owned or controlled institution. It may be thought that since the policy was pronounced, a merchant bank could have been appointed to handle just one example.

After all, in roughly the same time the French government has not only drawn up a list of 29 State groups ripe for privatisation but ploughed ahead into actually doing it (FM July 10). Given the money pouring into the JSE, the time could never be riper.

Critics who believe government has been dragging its feet will not be appeased by publication of the WP over 14 months after then Administration and Advisory Services Minister Eih Louw told parliament that it would be published “shortly.”

Instead it appears that (multiple) official privatisation committees have been labouring under mythical fears and narrow-mind misconceptions. Some were voiced by government spokesmen on SATV’s Network employees in privatisation targets fear losing jobs, and in some cases the State provides services “cheaper” than the private sector.

The fear of losing jobs exists in any society, no matter how free or controlled. Privatisation (or lack of it) will not change that. Even now, Eskom is still busy retraining 6000 employees, and thousands of jobs in Sats have been frozen.

The government spokesman said that, for example, State hospitals are less expensive than private ones, but gave no figures to support this. In fact, State hospitals, like other State-related institutions, use antiquated accounting policies. Large expenses are written off, artificially reducing costs.

Add the taxation the patient has contributed, and the claim that State hospitals are “cheaper” becomes suspect. Moreover, it is impossible to assess relative “cheapness” without considering quality of service. The fact that many people who contribute to State hospitals through taxation are nevertheless prepared to pay the added impost of patronising a private hospital is relevant in any case, individual examples prove nothing. One can simply riposte by comparing domestic air fares in SA with those in, say, Australia or the US.

Incidentally, if public bodies provide services more cheaply than private enterprise could, which implies that they are in economic terms more efficient, why should privatisation entail job losses?

Many cases have shown that privatisation creates new jobs, as privatised entities operate more entrepreneurially. The trouble is that most organisations not governed by the profit motive acquire large feather-bedded sectors that market-orientated management is bound to root out.

Another misconception is that the prime aim of privatisation is to make profits. It is, rather, to cut losses and apply tests of economic rationality to the use of resources.

And so on.

The WP contains no real detail of what government hopes to privatise, but concentrates instead on broad (if not vague) principles and guidelines. It states, for example, that government sees “little long-term advantage in totally alienating the assets of a public-sector monopoly if it is to be replaced by a private-sector monopoly.”

The patient fear is that privatisation will add to what some consider excessive concentration in the private sector, alluded to by the claim that a handful of groups control most of the companies listed on the JSE.

Government clearly has not looked closely at Mrs Thatcher’s numerous sell-offs of public-sector monopolies. These suggest that:

□ There indeed is economic advantage in simply selling off public-sector monopolies;
□ Vesting nominal ownership in the public sector does nothing to make a monopoly more controllable or accountable;
□ Several effective disciplines can be imposed on privatised monopolies;
□ Even large privatisations can be implemented without handing ownership to the Hogenhaimers of the private sector.

The link between privatisation and deregulation is crucial. SA has more than 4000 statutes, and thousands of by-laws and ordinances. Few countries have so many laws.

Result: costs of entry for “new” businesses are often prohibitive. Scarp restrictive laws, and even our most efficient cartels and sole suppliers might be surprised at how much new competition they’d face.

It’s an open secret that inter-governmental investigations before the WP excluded the big public corporations, Posts and Telecommunications, Sats, Eskom and Iacor.

This is implicitly confirmed by chief director of privatisation and regulation in the Department of Trade and Industry (DTI), Jimmy Vermaak. “Continuing investigations will concentrate on three areas, the ‘pure’ civil service (investigated by the Commission for Administration), Sats and Posts, and Telecommunications (Winn de Villiers); and all other (public) corporations which will be investigated as deemed necessary by the Cabinet committee.”

Those who want to know more about the DTI’s grasp of reality may refer to its 1986 report, which states that SA has one of the most “open” economies in the world.

A year ago PW Botha was given statutory power to, generally, pronounce sets of laws and regulations defunct, at least temporarily. So far the power has not been exercised once. It’s not as if no high-quality consultation has been available.

The Free Market Foundation, for one, has researchers looking at ways to free the economy. It has identified 350-plus “principal deterrents to free market behaviour.”

The ship sails on and rhetoric continues. Take Eih Louw, now Transport Services Minister, this week opening the Fourth Biennial...
SA’s black taxi association is driving in the fast lane

By Kit Satlin

The largely black South African Bus and Taxi Association (Sabta), which has bought the JSTT-listed Public Taxi Co. company, is anything but a backward transport business.

Figures disclosed for the first time show that Sabta is, in effect, the pivot of a massive self-generating operation pumping millions of rand into key sectors of the transportation industry in South Africa.

In the past four years, Sabta, which initially grew out of a motley assortment of taxi associations, and which today has 45,000 vehicles on its books, is by far the largest privately-owned transport network in Southern Africa.

In terms of economic count, it stands head and shoulders above most other independent black business sectors, and has just bought a controlling interest in Puto for an estimated R155 million.

However, Sabta has in its own right acquired important government recognition for what it really is - a strategic homegrown industry and community service controlled and financed countrywide by black entrepreneurs and management executives.

Standing at the helm of its all-powerful executive are Mr James Ngoylo, its president, and Mr Geoffrey Ndhlovu, his deputy, both of whom are closely linked to Mr James Chapman, the only white to hold a senior position in Sabta's organisational hierarchy.

Mr Chapman (30) is Sabta's national adviser and chief planner; a position he has held independently for six years. He heads Sabta's marketing and promotional operations through a private company, PTD SA Marketing, of which he is MD.

Raz and rod in Pretoria, Mr Chapman, a father of five who joined his family to be a lawyer and was articled for three years, is known in the black taxi industry as "Thabawana", the Sabta word for peacemaker.

This is in recognition of his efforts in developing Puto, the Public Taxi Co. And, among other groups, into the Sabta concept, Sabta is represented throughout the country, in Transkei and in some national states.

It also operates in Lusoto associations.

Mr Chapman, whose involvement with black transport started in the early 1960s, says: "The results are a visible performance and a respectable exercise with its own management structure, a network of vehicles, the ability to generate its own funds and to contribute to the Sabta’s top management is phenomenal. It has been a sheer pleasure to work with a brilliant and far-sighted executive team."

Today, Sabta has 60,000 registered members.

One-man fleets operating as many as 20 minibuses.

Over 300 local, 40 regional and five provincial associations, each with its own management structure.

Its vehicles run:

- Over 500 million litres of fuel a year - Sabta is the biggest private user of petroleum products in South Africa.

- About 55 million litres of oil a year.

And premiums are growing at the rate of R600 006 a month.

Vehicles cost an average of R2 000 each, on the average injection of R230 million into the motor industry for the last five years.

And disposable income, according to a Sabta survey, of 60,000 households (five members per family), is estimated at R1.5 million.

Sabta is a well-established insurance brochure and to 10 petrol stations of its own, which are also open to the public. It has another 10 in the pipeline, and is planning to set up 50 more.

It produces its own home publications and has recently launched a nationwide advertising campaign on radio and TV.

Sabta is financed out of membership fees (R3.5 a year per member), sponsorship, advertising, donations by petrol traders and other players in the business community, contributing to black upliftment.

Through its status as a rising force in terms of buying power, it has clinched substantial discounts as a result of public vehicle, the discounts are as high as R400.

By arrangement with a leading bank, 21 percent of the price of a new vehicle is paid in one installment by the purchaser, and the balance is then repaid over 36 months to the bank, and the balance monthly over three years.

The pool, or foundation account, is called, and it is a protection against defaults.

Says Mr Chapman: "If you consider that 50,000 'pirate' taxis are operating in the black market, you appreciate Sabta's potential if most of them were to become legal and to deposit their money into the pool takeover, which was in line with its policy of deregulation and to stop the black public transport.
Share ownership plan gives Britain a boost

By the end of this year, if Prime Minister Mrs Margaret Thatcher gets her way, one in two families in the United Kingdom will own shares of one or more companies which are often quite literally, household names.

Compare this with one in 10 less than a decade ago, and the sheer sweep of the Conservative Government's privatisation plan starts to reveal itself in all its grandeur (some say foolhardy) bravura.

Since 1979, when Mrs Thatcher came to power, 15 major companies and a number of minor ones have passed into private hands, scooping up for the Treasury some £40 billion at the same time. More money is still due where payments by shareholders are in instalments, such as British Gas and Rolls-Royce.

Energy Secretary Mr Peter Walker (who oversaw the brilliant success of the British Gas flotation) described the whole thing as "a dramatic economic and social change."

It was vital that the free enterprise system in Britain took full advantage of the social and economic changes produced by the increase in the number of shareholders, he said. "It must recognise that there is a big new capital market now available. The participation in share ownership will give to ordinary families a new awareness of both the opportunities and the problems of British industry."

Indeed, whatever the criticisms of the Tory policy of "selling the family silver", the Government correctly divined the public's insatiable appetite for shares in high-profile companies. One demonstration of this was the Rolls-Royce flotation, which was over-subscribed nearly 10 times.

The fact that there are now more than 9 million shareholders in the United Kingdom has also effectively stifled the opposition. Not even the Labour threat to repossess the shares of companies like British Telecom and British Gas had any noticeable effect on the pre-election shopping spree.

By selling off state companies, the Conservatives originally hoped to subject sprawling and badly run companies to the rigours of competition in the public marketplace.

Profits sky-rocket

Since then, however, emphasis has shifted towards the argument that privatisation provided a key to greater fiscal flexibility and the fairness and advisability of a widening of share ownership.

Indeed, some companies strongly benefited by the release from government shackles. Cable and Wireless' profits reached £685 million in 1986, compared with £206 million in 1983 when privatisation began. Jaguar's profits sky-rocketed, from less than £30 million to £363 million over the same period. And National Freight, one of the early candidates for privatisation, nearly trebled its earnings, to £84 million.

So overtly successful has the policy been that other countries are queuing up to study at close quarters the means and their guided end.

The Treasury confirms that it has spoken to more than 20 countries (it won't say whether South Africa is one of its customers) anxious to give their own economies a shot in the arm. India, Pakistan, America, Sweden, China and Cuba are just some of the countries reportedly hoping to repeat Mrs Thatcher's experiment.

But, even as the Government is congratulating itself, the country is reading itself for the real test of the principle - the massive privatisation and subsequent running of the giant utilities of which practically everyone in Britain is a customer.

Nationalisation has, for the most part, proved the kiss of death to efficiency and serious profit-making in the past. The success of privatisation could only be truly justified if these on-tap industries were to dramatically improve their service.

There are some who doubt whether this will ever come about. John Kay, Cohn Mayer and David Thompson, editors of a recent study, called "Privatisation and Regulation, the UK Experience", say large companies such as British Telecom and British Gas are not structured to increase competition much within these industries.

Whether they are right or wrong has yet to be proved. In the meantime, however, the process continues - and Mr and Mrs Average Briton appear to be happy to be at the sharp end of the experiment.
SABTA AND PUTCO

Ready for lift-off?

Agreement on control of the world’s biggest privately owned bus company, Putco, has virtually been sealed. The Southern African Bus and Taxi Association (Sabta) will be in the driver’s seat by the end of September.

In a R156m deal that, according to FM sources, includes foreign oil money channelled through black-controlled financial organisations, Sabta will purchase Putco’s principal shareholder, Carleo Enterprises, from the Carleo family. This will give it a 52.5% controlling interest in the bus company.

Where the cash for the deal is coming from has been a matter of prolonged conjecture, with companies like Shell and Total denying involvement. The FM has established, however, that the bulk of the money will be taken out of a major oil company intent on promoting black business development in SA.

This would have to be the prime motive since bus companies around the world are not big money spinners. Because of the synergistic relationship that would flow from the purchase of fuel for both the buses and taxis, it would make sense for an oil company to be involved. A prerequisite of the arrangement, however, is that the money be channelled through a black organisation so that it does not appear paternalistic.

The Putco deal itself goes beyond buses included in the purchase will be three 100%-owned bodybuilding subsidiaries (Africa Body and Coach, Dubidgeon Body and Coach and Crown Body and Coach), 16 wholly owned property companies (representing bus depots around the country), two totally owned engineering companies (Voms and Paramount) and manufacturer Electronic Commodities as well as 3,500 buses along with nearly 13,000 employees.

Two other subsidiaries have been the basis of much speculation the wholly owned Commander Insurance Company, registered in Bermuda, and the 43.5%-owned local insurance broker Carleo Head and Associates. It was initially thought that these would be separated out of the Putco structure before transfer of ownership, but Putco has confirmed that they will be included in the deal.

Sabta, which has a membership in excess of 45,000 and which is currently composed of five provincial associations, 38 regional associations and more than 250 local associations, is expected to run the transport promotion of a policy that is increasingly being followed overseas the gradual withdrawal of all official subsidies.

That would be a major policy move and would have to be accompanied by a degree of deregulation which would permit bus companies to set their own fares. As it stands at the moment, passenger transport companies require government approval for all fare increases other than those directly related to fuel price rises.

With the resulting distortion of economic principles, municipal and private bus companies in SA have been forced into the position of demanding ever-higher subsidies in order to keep their buses on the road.

The acquisition by Sabta of Putco could herald the beginning of the end of this disastrous situation — as well as the beginning of a new era in black business. It is certainly one of the most important and far-reaching business moves to be made recently.

The purchase of Putco ... a giant leap for black combi taxi operators

...on a franchise basis after splitting the giant organisation into smaller regional units. It will both retain and recruit management expertise as necessary, guided by qualified transport and business consultants.

The shape of the final shareholding has yet to be decided, although the existing idea is for the creation of separate companies for the regional bus franchises. Sabta would retain a 51% controlling interest in each, while offering the remaining 49% to the black public and the bus drivers.

As a consequence of the imminent purchase of Putco, which will rocket the loosely constituted, semi-formal black combi taxi sector into the midst of sophisticated First World business, a Black Transport Development Trust has been announced for the education and training of blacks in the transport sector. Commerce and industry will be asked to contribute R5m a year towards the upgrading of black driver and management skills with a view to producing the industry leaders of the future.

It is a vitally important step. Government sources say that while Cabinet approval for Sabta’s takeover of Putco will probably be forthcoming, it could be contingent on the
52% Putco sale awaits approval

The Argus Correspondent

JOHANNESBURG — Agreement has been reached for the sale of a 52 percent share in Putco to the Southern African Bus and Taxi Association (Saba)

This would give Saba a controlling interest in Putco

Rand Merchant Bank said in a statement today that the agreement was subject to the approval of the Johannesburg Stock Exchange, the National Transport Commission and relevant authorities by September 15

An offer to minority shareholders of Putco would be made subject to this, the spokesman said

Saba will investigate the viability of Putco over the next six weeks, the association's national adviser, Mr. James Chapman, said earlier

Approve acquisition

The National Transport Commission (NTC), which must approve the acquisition of a controlling interest in a transport undertaking for which permits have been issued, has no official knowledge of the takeover bid

Speaking from Cape Town today, the deputy director-general of the Department of Transport, Mr. H.J. Claassens, said any takeover had to be approved by the NTC in terms of the Road Transport Act

In considering an application for approval of the purchase of a controlling interest in Putco, the commission would take into account

- Whether it was likely that a monopolistic situation not in the public interest would be created,
- Interests the applicant has in any other transport undertaking or in any other company, partnership, industry, trade or business,
- Any other permits held by the applicant, and
- The provisions of Section 15 (1) of the Act, which stipulates the conditions under which public permits are granted

R10 000 reward for skeleton find

The Argus Bureau

EAST LONDON — Mr. Albert Mlungu, the construction worker who solved the Brenda Thornley mystery when he found her skeleton last month, will receive his R10 000 reward tomorrow.

This was confirmed by Mr. Hugh Dumper, an accountant acting for the Thornley family.

The reward was offered after Mr. Thornley went missing on December 27, 1985, while holidaying in East London with his husband and two sons from Johannesburg.

She was reported to be depressed at the time and her pistol was found to be missing. No trace of her was found until Mr. Mlungu found a skeleton near their holiday home on July 14 this year.

There was a bullet hole in the skull and a pistol was found. Remnants of clothing found on the skeleton were identified by Mr. Thornley as belong-
A TOP management Group Five consortium has fought off a rival bid and taken control of the company from Darling & Hodgson Industrial Holdings (D & H) at a cost of R39.4m. Headed by Group Five CEO Peter Cogg, the consortium has spent the past 10 days putting together the finance for the acquisition.

The announcement follows an earlier bid by construction rival Murray & Roberts, whose offer was said to be significantly lower.

Cogg, who said he was delighted to have succeeded, added the consortium was overwhelmed by the support it received. This enabled it to finalise the deal earlier than planned.

“We have spent many hours over the past week working on the finances and now want to settle down and get on with running this business.”

“We believe Group Five has a great future and want to prove it to the people who have supported us.”

The offer is for 76.5% of Group Five’s issued share capital (equivalent to 10,238,970 shares) and, at the purchase price of R3.5c a share, sets the total price of R39.4m on the deal.

In addition, D & H will receive the Group Five interim dividend of 10c a share, making the offer an attractive 35c a share.

MICK COLLINS

Making the announcement, Corbank said it was acting as principal for the consortium which would ultimately hold 56.67% of Group Five.

Corbank has placed the balance of the shares with investors. It has undertaken to make a similar offer to Group Five minority shareholders and documentation will be posted to shareholders as soon as possible.

The effect of the sale on D & H’s net asset value, after taking account of the recent rights issue, is to boost its historic net asset value by 22c, from 237c to 259c.

From an earnings perspective and on the basis that the proceeds of D & H’s rights issue had been received on January 1, 1987, and that the sale of Group Five took place on the same date, D & H’s earnings decline from the forecast 30c a share made in the recent rights circular to 28c a share.

This calculation is based on 60,616,343 shares.
Sabra buys control of Putoo for estimated $1.5bn

THE

[Signature]
Casinos staff get dicey on SA links

PARIS — French casino workers yesterday demanded details of a planned sale of shares in famous gambling spots in Deauville and Cannes — after newspaper reports that they may go to South African interests.

"It is inadmissible that the casinos become dependent on funds from apartheid," the casino employees' union said in a statement.

*Le Matin* newspaper said that Mr Lucien Barriere, the majority owner of the Society of Hotels and Casinos in Deauville (SHCD) and of the public casino and Palm Beach Hotel in Cannes, planned to sell shares to British and Commonwealth Holdings.

The British company owns 51 percent of Royal Resorts International, a Bermuda-based holding company whose remaining 49 percent belongs to South Africa's casino and resort owner Mr Sol Kerzner.

But Mr Barriere, British and Commonwealth and Royal Resorts have denied any link between French and South African casinos.

"We have no connection, either direct or indirect," with South African financing, said SHCD managing director Mr Philippe Gazagne yesterday. — Reuter.

Putco deal still on ice

The Carleo family is not expected to reach a decision on the future of Putco, South Africa's largest bus operating company, until September 15.

That is the date of expiry of the first offer for the take-over of the 52.5 percent shares of the company by the South African Bus and Taxi Association (Sahta).

The Public Utility Transport Corporation yesterday denied reports it had reached final agreement with Sahta.

Mrs Cheryl Roxmouth, spokesman for Putco, said: "The deal has not been signed, sealed or delivered and is subject to certain conditions being met."
bank nets out of SA

By Pullding

SOUTH AFRICAN Business, 70, 681

Sullo 9/87

Peanuts
By David Carte

IMPERIAL Car Rental, the baby of the business run mainly by women, thought it had acquired the SA operations of Hertz this week.

Imperial told Business Times the deal had been clinched but SAGE, its partner in the transaction and "complications arising from conditions precedent" were threatening it.

Hertz is the biggest car-hire firm in the world and has been No 2 in SA after Avis SAG's wholly owned subsidiary, Union & London, has owned Hertz in SA and paid a royalty for use of the name. According to Imperial, it was to take 50% of the merged company against SAGE's 50% and it would be in the driving seat of the enlarged operation.

4,000 cars

Both parties agreed that if it went through, Carol Scott, managing director of Imperial, would be managing director of the merged company and the executive chairman would be Bill Lynch, also of Imperial. Noel de Villiers, managing director of Hertz, would also be a director.

It has not been decided whether the company will be called Imperial-Hertz or Hertz-Imperial.

The combined company would have 4,000 cars, sales of R80-million a year and shareholders' funds of R17 million.

Imperial claims it would have 38% of the market - slightly less than the 40% it estimates that Avis controls.

The transaction was entirely between SA parties and no money would leave the country. The Hertz name would stay for 10 years at least.

The deal would be a great victory for Carol Scott and her mainly female team. Miss Scott started Imperial Car Hire for Percy Abelkop's Imperial Group in January 1973 with one office, nine cars and a staff of two. The same year the team grew to 20 eager women. Miss Scott says the "market place was crowded and people said we were crazy. But we came in aggressively and worked hard - 17 hours a day 365 days a year. From the outset we were a people-oriented company with a strong team spirit and an outstanding sales side. The only way we could beat the opposition was through superior service.

In eight years, Imperial's market share grew to 19%. It was 10% only five years ago. Before the merger, there were 38 offices, a fleet of 1,700 cars and a staff of 400. By 1982 the company had achieved an operating profit of R712,000. In 1985, its best year, Imperial made R3.1 million before interest and tax. Recession and a fall in tourism resulted in operating profit dropping to R2.4 million in 1986. But in the six months to December, Imperial had made R1.6 million and was heading for a record.

Mr Lynch is the only man in the top team envisaged by Imperial, but Miss Scott as the men from Hertz there will be no sex discrimination once the deal and cars - and fewer offices.

Miss Scott says competition will intensify because Avis and Imperial-Hertz would be roughly the same size. She pledges that standards of service will not be allowed to fall because of the increased size of the company.

On average Hertz and Imperial keep cars for only 20,000 km, or seven or eight months. A merged firm would buy more than 4,000 cars a year.

Large sum

Imperial has represented Europcar in SA. It is not clear yet whether South Africans booking hire cars abroad through the proposed merged company would go to Europcar or Hertz. The plan was to use Hertz, but Europcar offered a large sum to maintain the link.

Imperial shares were issued at 275c, but bright prospects and rumours of this deal have lifted them to 600c. They could go higher.

Grinker gets half Condecor

ANGLOVAAL's Grinker Holdings has bought a 50% stake in Condecor, one of the Cape's fastest-growing development and construction companies.

Grinker, a heavyweight in civil engineering, construction, building, mining, precast concrete and electronics throughout South Africa, sees the Condecor link as an extension of its move into the housing market in Natal and the Transvaal.

The group is established in Western and Southern Cape.
JMF to seek JSE listing . . .

First new mining house in 20 years

From HELOISE HENNING

JOHANNESBURG — Joe Berardo’s Johannesburg Mining and Finance is soon to be listed on the JSE by reversal into Consolidated Granite (Cogran).

The deal will be the first new listing on the JSE of a mining house in more than 20 years and one of SA’s largest management buy-outs.

Cogran is to be stripped of its mining assets in a R31m cash deal after reconstitution the group will seek a listing under the name of Johannesburg Mining and Finance Corporation Ltd (JMF), according to a press statement.

JMF’s assets will be brought to R750m through the deal Cogran will acquire 100% of the issued share capital of JMF in exchange for the allotment of 55m new Cogran shares at 20c a share to the vendors of JMF and R45m cash.

Cogran will dispose of its granite interests to a consortium, chaired by Cogran chairman Peter Gain. The sale includes both Market Granite and the recently acquired Colorado Granite.

After deduction of the cash consideration the net asset value attributable to the 55m new Cogran shares will amount to 20c a share.

Grant-Hodge said the directors forecast the acquisition and disposal will increase the net asset value per Cogran share by 127% from about 72c a share — 132c a share after the disposal of the granite interest — to 164c a share.

The company’s year-end will change to March 31.

Earnings for the first nine months, until the March year-end are forecast at R13,3m, equivalent to 10,6c a share — annualized 14,2c a share — based on 120m shares in issue.

A dividend of 7c a Cogran share has been declared payable on September 30.

The directors of JMF forecast that the company will pay a dividend of not less than 6c a share in July, 1988 for the nine months ending March 31, 1988 — equivalent to 13c a share annualized.
Kersaf in billion-rand league

From LIZ ROUSE

JOHANNESBURG. — Kersaf Investments has moved into the billion-rand league in three years, with total assets standing at R1.04 billion at the end of June. The leisure group achieved a 27% annual average compound growth rate in three years of recession and stands on the eve of an exciting expansion into Europe, with ample funds to tackle major projects, both here and abroad.

As foreshadowed by Transun’s and Sunbop’s results, Kersaf reports brilliant June year-end results.

Earnings rose 30% to R1.6c a share on a larger issued share capital from 1986’s R2.6c a share. The final dividend has been raised to 30c (22c), making total distribution 52c compared with last year’s 40c.

Revenue increased by 21% to R625m (R517.3m), producing an operating income of over R151m, a 30% improvement on last year’s R116.5m. Attributable earnings were up 35% at over R60m (R44.5m), with outside shareholders’ earnings at R61.3m (R41.7m).

The tax rate was barely changed at R21.3% (R21.1%), thanks to investment allowances. The low tax rate will remain a favourable factor for the group in the medium term, allowing a high level of dividend distribution.

In three years Kersaf’s turnover has risen from R396m to R625m, operating profit from R89m to R151m, while earnings a share have more than doubled, from the pro-forma 40c a share in 1984, to the current R1.6c a share.

Other milestones were the successful listings of Sunbop and Transun — which gave Botheatswana and Transkei citizens and casino workers a share in their leisure industry — and the imminent listing of Satbel, to be renamed Interleisure (incorporating the cinemas, film and TV production and restaurants and fast-food interests).

Sunbop, Transun and Interleisure will each be capitalized at more than R500m.

Both chairman Dick Goss and Sol Kersner — who becomes deputy chairman and will devote his time and considerable energies to development of the French gaming and resort project, Royale Resorts International — are confident that prospects of expansion into Europe beyond France are favourable.

Expansion in SA will continue at a fast pace, with capital commitments of R27.5m already contracted and R175.6m authorized for the coming year. Capex in the past year was R138.6m compared with R49.3m last year.

Kersner says more cinema-restaurant centres are planned.

Kersaf’s sound base gives it freedom to exploit a burgeoning leisure market, both in Southern Africa and in Europe Interest-bearing debt to total shareholders’ funds of R772.1m is 11% and interest cover 17.9 times.

Kersaf share declined 25c to R23.75 yesterday, in typical fashion when the market is assured of excellent results. The stock is one of the highest rated in the beverages and hotels sector Dividend yield is 2.2% and PE ratio over 29.
Efforts to deregulate air travel flounder

Efforts to deregulate the SA air travel industry have gone nowhere, Association of SA Travel Agents (Asata) secretary John Bing said yesterday.

He said that while Asata appreciated and recognised government's good intentions on deregulation, nothing had been accomplished on this.

"The sooner government's good intentions are applied to Sats' transport and SAA the better," he said.

Bing said discounting of air fares would continue — with or without regulation.

"We have concluded deregulation is preferable to unethical discounts given under the table. If there is to be a price war, at least let's have it in the open. We want the marketplace to fix new price structures."

SA would eventually have to follow overseas deregulation trends, he said.

State President PW Botha has sent a message to be read at the 1987 Asata Congress, which will run from September 6-11. In it he praises the travel industry for its contribution to SA's foreign currency holdings.
Conshu Holdings in R36,75m share deal

Own Correspondent

JOHANNESBURG. — Conshu Holdings has acquired SA Footwear from SA Breweries in a R36,75m share deal, creating the largest footwear manufacturer in SA.

Projected turnover this year is over R330m and assets will total over R100m.

The deal is being settled by the issue of 10,5m Conshu shares to SA Breweries (SAB) at 350c each, giving SAB and Sanlam joint control of the enlarged Conshu group.

At the same time Conshu has announced outstanding results for the year to June, with taxed profit at R8,9m, 22,5% ahead of the R7,25m forecast in the prospectus.

A final dividend of 6c has been declared for the six months to June, which is 20% higher than the forecast 5c.

The acquisition gives Conshu a strong position in virtually every aspect of the footwear market, with SA Footwear's strength in the women's fashion and children's shoe sectors complementing Conshu's dominance in the men's footwear market.

Conshu MD Robert Feinblum, who remains CE of the enlarged operation, says that the group will now be by far the largest shoe and boot manufacturer in SA, operating from 19 factories.

If the acquisition had been in place for the past full financial year, Conshu's net asset value would have increased to 135c a share from 100c and earnings would have been 33,2c a share compared with the 31c actually achieved.

Feinblum says the deal was struck at the right time, in that there is potential for extracting the best out of the enlarged group at a point when consumer demand is improving.

Conshu's turnover leapt 43% to R162,4m in the year to June from R106,5m last year. Feinblum says the trend of stronger demand has been maintained since the year-end.

All group factories are running close to capacity and the enlarged operation will now allow for better utilisation of resources within the bigger group.

The added strength leaves Conshu in a far better position to counter the impact of imported footwear, now gaining momentum again in the women's and cheaper sector of the market, says Feinblum.
Mergers 'can put millions at risk'

HELENA PATTEN

SA companies involved in mergers and acquisitions place millions of rands at risk by neglecting to assess adequately the risk profile of companies they acquire or with which they merge.

This is the opinion of executive director of insurance brokers Price Forbes Federale Volkskas Adrian Leighton-Morris.

He said there were several major danger areas, including property valuation for insurance purposes, where book value might be the only valuation available with depreciation according to tax guidelines. This was worthless if applied to insurable values, he said.

The only sound procedure was to get a new appraisal of the replacement cost and a separate estimate for actual physical depreciation.

He also warned of possible hidden liability claims, particularly product liability, which could cost a takeover company sorely.

A merchant bank spokesman said yesterday a takeover deal should be structured so that any risk was covered by the vendor. This was most easily done with a vendor's warrant to the effect that no liabilities existed over and above those on the financial statements.

Alternatively, a very thorough investigation of the risk profile of the company concerned could be undertaken. "Ideally, one could arrange to defer payment for, say, a year, and reduce the purchase amount by the amount of any claims."

Leighton-Morris said purchasing companies should also consider insuring key people in a company-to-be-acquired, especially if it was in an unfamiliar line of business.
‘Give workers shares and say’

By AUDREY D’ANGELO
Financial Editor.

It is useless for companies to offer shares to their workers in the hope of eliminating ‘them-and-us’ hostility unless this is accompanied by consultation and fair treatment, says Albert Koopman, former Cashbuild MD and now an industrial-relations consultant.

Koopman, who pushed up profits at Cashbuild through a worker participation scheme, is now retained as a consultant by a number of major companies.

Almost every seat was taken at a seminar organized yesterday by the Cape Chamber of Industries and the Institute of Personnel Management at which Koopman explained the increasing importance of good industrial relations and how to achieve them.

In an interview, he said his successful policy of encouraging worker participation at Cashbuild was “the difference between action and dreaming”.

He said that when he took over at Cashbuild, profits were falling “and things were so bad there that we had to make it a crime to use offensive bad language to the staff”.

Koopman rocked the business world not only by involving workers at all levels in planning the firm’s strategy, but by dismissing three of the management staff when complaints about them were found to be justified.

“This was a complete reversal of the previous situation when any worker who caught a manager out in wrongdoing was likely to be dismissed, so they kept their mouths shut about it,” said Koopman.

He considers worker participation essential in running a business in SA today.

“If we want to create a second Japan in this country, that is the way to go.”

“It’s not a black-and-white thing, although it tends to be that in practice in this country, but staff and management working together in their common interest.”

He thinks the trade unions are willing to cooperate with business, and are aware that both sides are interdependent. “It is business that is intranugent.”

Koopman is in favour of profit-sharing incentive schemes based on productivity, but he said “I disagree with any policy of issuing shares before providing justice in the workplace and restoring the workers’ dignity and pride.”

“I don’t advise any company to offer shares in lieu of a meaningful say in one’s working life. There should be total worker involvement in all things affecting their rights.”

His dealings with black labour have made him optimistic about the future of whites in SA.

“The goodwill of blacks is unbelievable—we must tap it.”
Give employees a say, SA corporations urged

Finance Staff

If South African corporations did not permit employees to participate in management and profits they would lose the long-term war against socialist economies, Mr Mervyn King, chairman of Coreprop, warned.

Delivering the Andries van Riet address at the 21st convention of the South African Property Owners' Association (Sapoa), Mr King said corporations in South Africa were beginning to realise that they had to move away from the policies of the past and had to be seen by employees as endeavouring to improve their lot in life.

"Changes are taking place inside corporations far more quickly than in the country as a whole and these changes embrace participation by employees."

"This is probably one of the most important factors pointing to a positive economic future in South Africa. These changes will impact positively for change outside corporate life."

"It is therefore of the greatest importance for the future of South Africa that the big corporations have come to realise that they stand as a bulwark between the economy as we know it and a socialist economy."

Deregulation and privatisation were pertinent changes to ensure the economic future of South Africa, Mr King said.

East and West had concluded that privatisation improved growth in an economy, reduced corruption, promoted opportunity among a country's people and created employment.

"Further, Government ownership of services such as the railways, merely places greater apparent strength in the hands of the Government. The more Government services are privatised the easier it will be for political change to take place in the country. This is so because the Government will control less, its sphere of influence will be less and fewer people will work for the Government." If over the next 10 years South Africa moved away from regulation and became privatised, and by definition therefore less politicised, and people were better educated about economic matters the probabilities then would be of a mixed economy rather than a socialist economy."

In addition, if South Africa was given a vision of being a leader of Third World countries, it could become another Taiwan, especially with markets on its northern doorstep.

Mr King predicted that with the natural wealth of Southern Africa, with the investment opportunities being seized upon by entrepreneurs worldwide in southern Africa, with the enormity aid being poured into the region, with Russia and China and the world generally moving away from regulation towards capitalist opportunism, the consequences for South Africa, whatever government was installed, would be a vibrant mixed economy in a developing country.
Sell out terms

Standard and Chartered's (Stancha) sale of its Standard Bank Investment Corporation (Stanbic) shares has been completed, in a complicated deal, which must leave minority shareholders wondering how to react. Individuals should take the shares, not the cash offer.

After completion of the deal, the new major shareholders will consist of Liberty (30%), Old Mutual (20%), Gold Fields (10%), Rembrandt (10%), and Standard Bank Pension Fund (5%). The remaining 25% will be held by the general public and executives. Apart from the Standard Pension Fund, all of these already hold significant stakes, so are simply receiving additional shares.

According to the announcement, Stancha is forfeiting 22% of its shareholding and selling the balance for R18.75 a share. Included in the price is a special dividend of R4.125 a share. It thus receives a total of R715.9m in two forms. R558.4m in finarnds, being payment for the sale of the shares, and R157.5m in commercial rands, which is the special dividend. As Stancha is a company, this dividend is not taxable in its books.

The shares Stancha forfeits are being placed in a rights offer, firstly with the new major shareholders, up to their final shareholding, with the remaining shares offered to other shareholders in a ratio of 15 for 100 at R18.75 a share. All ordinary and preferred ordinary shareholders may either accept the offer of these shares, or they may elect to take the special dividend. If they take the dividend, they also have to forfeit 22% of their shareholding in favour of the institutions holding the major stakes.

At the current price of R21.50, if a shareholder owns 100 shares, these are worth R2 150 if he keeps the shares. If he takes the dividend, he would end up with R413 cash (less tax for individuals) and shares worth R1 677, a total of R2 090. Standard Merchant Bank's Mark Barnes says that, based on the transaction price of R18.75, there is no difference between the two options, ignoring the tax effect. However, it is clear from the figures that, when the market price stands above R18.75, the best option is to take the shares. And the individual cannot ignore the tax effect.

If Stancha is the only shareholder to take the special dividend, it will still cost Stanbic R157m. However, Stanbic will recoup this amount by selling to the institutions the shares forfeited by Stancha. Stanbic MD Conrad Strauss says there will be no change in shareholders' funds.

Reserves will be reduced by payment of the dividend. Sale of the forfeited shares, which should total exactly the same amount as the dividend, will in turn increase the share premium. However, reserves are a bank's buffer, built up (in Stanbic's case) by a high dividend cover over a number of years, which the share premium is not. Barnes points out that total shareholders' funds and the number of shares on issue do not change.

The real price Stancha is receiving for its shares is R21.34. If all the funds had been sent through the finarnd market and there had been no special dividend, Stancha would have had to receive this price for its shareholding to buy the same amount of pounds sterling.

No special dispensations were needed for the deal. Legally and in terms of exchange control, a company can declare as a dividend and remit out of the country, earnings re-

Pat Kenney
VOLKSKAS

Better base

The big news from Volkskas this year was the deal with United Building Society (UBS). The performance by the banking group made less exciting reading, even though EPS exceeded the previous high of 1984.

One of the advantages of the UBS deal is that it brought an injection of R146m cash. For Volkskas, this means there will be no need for a rights issue in the foreseeable future. It was previously thought that Volkskas would need to raise additional capital to meet the new capital coefficients introduced in January this year.

Another benefit is in the area of computerisation. Group MD Pieter Morkel says that computer centres and software will be rationalised. "There has been quite a change in the commercial banking scene worldwide," he says. "It is now a capital-intensive industry where significant economies of scale can be achieved. The combined UBS/Volkskas group is as big as First National. There are still another two years before Volkskas' computerisation programme is complete. To a large extent our computer system is on a par with that of any of the other banks."

The new bank, to be established by UBS and Volkskas, and which will open on August 17, is expected to help Volkskas make inroads into some of the markets in which it traditionally has not been strong. Morkel expects this bank to grow fast.

As far as the group results are concerned, Morkel says that improvement has been seen in the bad debt position (the bank is not on full disclosure so figures are not available). He is confident that "sufficient provisions have been made for losses and we have a new credit department looking after recoveries."

Volkskas's margins, like those of other banks, have been hurt by the necessity to provide for losses, though there has been some improvement compared with six to 12 months ago. In the wholesale area, Morkel notes that competition for deposits is also affecting margins.

Assets and advances fell because foreign exchange volumes dropped following the debt standstill and sanctions, but the dealing room has succeeded in maintaining and expanding its international business ties, says Morkel.

The recent sale of Volkskas's interests in Bonaskor and Transvaal Sugar has turned the group into a pure financial services group, according to Morkel, and a "handy" capital profit was achieved in the process. Since the dividend announcement on June 10, the share price has climbed from R13.75 to the present R15.50. The price has thus adjusted for the increased dividend, with the yield falling only marginally from 4.5% to 4.3%.

Though the association with UBS should lead to long-term benefits, Morkel points to the uncertainties created by current economic conditions, especially in the agricultural sector.

There seems little reason to expect a re-rating in the short term and the quantity of banking scrp available following the Barclays and Standard disinvestments will probably affect the entire sector adversely.

\[Pat Kennedy\]
The Public Carriers’ Association (PCA), representing carriers transporting the goods of others for gain, saw the committee on August 11 and hopes to meet Transport Affairs Minister El Houw within days. The National Association of Private Transport Operators (Napto), representing people like farmers and merchants who convey only their own goods, will meet the PSCT on August 4.

The two bodies strongly differ on specifics. PCA CE Ian Moss says on the association’s agenda were four major issues to speed up deregulation:
- SA Transport Services (Sats) involvement in the marketplace “and specifically its destructive market practices.”
- Privatising Sats’ road transport activities.
- The “immediate” introduction of measures to alleviate inequities in current road transport regulatory methods, and
- Introducing quality control measures to ensure safe, reliable and equitable competition in road transport.

But, says Napto CE André Jacobs, “we cannot agree with what they regard as important. The main issue is the establishment of a Transport Advisory Council (TAC), composed mainly of private sector members, to advise the minister.” Napto last year met the Parliamentary Standing Committee and asked for speedy establishment of the TAC. But the election intervened and the TAC project ended up on the back burner, says Jacobs.

“We will repeat our request. There must be no delay, as one of TAC’s main functions would be to interpret the Transport White Paper, which provides the framework for deregulation, and establish an implementation programme. The White Paper, tabled in January, is currently read by all connected with transport in ways that suit their own purposes.”

Napto feels that anyone wanting to start up as a public carrier should be allowed to provide minimum safety standards are maintained. But the PCA seems to favour more of a closed shop. “I’m afraid the PCA wants to get back to the O-licence recommendations, which will limit entry to those who hold a number of specified certificates and several years’ experience in the transport field,” says Jacobs.

Nor does Napto agree with the PCA’s demands that Sats’ road transportation arm be privatised. “This implies that its road operation should disappear, which is against the interests of our members who use their services. We need to look at the whole transport scenario before any pressure is applied for change.”

Central Statistical Services report that public carriers conveyed 43,4 Mt of goods during January-March this year — 24,3% down on last year’s 57,38Mt — while Sat's rail services conveyed 39,7 Mt, up 0,4% on last year’s 39,5 Mt. No statistics are available for Sats’ first quarter road haulage, but it should be around the same as last year’s 987,000 t.

While these figures look impressive, the public carrier market is “insignificant,” says Jacobs. It only represents 30% of all goods conveyed by road — private hauliers convey about 70% and Sats road services less than 1%.

“If we want to benefit the economy by reducing transport costs, we must look at the areas where most goods are conveyed, not where the competition is fiercest,” says Jacobs. “We must rather look at ways of becoming more cost-effective than be distracted and focus our attention on 1% of the market.”

But Moss, who believes that organised commerce and industry nationwide supports the PCA’s call, sees the issue in a different light. “The Road Transportation Act is too restrictive and limits the operational flexibility of hauliers. And, by imposing artificial restrictions, it hinders their ability to be more cost-effective and meet the needs of the market.”

Taking another swipe at Sats, he adds: “We much prefer the democracy of the market. Regulations should protect fair trade and equitable competition, not individual hauliers. Healthy competition and diversity of activity is in the broad interest of the industry and the country.”
Sabta slams CP's funding statement

The purchase of the giant bus company Putco by the South African Bus and Taxi Association this week took on a new dimension with the Conservative Party claiming the money to buy the fleet came from the ANC.

Now Sabta president James Ngcoya has challenged CP economic affairs spokesman Clive Derby-Lewis to repeat his statement outside Parliament. Derby-Lewis said that Sabta was funded by the ANC to buy a controlling interest in Putco.

Derby-Lewis' claim came at a time when it had become public knowledge that a leading Afrikaner bank — Rand Merchant Bank — which is well connected with the government and top Afrikaner business circles, was funding Sabta.

Derby-Lewis said that if Sabta took over the biggest bus company in the country — which transports more than one million blacks a day — it could totally disrupt the economy of the Witwatersrand by bringing the buses to a standstill.

Ngcoya said Derby-Lewis had dreamt up the story. "Maybe he is canvassing for a better position, but this is not the way to do it. His information is not correct. In fact, it is a lie.

"Derby-Lewis said he has no confirmation of this. Why then should he say such a thing without confirmation?"

"If he had received the information from the bank with which we are dealing, we will have no option but to withdraw. He should prove his claim," said Ngcoya.

The Sabta president said they were not involved in politics and would, in any case, not ask for funds from a political organisation.

"We have many friends in the commercial world whom we can ask for financial assistance.

"Derby-Lewis should also know that it is not a new thing for the buses to come to a standstill.

"It has happened many times during periods of unrest. We are buying Putco to upgrade black business and for no other reason," said Ngcoya.

Derby-Lewis was speaking in Parliament during the debate on the Economic Affairs and Technology vote and said that his information had, however, not been confirmed.

He urged the Minister of Economic Affairs, Danie Steyn, to utilise the Competition Board to urgently investigate the situation around the acquisition of the controlling shares in Putco.

He added that urgent action was needed, if government, by the people for the people, was not to become government by big business for the people.

Putco has been in white control since it was established and when it recently leaked out that Sabta was interested in a takeover, a storm broke out in many quarters, which led to an Afrikaner business consortium, headed by taxi owner Anthony Mayer, making a bid for Putco.

Mayer was reported to have said that his consortium had made a bid for Putco because they felt they could not allow control of black transport to fall into black hands.

His argument on the issue was basically the same as that of Derby-Lewis, in that blacks could disrupt the economy of the country any time they felt like it.
Interleisure
link-up gets
court's nod

A scheme of arrangement in which Mike's Kitchen chain becomes part of a new "leisure" group incorporating Squire's Loft, was sanctioned by the Rand Supreme Court yesterday.

Mr Justice Leveson sanctioned the deal, in which Mike's Kitchen becomes a wholly-owned subsidiary of Satbel, after the court heard that most shareholders had voted in favour of the scheme.

The court heard the scheme was the result of an agreement in May between Kersaf, Federale, Satbel Holdings, Squire's Loft and Mike's Kitchen.

The companies decided to combine their interests to form a single group called Interleisure, with three major divisions: film and TV production and distribution; cinemas, video distribution and restaurants; fast foods and catering.

In terms of the deal, Squire's Loft acquires the entire issued share capital of Satbel, the listing of Mike's Kitchen on the Johannesburg Stock Exchange is terminated, and Squire's Loft changes its listing to Interleisure.

Satbel, owned equally by Kersaf and Federale, now holds 81 percent of the new group.
Waltons Stationery poised for major coup

By TOM HOOD, Business Editor

Waltons Stationery is set for a major coup — buying a stake in a top high-tech printing company, Lithosaver, to secure supplies on its high-growth field of computer stationery.

The companies disclosed today they are "involved in negotiations which might affect the price of the shares" and warn shareholders to be cautious in their dealings.

The possibility of a deal was believed to be behind the mysterious multi-million rand sale of Waltons Stationery shares this week recorded at the JSE, which reported 1.4-million shares valued at R6.2-million changed hands on Monday and another deal of R1.4-million worth R6.1-million took place on Tuesday.

However, no shares changed hands, said the chairman, Mr. Frank Robarts, today, and they were recorded in a stockbrokers' error.

"We have almost concluded an agreement to buy into Lithosaver," he said. "It would have cost us between R9-million and R10-million for a takeover so we have decided to buy a stake to secure our source of supply."

Until now all acquisitions have been done for cash and with "two other acquisitions in the pipeline," Waltons had to arrange to issue shares to finance this deal.

Sanlam and Federated Insurance had agreed to take 2-million shares at 45s a share.

Waltons computer supplies division is showing a growth of 100 percent a year — at one time it was only 50 percent, added Mr. Robarts.

Waltons has made dramatic growth country-wide through takeovers and sales, increasing its capital base and earnings more than fivefold in the last five years.

Lithosaver, with factories at Atlantis and Johannesberg, is a leading printer in the ever-growing market of computer stationery and business forms.

The 17-year-old company was listed on the JSE's main board on May 3 and its public share issue of 2.5-million shares was oversubscribed 190 times. Investors offered R456-million for the R2.5-million shares available.

The share price more than doubled in three months to 265c from the original 95c and is now around 195c.

Shares of Waltons and its pyramid, Wallhold, reached new peaks this week although Waltons came off 10c yesterday and Wallhold eased 5c — both to stand at 430c.
Merger boosts Lib Life assets by 51.5%

From HELENA PATTEN

JOHANNESBURG — Liberty Life Association’s asset base has been boosted by a massive 51.5% in the six months to end June 1987, largely owing to the company’s merger with Prudential, which was effective from January 1, 1987.

Attributable profits increased 36.7% to R42.6 billion from R31.9 billion, raising earnings 23.2% to 250.7c a share from 203.2c in the first six months of last year.

The interim dividend has been raised to 180c a share from last year’s 160c.

The weighted number of ordinary and preferred shares on which net taxed surplus per share is based, rose 11% to 17,388,000 as a result of the acquisition of Prudential.

The life company’s unaudited interim report shows Liberty’s total assets growing from R7.6 billion at December 31, 1986 to R11.6 billion at June 30, 1987.

The Prudential Assurance Co had R2.4 billion in assets at the end of last year, while the joint company grew a further R1.6 billion in the first six months of 1987.

Farrell Sher, director of Liberty, said yesterday if one included assets of the overseas companies and funds managed such as Guardbank, the group probably controlled funds of around R16 billion.

He said the group was safely capitalized and the spread of investments “nicely balanced.”

Also reflecting the Prudential purchase, life funds jumped 65.8% to R9.1 billion at June 30, 1987 from R5.5 billion at December 31, 1986.

The leap in the company’s asset base means Liberty is probably gaining ground on Sanlam’s number two position in the industry.

Net premium income was 37% up at R590.4m, while net income from investments leapt 65.7% to R361m from R217.9m.

New annualized premiums, excluding single premiums and annuity considerations, rose to R52.8m from R77.1m, while total new business premium income amounted to R274.9m reflecting an increase of 15%.

Sher attributed the tremendous surge in new business for life companies in general to a return of consumer confidence and the investment products the insurance industry had to offer.

An interim dividend of 38c a share, up from last year’s 30c, has been declared.

Profit attributable to ordinary shareholders grew 28.3% from R24.7m for the 1986 period to R31.7m.
Farm, Ros, Austrailia says portfolio

WHAT CHOICE?....

Each member of the Australian where having this nothing to do with packing of business.

PICK in Pay Quits Aussie

says dissatisfied Akronian

We're out — look, stock and pack!
Imperial in driving seat as Hertz quits

THE merger of Imperial Car Rental and Hertz has become a takeover by Imperial — and a disinvestment by Hertz.

Initially it was to be pooling of interests. The parties were trying to decide whether to call the company Hertz-Imperial or Imperial Hertz.

Now, because Hertz US would not give Imperial a cast-iron guarantee that it would permit the name to be used in the long term, Imperial will take the Hertz fleet and personnel and go it alone without the name.

Imperial Car Rental chairman Bill Lynch says: “We were reluctant to change our name, only to be obliged to change it again some time in the future.”

Mainstream

Mr Lynch is not altogether sorry about the outcome. “If you are in Europe or the States, in the mainstream of international tourism, an international car-hire name counts for a lot. But in SA we are off the beaten track.

“In Imperial we have shown that a SA company can take on the big international names and win. I really do not think we need the name all that much.”

The SA character of Imperial could become a strong marketing advantage, particularly if US public opinion continues to be hostile towards this country.

Lynch says: “I also do not believe the internationals can teach us much on the operational side.”

Imperial believes Hertz will steer American customers visiting SA its way. Imperial will continue to represent Europcar in SA.

The listed Imperial Group will have 60% of the combined operation and Sage’s wholly owned subsidiary, Union & London, the balance.

Eventually, says Mr Lynch, the car-rental arm of Imperial will be listed. Imperial Group holders will be able to subscribe on terms still to be decided.
Largest car-hire company in SA withdraws, but...

Pull-out won’t hurt merger, says Hertz

Another US giant is pulling out of South Africa. The Hertz car rental group announced at the weekend that it is to disinvest from this country over the next 18 months.

A statement from the company said its current merger with Imperial Car Rental would continue — but the name Hertz would be dropped from the new enlarged group. Imperial would continue to provide travellers with international facilities.

No new Hertz International cards would be issued in future, though existing cards would be honoured over the next 18 months.

R80 million turnover

The merger, operation, which will be listed on the Johannesburg Stock Exchange in the near future, brings together two of the major car rental businesses in South Africa.

The combined business will consist of a fleet of 4,000 vehicles generating an annual turnover of approximately R80 million and shareholders’ funds would be in order of R17 million.

The merged company will be controlled and managed by Imperial Car Rental, which will have 60 percent of the equity. The balance of 40 percent will be held by a Sage subsidiary, Union and London Finance (Pty).

Mr Bill Lynch, joint managing director of the Imperial group, would become executive chairman, and Mrs Carol Scott, also of Imperial, would be managing director, the statement said.

It added: “The vast experience and expertise of Noel de Villiers, previously chairman and managing director of Hertz, will be fully exploited by the merged company of which he will be director.”

Imperial Car Rental began operations in January 1979 with only nine vehicles, one office and two members of staff. “Since then,” said the statement, “Carol Scott has methodically developed Imperial into one of the four major car rental companies in South Africa today.”

Her management style would be carried over into the new company, as would the Imperial culture of personal service.

She commented: “We are tremendously excited at the thought of this new challenge. Significant benefits will be derived from economies of scale achieved from the merger, resulting in increased profit for the new company.”

Hertz was the largest car-hire company in the world and the two businesses had a wealth of experience in the car-rental industry, the statement said.

The combined customer base and range of services would consolidate the future of the company. In the last few years, Hertz had grown substantially in the long-term-contract rental business which was fast developing in South Africa.

Auto Pedigree, the disposal arm of Imperial Car Rental, which now had four outlets, was expected to grow significantly and would be of great benefit to the merged operation as Hertz in the past did not operate such a division.

Mr Lynch said: “I am confident that the merged company will offer great opportunities and through various synergies will be successful and highly profitable.” — Sapa
Kersaf's new listing makes debut today

Cherilyn Ireton

Kersaf's new force in the entertainment and leisure industry takes off today when Squires Foods becomes quoted as Interleisure.

This is more than a name change as the enlarged Interleisure now also incorporates Mike's Kitchen which was de-listed from the JSE at the close of business on Friday.

In anticipation of the changes, Squires raced to 410c on Friday — around 300c up on its price when listed in October last year. However, without the back-up of any earnings projections, analysts and management agree the share is overvalued at these levels.

New Kersaf chief and Interleisure chairman Ian Heron attributes the inflated price to a shortage of scrip as a result of the hype that has surrounded the formation of group.

Nonetheless the group's two main divisions appear to offer excellent medium term growth potential.

Satbel — which will probably account for more than 50% of Interleisure's earnings — is looking to boost profits through growth in its main operational division, Ster Kinokor.

The cinema arm's expansion plan involves the development — in conjunction with Squires — of several multi-cinema and entertainment complexes. The first of these is earmarked for the Kine Centre in Johannesburg and should be completed in May 1988.

Satbel is also investigating the possibility of setting up entertainment centres in black areas and is hoping for a relaxation of regulations to allow the opening of cinemas on Sundays.

Meanwhile Squires has already made a string of acquisitions — including Mike's Kitchen, the Porter House chain and Pizza Inn franchise — which should boost earnings in the current year.

Future plans for Squires are domination and expansion, says Interleisure joint MD Costa Tomazos.

Joking at a function to launch Interleisure on Friday, Tomazos said: "It was a bit of culture shock being part of a big organisation. "But I've had lots of fun. Before I would have had to go and beg my bank manager for funds before I could do anything. Now I just go out and buy up all the restaurants I want".
GOVERNMENT has again stressed it is not about to privatise government functions purely because it has become fashionable to do so.

State President's Office Minister Alwyn Schlebusch said the privatisation process is being conducted in a "meticulous and responsible manner" and government would not be pushed into adopting a different approach.

He explained that all functions or activities to be privatised are now being identified by the departments themselves with the assistance of a competent team of officials in the Commission for Administration's office.

He asked the public to make suggestions for privatisation and deregulation, which he promised would receive immediate attention.

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*See Page 4*
Consortium set for forays abroad

A joint venture by Group Five and S M Goldstein could see SA making forays into giant-world, construction projects.

The huge consortium is the result of a recent move by Goldstein, which came to the rescue of beleaguered Group Five when that company was fighting off a hostile takeover bid by rival Murray & Roberts.

Announcing Goldstein's annual results yesterday, the company said its investment in Group Five would have major strategic consequences in that the two groups could get together and plan a joint thrust into overseas markets.

"Group Five executes projects in major road building, toll road construction and major power stations" huberto outside our capability.

"There also remains the possibility of sharing costs on areas of common interest."

However, the statement made clear that the investment would have no immediate financial effect on Goldstein and that the two groups would not consolidate operations.
Soft drink company's share offer
Disposal in line with restructuring

Pepkor sells 3 companies in R46m deal

IN a deal valued at R46m, the Cape-based Pepkor group has sold its Budget Footwear, Rich Rags and House of Monatic operations to Lenco Holdings.

According to Pepkor’s chairman, Christo Wiese, the disposal of the three companies is in line with a restructuring programme designed to focus the group’s operations more clearly.

“As part of the programme, we have already listed our two star performers — Pep Stores and Shoprite — and have disposed of certain non-core operations,” Wiese said.

“Clearly, the retention of Budget Footwear, Rich Rags and House of Monatic was no longer compatible with our new strategic direction of transforming Pepkor into a true investment holdings company with its focus on retailing and allied manufacturing.

Budget and its subsidiaries manufacture high-volume, inexpensive shoes, PVC shoe components and cross-linked foam for various industrial applications.

Rich Rags manufacturer knitwear while the House of Monatic manufactures and distributes high quality fashion clothing for men under well-known trademarks such as Monatic, Viyella, Carducci, Yves St Laurent, Embassy and Consulate.

The House of Monatic’s scale of operations has been substantially reduced by Pepkor since April 1986.

The working capital requirements have been scaled down by more than a third and the manufacturing operation has been moved from the I L Back premises in Parow to the much smaller Bertish factory in Salt River.

The purchase consideration will be settled by cash payments of approximately R31m and the issue of 11m Lenco shares to Pepkor and approximately R15m. Of these shares 10m will be underpinned for cash at R1.25 a share.

Pepkor will therefore effectively receive R43.5m in cash and 1m Lenco shares.

While the transaction will have no material effect on the net asset value and earnings of Pepkor shares, it will increase Lenco’s net asset value a share at March 1, 1987 from 35c to 75c a share.

Lenco’s projected earnings, based on 36m shares in issue, are expected to increase from 8.5c to 18c a share for the year to February 28, 1988.

The transaction is subject to approval by Pepkor and Lenco shareholders.
The world Sol built

The sharp re-rating of Kersaf shares in recent months has its cause — investors are signalling that they have at last caught up with this complex group. Or, perhaps more specifically, with its brilliant but volatile MD, Sol Kerzner. Since its listing via the then cash shell Javoco three years ago, analysts have not always known what to make of Kersaf. One complex deal has followed another, each adding another twist to an already convoluted structure.

With its various moves this year falling into place like the missing pieces of a difficult jigsaw puzzle, Kersaf has suddenly begun to make perfect sense. It has taken on the look of a cohesive and focused group.

With concerted expansion into the European gaming market, Sol Kerzner's grand strategy of an international leisure-orientated group — with rand-hedge potential — has begun to fall into place. Investors who believed in the vision are now reaping the rewards.

rewarded in the three-year rise to R24. If the company is full of surprises, so are its shares. Like horses in an arena, they tend to freeze at strategic price barriers — as they did at around R12 for almost 12 months last year — before leaping ahead with renewed vigour. Since the beginning of this year they have cantered steadily to R18, before galloping to R24 a few weeks ago when the group announced details of a major and imaginative casino deal in France.

The French deal is being directed through Royale Resorts International (RRI), which is owned jointly by British and Commonwealth Holdings (B & C — which has the controlling interest), and Sun Hotels Inter-

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national, Kersaf’s UK-registered subsidiary
RRI will inject into the listed French company, Societes Des Hotels et Casino de Deauville (SHCD), various casino assets it acquired last year. These include a resort in Deauville and part ownership of the Palm Beach Casino in Cannes. In exchange RRI receives shares in SHCD to give it a 38% interest in the enlarged group
With net assets of R340m, a capitalised value of R500m, and no gearing, SHCD is to be the springboard for a Kersaf-B & C launch deep into the European casino market
Kersaf is entering a French gaming industry which is in decline, suffering from neglect and lack of imagination.
In Kerzner’s view, the French casinos are too narrowly focused, relying on a small market of hard-core gamblers.
“We do things very differently,” he says. “We develop entertainment resorts aimed at a broad spectrum of people, while catering (through Salo Prives, for example) for the soft-core gamblers as well.”
Thus is the strategy that worked so well at Sun City and other Kersaf resorts. The casino is a magnet, around it thrives an entire spin-off industry of hotels, restaurants and entertainment centres. It is in general entertainment, says Kerzner, where returns are higher, and with a programme of major revamping, this is the direction the French casinos will take. As the new CE of RRI, Kerzner will be personally involved in this transformation.
But change has its enemies, as shown by a strike by French casino workers who feel threatened by recent amendments to French gambling laws which now allow the use of slot machines. The threat of mechanised gambling apparently caused the strike, although one union is using the Kerzner connection as an excuse for its actions. It certainly represents a vexing problem for the controlling shareholders of SHCD.
Kersaf now has three distinct operating divisions, made up of local casino resorts, the Interlisure entertainment group, and its offshore interests contained in RRI and elsewhere. It also has a 21% interest in Southern Sun — in recent years a disappointing performer, but still a group which holds a dominant share of the local hotel industry, and which has powerful backers.
The main resort casino assets are contained in two listed companies, Sun International Botshwatsana (Sunbop) and Transkei Sun (Transsun) Combined turnover of Sunbop and Transun in the year to end-June was R290,9m, equivalent to 46% of group turnover.
The resort subsidiaries have proved themselves recession-proof through one of the worst downturns of the domestic hotel industry has seen. More than that, by opening one successful resort after another, Kersaf has overturned a perception held until recently by most analysts, who felt the group had reached saturation with mammoth resorts in Sun City, the Wild Coast and elsewhere. Kerzner has always claimed, and has yet to be proven wrong, that each new resort opens up a new market in its immediate geographic area.
Profits advance
In its 1987 year, Sunbop lifted operating profits by 23% to R42,5m, while Transun advanced 25% to R35,8m. During the same period, Kersaf did considerably better with a 30% operating profit advance to R151m — an anomaly that must be understood in any assessment rating of Kersaf.
Apart from the profits it earns from resorts, cemeas and other leisure activities, Kersaf has a growing base of fee income earned through RRI and Sun International
Management. Through these companies, the group earns fees for managing all local and certain overseas resorts.
Management fees are a material contributor to Kersaf earnings, estimated at over 25% of total income, and growing. Because fee income is low-risk, and based on gross as well as net income, this is the area of highest potential growth for Kersaf. It will also be far easier for Kersaf to conclude resort management agreements overseas than to acquire its own offshore resorts. The group is thought to be negotiating management contracts with resorts in Geneva and Turkey.
Locally, Kersaf has collected its restaurant, cinema and other interests into a new group called Interlisure. Interlisure made a spectacular debut on the JSE this week, at a price of 50 times earnings. The group’s future performance is certainly material to Kersaf’s results.
With Kerzner effectively moving overseas, local operations will find a new MD. Kerzner says he will make sure he selects a man who becomes group MD I suspect the culture might change subtly, allowing Kerzner’s more participative style of leadership to come through.
Kerzner is a redoubtable, and explosively unpredictable manager, not above moving partially completed projects several kilometres to a better spot. He alone, while with Southern Sun, virtually redefined the hotel industry in this country, lifting it to a level of excellence it could not easily have attained otherwise. Associates say he demands from all around him a performance that enters the realm of the superhuman.
A senior Sun International (SI) executive once recounted how he arrived for the opening of a new resort, only to be placed in an empty, unpainted and unfurnished room, the floor still littered with piles of concrete. When he returned from an early lunch a few hours later, his boom had been transformed into a luxury suite, spotless and with every frill in place.
It was in the late Sixties that SA Breweries (SAB) decided to back Kerzner’s vision of a hotel group of international standing. Southern Sun flourished under his direction, but in mid-1983 events starkly illustrated the investment dangers of backing a group whose fortunes are predicated on a single man. Premier group acquired some 34% of SAB, as part of a larger equity shuffle involving Liberty, Anglo American and...

What followed was a deal that still demonstrates Kerzner's personal standing in the industry. It was agreed that he should sell his 10% interest in Southern Sun to SAB at a price based on a p:e multiple of 12. At the same time, he was allowed to buy 51% of the Southern Sun casino interests — the most profitable part of the entire group — at a price based on a much lower p:e multiple.

Thus, the Kerzner-Goss partnership walked off with the crown jewels, to form SI. Later they acquired Rennies' Holiday Inn casino resorts, and SI became synonymous with casino resorts throughout southern Africa. But the new company's name hinted at aspirations that extended beyond the region.

The deal with Rennies was structured to allow Kerzner to control SI with a relatively small (18.75%) shareholding. However, Kerzner relinquished control in April 1985, and Safren became the lynchpin on which Kerfus was again transformed. Safren sold its 100% interest in Holiday Inns (which many had thought would go to Kerfus) to Kerfus, and Kerfus sold Kerfus 21% interest in Southern Sun, a 36% holding in SI, and various liquor interests.

In return, Kerfus issued additional equity to Safren, allowing it for the first time to take technical control of Kerfus, which in turn became the holding company of SI, with a 73% stake. Once Kerzner had decided to relinquish his thin controlling stake, both Kerfus and SI were ready to expand rapidly, with paper acquisitions.

In 1986 the group began listing its resort interests. More recently the bits and pieces acquired from Fedovics, and since further expanded, were listed under Interlure. Analysts who were bemused at the string of restaurant chains acquired now understand this to be part of a larger strategy of building an integrated leisure group.

Emerging from all this is the powerful Kerfus conglomerate, combining high-growth local interests with the real-hedge qualities inherent in a growing offshore portfolio.

At R24, the share trades on a p:e ratio of 29 times, a high rating that reflects the potential of a group which now has the shape and the muscle for even more rapid growth.

Neville Glasser
TENDERS for the privatisation of the Soweto City Council's services closed this week after more than 30 applications had been received.

Soweto town clerk Nico Malan says the applications will now be put to the council, with recommendations, for its consideration.

He says the first essential service to be privatised will be refuse removal. "We decided to allocate the refuse removal contract to the private sector on a trial basis because it is profit-oriented, Malan says.

"For a start, we will privatise only certain parts of Soweto, and if the scheme works out well, then we will extend privatisation to other areas."

The council called for applications from the black community last month, after it had received government's approval to involve the private sector in rendering municipal services.
Rembrandt invests R800m overseas

Financial Editor
THE Rembrandt group invested a total of R800m overseas and R52.2m in SA in the financial year to March, chairman Anton Rupert disclosed at the annual meeting yesterday.

He said R228m "was invested in foreign long-term investments, which consisted mainly of additions to existing interests in addition portfolio investments abroad increased by R31m."

Since March a further R766m had been invested in this amount, R123m consisted primarily of an effective interest of 10% in Goldfields of SA and 10% in Standard Bank Investment Corporation.

Explaining the group's policy of "shared partnership", through which it avoids obtaining control of companies not engaged in its core interests, Rupert said that "large businesses, like governments, may succumb to the lot of the dinosaurs unless they make timely adaptations to changing circumstances."

"Mere size alone was no guarantee of survival."

"Mindful of the above, your group has deliberately distributed its interests to the key sectors of the economy."

"We believe in having a sound core - our traditional interests - but also in having other interests with potential."

He said the group owned 100% of its tobacco interests in SA. Its stake in others included 50% in Metkor, Bonosuir, Transhe, Henkel SA, W&A Gilbe, Medi-Clinic, Rembrandt-KW Investments with its 50% interest in CWD, H & K Timber Holdings through its interest in Huntco. It had 40% of Fralex, 30% of the Volkskas group, Federal Mining, Total, Momentum Life Assurers, Lifehold and Printpak, 20% of Sage Holdings, and 10% of Gold Fields of SA. Standard Bank Investment Corporation, Boland Bank and Dorby. At Wednesday's closing prices on the Johannesburg Stock Exchange (JSE), Rupert continued, "the value of our interest in listed shares excluding other interests such as Total, Printpak and the SA tobacco interests exceeded R3 milliard."

"Warning against too great a dependence on commodities by SA, Rupert said that "a country must be careful that it does not end up out of step with significant changes in the world economy."

"He explained "Changes in technology, along with a significant growth in non-manufacturing industries, have enabled developed countries to increase their economic growth without a concomitant increase in the demand for basic materials, minerals and other raw materials."

"A recent study by the International Monetary Fund calculates the decline in the amount of raw materials needed for a given unit of economic output since 1900."

In view of this, he said, "it is fitting for a country, and a company, to spread its risks and not to depend too heavily and solely on raw materials."
Abolish outdated controls — Rupert

SOUTH AFRICA could be saved only if the informal sector was emancipated and redundant regulations abolished, Anton Rupert, Cape-based entrepreneur and chairman of the Rembrandt Group, said yesterday.

"We must free the energy bottled up in our communities so that it may create prosperity rather than friction," Rupert said in his chairman's address in Stellenbosch.

"We must also not hesitate to demolish holy cows.

"It is better to do away in good time with obsolete control measures rather than to run the risk of eventually having no control at all.

"Economic freedom is the counterpart of political freedom and only when the two are united, like the two sides of a coin, can they function effectively to create a better and safer future."

Rupert warned that one of the more serious problems currently facing the economy was the absence of sufficient investment confidence and the shortage of risk capital to develop new businesses.

"The growth we now have is mostly growth on paper. We must ferret out the entrepreneurs who can stimulate new growth, and equip them adequately.

"New ways had to be found to enable the major contractual investors — insurance companies and pension and provident funds — to invest in new, higher-risk business enterprises."

Rupert noted that the assets of these contractual investors rose from R5.3bn in 1972 to R20.6bn in 1980, and were now estimated to exceed R100bn.

The flow of the average man's savings to these institutional investors was also reflected in the fact that, even though total personal savings had halved from 1980 to 1986, life assurance's income from premiums had increased eight-fold.

Current available capital was being used mainly for financing disinvestment transactions and for the re-financing of current assets at higher prices on the stock market.

"The consequence is a circular movement of money, with very little new investment in production capacity and, thus, future prosperity."

See Page 9.
Argus and Leadership join forces

Weekend Argus Reporter

An agreement has been concluded between Leadership magazine and the Argus Company, in terms of which a new company is to be formed to produce Leadership and its affiliated publications.

The new company will come into being on September 1. The present publisher of Leadership, Mr. Hugh Murray, and the Argus Company are joint partners in the new venture.

Asked to comment, Mr. Murray disclosed that in the recent past he had been approached by other publishing companies who wished to acquire either part, or whole, of the Leadership operation. As sole shareholder of Leadership, he had not been attracted by any approach other than that made by the Argus Company a month ago.

Mr. Murray said, "The concept of partnership with the Argus Company has great appeal, particularly when one considers its impeccable record in arrangements of this kind."

Spectacular growth

"The group's reputation for publishing professionalism and its commitment to upholding the highest principles of a free press, undoubtedly will help to consolidate our publications and their standing in the community.

"In addition, the Argus's financial and administrative skills will ensure constructive continuation of the spectacular growth enjoyed by Leadership since its launch in 1981."

Leadership will continue to be published in Cape Town under Mr. Murray's editorship and the independent editorial advisory board will be maintained.

Mr. Murray and Mr. Fred Collings, general manager of The Argus, Cape Town, have been appointed joint managing directors. Mr. Peter McLean, managing director, newspaper division, of the Argus Company, has been appointed chairman."
Resurrected Tradegro set to get Orrs

AFTER staging a sensational profit recovery, Tradegro — South Africa’s biggest wholesale and retail group — is set to take over John Orrs department stores.

Asked to confirm reports from sources close to John Orrs, Tradegro chief executive Mervyn King told Business Times “there will be an announcement on Monday.”

John Orrs management is on record that it wants to sell.

Tradegro, controller of Checkers, Metro Cash & Carry, Jazz, Rustnau and Coreprop, has announced one of the biggest profit turn-arounds in SA corporate history.

It reported an R88,8-million bounce-back from last year’s loss of R58,5-million to a taxed profit of R30,3-million in the year to June.

Tradegro owns successful department stores in Gretemans and Stuttafords and is expected to use the formula that turned them stores into winners in John Orrs.

After the deal, Garlicks will be the only department store group outside Tradegro.

The six-store Gretemans-Stuttafords chain has reported sales of R34,9-million and pre-tax profit of R2,3-million. Sales rose by 14% and pre-tax profit by 60%. Return on capital was a creditable 24%.

By David Carte

John Orrs three department stores in Durban, Maritzburg and Sandton turn over R53-million a year and earn R1-million.

So, together the department stores would constitute a national chain with strong buying muscle and synergy. It would turn over R18-million and earn R3,9-million. The Gretemans-Stuttafords management team is expected to add greatly to John Orrs profitability.

Golden rules

Although he would not confirm that John Orrs was coming into the stable, Mr King said Tradegro’s department-store division would be listed separately by the end of November.

“Department stores were a dead duck in SA. They were closing down everywhere, but we studied American and European experience and established two golden rules they must be regional and not in the central city. That is why, when we bought Stuttafords from Graham Beck, we took Sandton and Claremont, but not the Adderley Street, Cape Town, store.”

“The second golden rule was not to be all things to all people. One decides on a focus. We have gone for fashion for the under-35 market. The rest of our success came from an inspired young management team led by Kevin Smith.”

Mr King told Business Times that every part of Tradegro, apart from the property company, was operating profitably.

The target for 1998 was sales of R1,8-billion — up from R1,4-billion in 1997 — and a “substantial” increase in taxed profit from the R30,3-million now reported.

Mr King said there would be significant rationalisation benefits in Frasers, acquired through the pyramid, Frascon, from the McDonald family, with the co-operation of Tiger Oasis.

Frasers alone will add R15,6-million to sales this year. It was not included in the latest results.

Frasers has 43 cash and carries, 12 conventional stores and 58 mine shops which will merge well with Metro Cash’s 145 cash-and-carry warehouses Cashbuild and Wanda, the black furniture company, will also acquire significant new outlets from Frasers.

Listed Jazz Stores will acquire 83 supermarkets and 44 general dealers with sales of R160-million from Frasers Jazz, unheard of only two years ago, will then have 160 stores serving the lower-income group. Jazz’s turnover is expected to spiral from R123-million to R300-million.

Most of the Jazz shops are in heavy-traffic urban locations. Frasers is mostly in rural areas, so there will be no overlap.

The next step in the evolution of Tradegro is expected to be the separation of Jazz from Checkers, which controls it now.

This will result in a large inflow of cash to Checkers which will then be able to take on more effectively its chief rival in food, Pick ’n Pay.

Checkers improved sales by 12% to R2-billion and turned last year’s loss of R1,3-million into a profit of R5,8-million. Second-half sales stagnated at R1,630-

To Page 3
million, but "pre-tax profit" was R5.3-million against a loss of R7.9-million in the comparable previous period.

The strategy of deploiting managing director Clive Well as "Mr Checkers", every housewife's friend, has paid off handsomely.

Mr King believes that with strong representation in food, furniture and even housing for blacks, his group is uniquely poised for the next 20 years.

Rushfur was the other big turner, but with Dion in and Joshua Dore out, it made only R335,000 in its second half after R14,5-million in the first.

Managing director Geoff Austin said the first half was always Rushfur's best. Dion was back in the black and he would be disappointed with earnings growth of less than 25% over years ago that has come together.

When he took over, he separated each company from its peripheral interests. Together with the chief executive in each case, we set a mission for each company. The CEO in each case communicated this down to the the lowest-level employees, so everyone knew where his or her company was going.

"We exploited each company's expertise and made sure they all stick to their core businesses. We have set out to dominate each of our markets by organic growth and by acquisition. We have achieved this in every major division.

"We also made sure there was succession in place, so there were no hiccups when we lost Lionel Katz and Albert Koopmans and had to find good people for Dion and Rushfur."

Problem

With former problem areas Checkers, Metro, Rushfur, the department stores and even Dion trading effectively again, Mr King is exulting about a plan made two years ago that has come together.

"I said in a speech in Cape Town the other day that there is nothing more futile or more hollow than activity of the present without insight into the future."

Mr King said: "When we took over, we separated each company from its peripheral interests. Together with the chief executive in each case, we set a mission for each company. The CEO in each case communicated this down to the the lowest-level employees, so everyone knew where his or her company was going.

"We exploited each company's expertise and made sure they all stick to their core businesses. We have set out to dominate each of our markets by organic growth and by acquisition. We have achieved this in every major division.

"We also made sure there was succession in place, so there were no hiccups when we lost Lionel Katz and Albert Koopmans and had to find good people for Dion and Rushfur."
Tradegro scoops Orrs

THE department store division of John Orrs has been sold to Tradegro, it was confirmed today.

The move gives Tradegro three John Orrs departmental stores to add to its three Stuttafords/Greatermans stores.

Chairman Mervyn King says Tradegro's department store division will have an annual turnover of about R100-million.

● See Business Times
Sabta lifts the lid on Putco deal

By DERRICK LUTHAYI
THE South African Bus and Taxi Association has partially lifted the lid on its intentions of gaining the controlling shareholding in the giant bus company Putco.

A statement by Godfrey Ntlateng, executive vice-president of Sabta, in consultation with James Chapman, national advisor to Sabta’s executive committee, detailing Sabta’s policy and the reasons for its Putco bid, was released this week.

“Putco is a body made up of provincial, regional and local associations and represents not its own interests but the interests of its members,” the statement read.

“All 40 regional associations were consulted on the Putco transaction on February 9, 1987 at the Bloemfontein Holiday Inn, and gave the executive committee of Sabta an unanimous mandate to investigate the possible takeover of the Putco bus company.”

Once preliminary investigations had been concluded, another meeting of all 40 regional executive committees was held on June 29.

“Again the executive committee of Sabta received an unanimous mandate to continue with its negotiations.”

“We wish to reiterate that Sabta will not make a decision which is not based on an agreement and acceptance of its broad membership and the commuting public.”

“To this end we continue to hold meetings and are in the throes of writing a letter to each of our members, explaining the position. The Putco transaction has not yet been concluded and is still under investigation.”

“Chapman is an advisor to the executive committee of Sabta. Neither he nor his marketing employees have any decision-making power whatsoever.”

“His task is one of investigation and, once investigation has taken place, to report to the executive committee of Sabta, which then makes the final decision of any matter before it.”

Ntlateng went on to say, “It is important to note that the whole Sabta structure, from the local association, region, province to the management and executive committees, takes place on a purely democratic basis and elections are held bi-annually.”

“As far as sponsorships are concerned, Sabta does not benefit in any way from sponsorships itself. All sponsorships are for members and their needs. The running costs of Sabta are not derived from sponsorship at all.”

He then detailed the sponsored events:

○ Driver-of-the-Year competition, which is sponsored by certain companies and takes place throughout the country.

○ The Driver-of-the-Year competitions are for the sole benefit of the members and to improve driver training and awareness.

○ The annual general meeting is sponsored so that members, all of whom are invited, only have to pay a nominal fee for entry. All sponsorship of this event is used solely for the benefit of the AGM.

Ntlateng explained that a great deal of money had been put into a trust account called the Sabta Bridge Trust.

“The trust is used exclusively for the purchase and funding of service centres in which the members of Sabta become owners. No outsider is entitled to shareholding unless the local taxi community agrees.”

“This trust is administered by the trustees, Louis van Zyl (a prominent Cape Town lawyer), Mcleanery (an auditor) and Pat Misatha (Sabta’s treasurer).”

He said that Sabta now envisaged starting a new fund called the Black Transport Development Trust. This trust would be controlled by trustees of impeccable character and not by the taxi industry.

“This fund will be utilised for the development of members,” he emphasized.

“All sponsorship is used for the direct benefit of Sabta’s members. Full financial statements are publicly distributed at our AGM and approved by the AGM in which sponsorships are clearly set out.”

“Sabta is of the opinion that black entrepreneurs should become the providers of all forms of transport in Southern Africa.”

“Had SA been a normal society, this would already have taken place. Sabta sees the Putco transaction as the first step towards achieving this goal.”

“It is also Sabta’s intent to unite black businesses behind this deal and will be negotiating with all major black organisations to achieve support.”

“As far as community and social projects are concerned, Sabta has already proved its commitment to its community and will, of course, continue to support the community in whichever way possible.”

“Sabta believes in community involvement and will be approaching the community on all projects before implementation.”
Tradegro buys part of Orrs

Finance Staff

The department store division of John Orrs has been sold to Tradegro.

This move gives Tradegro three John Orrs departmental stores to add to its three Stuttafords/Greatermans stores, and the core of a department store chain.

Tradegro chairman Mervyn King said that with this acquisition, Tradegro’s expanded department store division will have an annual turnover approaching R100 million.

He added that Tradegro is contemplating listing this division in the near future.

In turn, John Orr Holdings will now concentrate its attention on speciality retailing by way of its Milady’s and Third World Hub chains.

And, to better reflect its sharper focus, John Orr holdings is being renamed “The Specialty Store Company” (Storeco).

According to Storeco’s joint MD Stewart Cohen, the disposal of the John Orrs department stores along with the sale of certain properties currently being negotiated “means that we will almost eliminate borrowings with a resultant reduction in our interest payments”.

Financial details of the deal will be made available today.
**Shortage looms as SAB strike grows**

THE SA Breweries strike intensified yesterday with 700 workers at the Chamdor brewery and the Vereeniging depot joining the strike.

And four people were arrested after police dispersed a group of about 100 dismissed SAB workers at the company's Rosslyn plant.

The group had demanded entry to the plant to "evict" other workers in violation of a court order preventing them access, unless it was to work.

SAB is currently running 50% of planned production.

A spokesman said "There will be shortages caused by distribution delays and so-called stock-outs, even though there is beer in the system."

Beer production in Namibia will not be able to offset the SA shortage, South West Breweries marketing manager Ernst Ender said yesterday.

SAB had increased orders for Namibian beer, but production facilities in the territory were not geared to satisfy the demand.

"Obviously we will try to fill the gap wherever we can," Ender said.

Management said rising intimidation and violence were preventing many employees from returning to work.

An SAB spokesman said the company had "a mountain of evidence" of intimidatory actions. He said the allegations would be raised at a meeting with the Food and Allied Workers' Union, scheduled for last night.

Fawu members have been on strike since June 19 in protest against the introduction of seven-day-a-week production.

Worker sympathy stoppages have been reported at about 10 other company plants and depots in the country, Reuters reports.

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**A-G Meese subject of probe**

WASHINGTON — Attorney-General Edwin Meese violated federal law because he failed to get Government Ethics Office approval when investing $50,000 in a limited blind partnership.

This was said by Office of Government Ethics director David Martin in a letter to Congress yesterday.

Meese is the subject of a criminal investigation by independent counsel James McKay, who will determine, among other things, whether any of the money was invested in scandal-plagued Wedtech.

The 1978 Ethics in Government Act "contains specific requirements for the creation of blind trusts, including necessity of approval by our office," which Meese did not obtain, said Martin.

The ethics law which Meese violated contains criminal penalties. But it is not known whether they apply in Meese's
Union clash over merger

By SELLO RABOTHATA

A ROW is raging in the ranks of the Commercial and Catering Workers' Union of South Africa following a weekend merger bid with two other unions in the commercial and catering sectors.

A Press conference held in Johannesburg yesterday was told that a new union was launched in the commercial and catering sectors and will represent 90,000 workers - making it the third largest union in the country.

The unions said to have merged are Ceawwa, Hotel and Restaurant Workers' Union (Harwu) and the Retail and Allied Workers' Union.

Details of the launch were yesterday hotly disputed by Ceawwa's Johannesburg branch co-ordinator Mr Kairer Thbedi, who claimed that four branches, Cape Town, Klerksdorp, Pietersburg and Johannesburg do not recognise the merger at this stage.

He said the weekend conference held at Wits University was aborted by the chairman, Mr Makhulu Ledwaba, after a deadlock over credentials which all the unions had to present to a working committee.

Mr Thbedi said the four branches were not against the merger and were still willing to talk to the other parties involved. The Johannesburg branch of Ceawwa has about 40,000 members and the total number of members is 73,000.

Of the other two unions, Harwu has 12,000 and Bawa 5,000 members.

Meeting

Mr Thbedi also said the national office bearers and officials were not elected during the conference but after the chairman had closed the meeting and other delegates had left.

Mr Papi Kganare, the current branch secretary of Orange-Valle branch of Ceawwa who was elected the new union's general secretary, said there are no problems within the union as all decisions were taken democratically and that a quorum was formed at all times.
Dorbyl take-over

Finance Staff

DURBAN. — Engineering giant Dorbyl is expected to announce later this week the terms of its take-over of Sandock Austral, the Gencor-owned engineering firm.

H F Brown, an executive in Gencor's industries division, confirmed yesterday that talks were under way and an announcement was "imminent".

About 200 staff members at Sandock Austral have been given notice for the end of this month.

A further 500 production workers are expected to hear later this month whether they will be offered jobs with Dorbyl.

A major government contract is due to be completed soon at Sandock Austral, but the flow of work is uncertain. Most firms are waiting for tender outcomes for the Mossgas scheme.
Juicy Lucy to buy Cape Town property

Juicy Lucy SA is to acquire The Carousel, situated on the Sea Point Pavilion in Cape Town, for R1.4m. The transaction will be settled in cash and by means of Juicy Lucy shares, in a proportion to be agreed.

The acquisition will add at least 2c to earnings in the current year and increase net asset value by about 13c a share. Future contributions to profits should be significant, according to Jonathan Bader & Associates.

Negotiations, announced on June 4, are still in progress and shareholders should continue to exercise caution in trading of their shares.
Milly's Carousel sold to Juicy Lucy

MILLY'S STORES LTD, the Cape-based bakery and convenience-foods store chain, has sold the Carousel complex in Sea Point to Juicy Lucy for approximately R1,6m.

The company has also disclosed that it is to open two new stores within the next six months.

Commenting on the new developments, Milly's MD Michael Bruchhausen said the disposal of the Carousel, subject to certain conditions, would enable the company to focus on its traditional business of food manufacturing and food retailing through its convenience-store chain.

"This is in line with our overall operating strategy, which has now been focused on organic growth through the opening and acquisition of new stores," he said.

"The funds raised from the sale of the Carousel will not only enable us to accelerate our planned expansion programme, but will also enable us to boost production to meet the demands of the new stores and of our rapidly expanding wholesale division," Bruchhausen said.

Trading from the company's existing stores in Claremont, Milly Street, Sea Point and Clifton continued to be highly satisfactory and, more than justified the board's decision to concentrate on developing the branch network.

"Our immediate plans include the opening, on August 3, of a new store on the Foreshore, with a further store trading in the northern suburbs by October. Both outlets should make a material contribution to profits during the current financial year," he said.

Bruchhausen said he was extremely confident of the group's prospects.

"Further, the acquisition, earlier this year, of the Deli's food factory gave us the additional manufacturing capacity to eliminate the need to buy out during peak periods."

"This, coupled with the cash injection from the Carousel sale, means we are now ideally positioned to achieve our target of 10 stores in the group within the next 12 months," he said.
Sotheby's in buyout

A MANAGEMENT buyout of SA's premier auctioneering operation, Sotheby's SA, was confirmed by its local director, Stephan Welz last night.

Welz said the 'MBO' of the local operation, which had a R10m turnover, was to pre-empt disinvestment.

Sotheby's is an American-owned operation.

The transaction is being undertaken by Welz's personal capacity with two fellow directors, Danny Swart and Penny Culverwell. It is due to be officially completed by the end of July.

Welz, who has been with Sotheby's for 17 years, said the name would remain unchanged for a period of time, probably about a year, after which it would be incorporated into a new name still to be decided.

He said the operation, which employed about 20 people, would continue to operate exactly as in the past.

Expertise from London would still be available, he said, and he would remain a director on the board of Sotheby's in London.

Sotheby's was registered in SA in 1968 and was initially run by Reinhold Cassirer, husband of writer Nadine Gordimer. It now has offices in Johannesburg and Cape Town, an agency in Durban, and opened its own auction hall in Johannesburg, last year.
Financial Editor

ANY new offer for the Ovenstone Group (Ovgroup) fishing interests would have to be substantially above that made by the Premier group, the chairman of the Shareholders' Association, Issy Goldberg, says. He pointed out that any new buyer would also have to be acceptable to creditors, to whom the fishing interests owe millions of rands.

City businessman Jack Walsh told the Cape Times on Friday that he and associates, whose names he did not disclose, might make an offer for the fishing interests if they could obtain more information about debts and assets. They have applied to the Supreme Court for an injunction to prevent a meeting from being held tomorrow at which the Premier group will advise minority shareholders to accept an offer from civil engineer Basil Starke.

Premier intends to buy back the fishing interests on which it has placed a value of R21m, which its financial director, Gordon Uttan, says is "hypothetical"
Bid to halt Ovenstone sale

Supreme Court Reporter

THE Supreme Court will rule this morning on whether shareholders' meetings called today to approve a Premier Group offer of a possible R153 million for the Ovenstone Group fishing interests may go ahead.

An urgent application for an order adjourning meetings called for shareholders of Ovenstone Investments (OIL) and Ovenstone Group (Ovgroup) was brought yesterday by minority shareholders in both companies.

The applicants also seek an order interdicting the Premier Group, OIL and Ovgroup from voting on resolutions approving the deal - which includes the acquisition by Basil Starke Holdings of Premier's shareholding in OIL (for purposes of entry to a stock exchange listing) and the acquisition by Premier of Basil Starke's construction and general engineering assets.

An order is also sought declaring invalid and insufficient a circular about the deal sent to shareholders, and compelling Ovgroup to supply to the applicants full details about their fishing interests within a week.

The applicants - Mr Jack Walsh and Mr Peter van Rhyn of Somerset West, and Rabbel Investments Closed Corporation - argue that, as counsel put it, "there is skullduggery" in Premier's reluctance to disclose what motivates it to expose itself to an enormous level of debt and at the same time pay R17.5-million in cash for something with a negative value of R5.8-million on the latest available figures.

They argue that a mooted offer that bests the Premier offer by R5-million can't be made firm because Premier won't supply the necessary information. This is "highly suspicious", the applicants say, and the inference is that Premier is not offering a fair price.

Still solvent

In a nutshell, they say, minority shareholders will be asked today to approve a price for the Ovgroup fishing interests without any idea of how the price was determined.

Premier, OIL and Ovgroup argue on the other hand that OIL and Ovgroup are still solvent only because Premier mounted a rescue operation of which the sale of the Ovgroup fishing interests is an essential element.

They say hesitation and reservation has and continues to surround the "better offer" mooted by a company "whose creditworthiness and capitalization are a matter of total obscurity."

The applicants' mooted offer was "brought in a cloud of dust at the last moment" and backed only by an undertaking for bridging finance up to R40-million conditionally given by "a flirtatiously-minded merchant bank."

They argue that the circular sent to shareholders, particularly when read with "a complex set of reports" also sent to shareholders, is sufficient to enable shareholders to exercise their votes on an informed basis.

They cite "a formidable array of men of the first repute" - including the executive president of the Johannesburg Stock Exchange and the general manager of Hill Samuel merchant bank - as sharing this view.

The issue has been posed by counsel for the applicants during argument as "Is Premier stealing a bargain?" and by the presiding judge, Mr Justice R Marais, as "How far must a company go in indicating to shareholders what it sees in the crystal ball?"

Mr G D van Schalkwyk SC, with Mr L S Kusche and instructed by Renshaw Heffmann and Gobobok, appeared for the applicants. Mr M D Roper SC, with Mr J E Hendley and Mr D Pistorius and instructed by Routledge McCallum, appeared for the respondents.
KIRSH TRADING GROUP subsidiary Greatermans is negotiating to buy Stuttafords in a private purchase of shares.

Stuttafords' MD Ken Geeling said yesterday no agreement had been signed, but added if Greatermans did take over the company it would assume responsibility for all trading operations and staff.

It is understood pension fund technicalities are holding up the sale — which is expected to go through tomorrow — as Liberty Life is still evaluating the staff pension fund.
The man ‘fishing’ for R124-million

By TOM HOOD, Business Editor
FORMER trawler skipper Jack Walsh sets off today in search of his biggest catch — R124-million by next Thursday to take over the Ovenstone fishing empire.

“So far so good,” he said last night, when the company’s shareholders agreed to allow him seven working days in which to make his takeover bid.

“I asked for seven days to put my money where my mouth is, seven days to realise my commitments.”

Mr Walsh, who is also a shareholder and a former Ovenstone skipper, is chairman of Mervest, a West Coast diamond recovery company.

He declined to disclose his backers but hinted that a merchant bank would put up R40-million provided he was able to find the balance.

Mr Walsh must organise R28-million in cash immediately and find about R34-million to repay cash pumped into the Ovenstone business by the Premier Group, the controlling shareholder.

FLY TO CHILE

And, hardest assignment of all, he expects to fly to Chile to persuade foreign bankers to roll over their multi-million-dollar loans to the Ovenstone fishing business and the fish-processing factory there — the vital key to the company’s success.

“I’ve been there before and know people,” he said. “I think I can manage it.”

About R31-million is owed to eight Chilean banks who are “extremely nervous about accepting debt guarantees from South Africa because of the debt moratorium”, according to Tony Bloom, chairman of Ovenstone and the Premier Group.

“If you’re South African, you’re not exactly irresistible to foreign bankers.”

Mr Bloom said he had to go to London last week to stave off an attempt by Citibank to call in a R78-million loan to the Chilean company.

He described his role as Ovenstone chairman (since December) as “an unwilling custodian of this position.”

And he said of Mr Walsh’s bid: “I would be overjoyed to take my money back instead of locking it up in a non-performing asset.”

Mr Walsh estimates that his offer is worth about 40c a share, better than the Premier offer, and the deal would give the holders of the 37-million shares an extra payment of 10c a share.

However, Mr Bloom believes the chances of success are “less than three percent.”

The fishing group posted losses of R6-million in its last financial year and, according to Mr Bloom, was on the brink of insolvency.

But Mr Walsh says he believes that with fish-meal prices increasing on world markets and the prospect of better catches, the 86-year-old Ovenstone business could again become one of the great names in fishing.

He estimates that if the company’s catch in Chile exceeds 100 000 tons, the factory will be profitable — a figure disputed by Mr Bloom, who puts the profit line at 160 000 tons and says catches are running at well below that figure.

Yesterday a Supreme Court judge rejected Mr Walsh’s plea to delay a midday Ovenstone shareholders’ meeting so that he could organise his takeover bid — an application that landed him with heavy court costs.

If Mr Walsh fails to come up with an acceptable bid, the Ovenstone fishing empire will fall to Premier Group, which received the all-clear from shareholders for its takeover deal.
Ovigroup: Bid to stall meeting fails

Supreme Court Reporter
AN ATTEMPT by minority shareholders to delay shareholders' meetings called to approve a Premier Group offer of a possible R153 million for the Ovenstone Group's fishing interests failed in the Supreme Court yesterday.

Mr Justice R Marais ruled that Mr Jack Walsh and Mr Gert van Rhyn of Somerset West and Rabbel Investments Closed Corporation had failed to make out a case of either minority oppression or failure to furnish necessary information.

The judge said he could not agree with the applicant's suggestion that they were entitled to information sufficient to enable them to make a counter-offer for the Ovigroup fishing interests.

"Applicants have rights as shareholders. They have no rights as potential purchasers," he said, adding that the information supplied to shareholders about the position and prospects of the company concerned was "extensive."

Mr Justice Marais also said there was no real evidence to suggest that the Premier offer was inadequate or unfair.

One was dealing not with tangible assets but with expectations and "the refusal of the parties concerned to say precisely how they foresaw the future and quantified it in terms of profitability does not seem to me to be sinister," the judge said.

Nor did there seem to be anything sinister in the lack of enthusiasm shown towards Mr Walsh's somewhat tentative overtures.

"Lest what I have said be misunderstood, I should add this," Mr Justice Marais said "I have not found that Premier's offer for the fishing interests is indeed a fair offer. What I have found is that it has not been shown to be unfair."

"I should also perhaps add what may be obvious. The fact that Premier has given comfort to these troubled companies and their creditors in the past does not, of course, give Premier any pre-emptive right to acquire the Ovigroup fishing interests for a consideration which is less than fair."

"I'm sure that Premier and the companies concerned appreciate this. But because of Premier's dominant position in the companies concerned it would be wise to deal with questions in a way which will enable possibly cynical and suspicious shareholders to see that they are being treated fairly."

Mr Justice Marais ordered Mr Walsh and his fellow applicants to pay the costs of the suit, but said it was not a case that warranted three counsel. Although it was conducted in circumstances of urgency the "factual ambit of the case was not extensive and neither was the documentation."

Premier, Ovigroup and OIL will thus have to foot the bill for one of their three counsel.

Mr G D van Schalkwyk SC, with Mr L S Kuschke and instructed by Sonnenberg Hoffmann and Golombik, appeared for the applicants. Mr M D Koper SC, with Mr J J Gouw and Mr B Dooer and instructed by Roux Jude MacGillivray, appeared for the respondents.
Stuttafords sale

Finance Staff
JOHANNESBURG. — Kirsh Trading Group subsidiary Greatermans is negotiating to buy Stuttafords in a private purchase of shares.

Stuttafords MD Ken Geeling said yesterday no agreement had been signed, but added if Greatermans did take over the company they would assume responsibility for all trading operations and staff.

It is understood pension fund technicalities are holding up the sale which is anticipated to go through tomorrow, as Liberty Life is still evaluating the staff pension fund.

Stuttafords, once the grand old lady of department stores is now a leased operation, occupying 14,222m² in suburban Cavendish Square, Cape Town.

In 1985 Greatermans acquired the Stuttafords Sandton City store with its staff and stock and has continued to trade under the Stuttafords name.

In April, Stuttafords' flagship Adderley Street premises were sold to Unidev for R11m.

The imminent sale will bring to an end coal magnate, Graham Beck's involvement in the group. His wholly owned Kangra Holdings bought Stuttafords with is six department stores from the Stuttaford family in 1978.

Greatermans CE Kevin Smith yesterday declined to comment.
Mystery party may aid Ovgroup deal

Financial Editor

A MYSTERY backer — believed to be a major Afrikaans institution — may provide the finance for minority shareholders in the Ovenstone Group (Ovgroup) to buy back the fishing interests from Premier group, which has acquired them for R21.5 million.

In a unique agreement, city businessman Mr Jack Walsh has been given seven working days to put together a financial package totalling R125 million.

He told a shareholders' meeting at the Cape Sun yesterday that he was confident he and his associates could not only pay R28 million for the fishing companies in South Africa and Chile and repay a R34-million loan to them from Premier, but also provide guarantees which would satisfy creditor banks overseas.

Premier group chairman Mr Tony Bloom, who is also chairman of Ovgroup and of Ovenstone Investments (Oil), gave an assurance that if Mr Walsh and his associates could do this within seven working days, Premier would accept his offer and distribute the extra R6.5 million paid for the fishing interests between all shareholders, including itself.

Meanwhile, the shareholders have agreed to accept an offer which will give civil engineers Basil Starke control of the company.

Under the offer, Basil Starke, which wants Ovgroup only as a vehicle for a listing on the Johannesburg Stock Exchange and for its subsidiary Premier Wire, will sell the fishing companies to Premier for R21.5 million.

The meeting at the Cape Sun was held immediately after a dramatic 11th-hour application to the Supreme Court by Mr Walsh and his associates to have it postponed had been dismissed with costs.

☐ Starke gets Ovgroup/Oil — Page 5
☐ Bid to stall meeting fails — Page 9
ELCENTRE

Activities: The group distributes industrial and commercial electrical, electronic and lighting equipment

Control: Directors and family hold 59% of Elgro. Elgro holds 75% of Ecentre

Chairman: R L Mowszowski

Capital structure: 32.4m shares of no par value. Market capitalisation: R87m

Share market: Price 270c Yield 3.0% on dividend, 8.1% on earnings; PE ratio, 12.2; cover, 16; 12-month high, 280c; low, 47c.

Trading volume last quarter, 3.84m shares.

Financial: Year to February 28

'84 '85 '86 '87

Debt

- Short-term (Rm) 4.4 6.5 7.8 5.7
- Long-term (Rm) 0.3 0.3 0.1 0.6
- Debt equity ratio 0.1 0.9 0.7 0.65
- Shareholders' interest 0.34 0.45 0.36 0.37
- Int & leasing cover 1.8 1.0 1.0 3.11
- Debt cover 0.30 0.02 0.35 0.57

Performance:

- Return on cap (%) 13.1 20.8 18.1 13.5
- Turnover (Rm) 54.7 72.5 72.5 110.0
- Pre-int profit (Rm) 3.3 6.4 6.5 8.2
- Pre-tax margin (%) 6.1 5.8 7.5 7.4
- Taxed profit (Rm) 1.4 4.0 2.5 6.4
- Earnings (c) 0.9 0.8 1.0 2.0
- Dividends (c) ... 3.0 1.0 3.25 8.0
- Net worth (c) 42 39 46 67

A year ago Elcentre shares could be picked up at a bargain basement 50c, compared with the present 270c. The transformation in this electrical-electronic distributor, which acquired Glolec and now trades through 31 branches, has been astonishing.

The strategic decision to concentrate on asset management and margins, rather than turnover, has resulted in sharply rising pro-

fits after 1985, one of the group's worst years ever. Initially, low-margin or slow-moving lines were discarded, allowing leaner stocks.

The second phase began last year when management sought to improve turnover through its existing distribution network, supplying a selective range of products. Then, Elcentre surprised everyone by taking over its major competitor, Glolec, which many had thought was larger than Elcentre.

Under the Malbak mantle Glolec had been going nowhere, but rationalisation benefits to Elcentre were obviously favourable. That deal and the additional acquisition of Multielectronic increased Elcentre's market share to 35%. This week the group announced yet another acquisition (see Fox). Manning levels have been significantly reduced at Glolec, and asset management tightened. According to chairman Reuben Mowszowski, however, budgeted inflows from Glolec remain below projections. The full benefits of rationalisation, though, should help group profits this year.

Elcentre's balance sheet reflects massive growth last year, both organically and through acquisitions. Inventories doubled at R21m (R10.5m) while accounts receivable soared 130% to R31.5m (R13.7m).

Long-term liabilities, on the other hand, rose to R6.6m (R200m). But expansion of the equity base trimmed debt: equity to 0.55, close to financial director Nathan Mowszowski's 0.50 target and considerably better than the 0.73 of the previous year.

Mowszowski sees the new pyramid, Elgro, as an important springboard to further acquisitions. He says, "We intend to strengthen our share of business with the public sector to take advantage of increased spending in low-cost housing, new educational facilities and the Moses Bay project."

Continuing high growth potential in ra-

tionised operations must be positive for the share, which trades at a 12.2 p:e ratio. According to Nathan Mowszowski, this week's R11m acquisition of Atlas Cable raises prospective earnings 6c to 36c a share, with dividends likely to increase by a similar proportion. This translates into a forward p:e of only 7.5 times, a conservative rating for this high-growth company. 

Steve Edwards

Elcentre's Mowszowski . . .

on acquisition trail
ionalised operations must be positive for the share, which trades at a 12.2 p.e ratio. According to Nathan Morszowski, this week’s R1.1m acquisition of Atlas Cable raises prospective earnings 6c to 36c a share, with dividends likely to increase by a similar proportion. This translates into a forward p.e of only 7.5 times, a conservative rating for this high-growth company.

Dave Edwards

ALEX LIPWORTH

Generating cash

Activities: Marketing branded toiletry, pharmaceutical and medicinal products

Control: Twins Propan holds 70%.

Chairman: S Krok

Capital structure: 12,9m ods of 25c each and 98 000 cum pref shares of R2 each Market capitalisation: R46m

Share market: Prior 350c Yields 4.3% on dividend; 8.5% on earnings; PE ratio, 11.7, cover, 2 12-month high, 450c, low, 265c.

Trading volume last quarter, 1.9m shares.

Financial: Year to March 31

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Performance:

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Since its transformation last year into the marketing arm for some brands of holding company Twins Propan, Lipworth has lived up to expectations in terms of both profits and cash-generating capability. It raised R27m through the issue of 11.2m ods last August to acquire the brands which are made, distributed and sold on contract by Twins Propan’s subsidiaries.

Since then, attributable earnings surged to R3.84m, ahead of the forecast R3.6m. Operating profit (R7.8m) was 16.5% of turnover, which chairman Solly Krok claims is average for the industry. It has no debt, as the issue enabled R3.2m borrowings to be repaid.

The main assets are R27m investment in trade marks, stocks of R6.2m and R5.8m debtors. There is also a sizeable R4.1m loan to Twins, which Krok says is on favourable terms for Lipworth.

Commenting on the reconstruction Krok, who also heads Twins, says: “This is the most profitable arrangement possible. Lipworth can never lose. It knows in advance what costs are and has no overheads.”

The acquisitions translated directly into a 155% increase in turnover to R47.5m. About 70% of the product range and marketing emphasis is targeted towards the black market, which Krok says, performed exceptionally well, generating strong cash flow. Acquisitions of other brands are planned this year and prospects are good, he claims. On the basis of the rise in turnover for the past three months, he expects the year’s turnover to grow by about 15%-20%.

However, draft regulations banning skin lightening creams will, if promulgated, damage profits — Krok estimates by 25%-33% in taxed profits, though it’s unlikely to affect profits this year while the industry contests the issue. Some risk should nevertheless be built into the share’s rating.

The dividend yield at 4.3% is among the highest in the pharmaceutical and medical sector and the p.e at 11.7 is among the lowest. Direct comparison with the rest of the sector is impossible, though, given the unique structure.

Lisa Eimer

BOUMAT

Bullish bonus

Boumat continued its recovery in the year to March and far outstripped forecasts made last year by chairman Trevor Brittan.

Boumat is courageous in making detailed forecasts in the annual report, which sometimes results in this being taken to task for inaccuracy, especially when he has erred on the optimistic side. It does give investors a good idea of the basis of the company’s plans, though last year’s sharp improvement must have caught Boumat by surprise, as actual results were well above forecast.

An important reason was the upturn in sales Britain predicted that turnover would rise to R453m, but in fact a record R509m
LTA

Activities: Diversified building and engineering group
Control: Anglo American Corp has a controlling interest
Chairman: Z J de Beer, managing director
C J M Wood
Capital structure: 13.2m ords of R1; 13.2m conv cum prefs of R1 Market capitalisation R43.6m
Share market: Price 330c Yield 6.7% on earnings, PE ratio 15 12-month high, 355c, low, 160c Trading volume last quarter, 214 000 shares
Financial: Year to March 31.

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<td>Earnings (c)</td>
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<tr>
<td>Net worth</td>
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LTA turned sharply around, despite its own earlier prediction that it would only break even. At operating level, profits were marginally down. But help emerged below the operating level, where lower finance charges and stable offshore conditions saw the group move well out of the red.

Gearing improved with the issue of 10% convertible prefs last August, raising R26m. Combined with low interest rates, this helped cut the interest bill to R2.7m (R3.5m).

The vexing problem of offshore losses, totalling some R47m over the last three years, seems a thing of the past. LTA came a cropper particularly in Australia, after PM Bob Hawke took an unprecedented decision in 1985 to remove contracts LTA had already clinched by tender.

Recognising the inherent risks, LTA provided in recent years R47m for likely losses offshore; another R8m was transferred to non-distributable reserve, in the event of "absolutely everything going wrong." However, says chairman Zac de Beer, "our confidence (offshore) has improved to the extent that we felt able to reverse the R8m.

Back in local markets, De Beer warns shareholders to "plan for another difficult year, much like the one that has just passed." While acknowledging that some economic upswing is in progress, De Beer notes that "it is not very strong, and in any case our industry usually lags the economy.

Nevertheless, recovery is implied in LTA's order book, R856.6m at end-March, compared with R813.6m last year. One does not know at what margins business was contracted, but these could hardly be squeezed thinner than last year, when R1.1 billion turnover produced only R10m operating profit.

LTA, of course, is notorious in building markets for taking business on margins so thin that some suspect it traded in recent years merely to keep staff and infrastructure intact. This is not altogether a bad thing, as the group will be in a strong position once markets begin to turn.

There are two main divisions, construction, which accounts for 65% of turnover, and is subdivided into earthworks, building and civil engineering, and Steeledale, ac-

LTA's De Beer ... expects another rough year

counting for 25% of turnover and engaged in the supply and fixing of reinforced steel.

While earthworks is profitable, and according to De Beer has "reasonably good prospects," the building division is having a tough time, and last year earned a "very small" profit Conditions remained poor in civil engineering, and according to MD Colin Wood, "no immediate relief is in sight."

Despite depressed building conditions, the building division had a generally busy year, and work on hand this year is only slightly down. Margins remain thin at Steeledale, though work on hand remains satisfactory.

In general, LTA looks well placed to ride with our slow economic recovery. Offshore, no nasty surprises seem to remain. Investors have regained some confidence, pushing the share price up sharply last year to its current 330c.

Neville Gillett

LTA

FINANCIAL MAIL, JULY 10 1987
Rembrandt shares rocket after Gold Fields buy

By JPM HODD, Business Editor

SHARE prices of Rembrandt and its associated companies have rocketed on the Johannesburg Stock Exchange, making the group South Africa's biggest industrial empire in terms of share value.

Dr Anton Rupert's four companies listed on the JSE posted large increases yesterday following the purchase of a 10 percent stake of Gold Fields of South Africa from Consolidated Gold Fields.

The main company, Rembrandt Group, now has a market capitalisation of around R7.5-billion, which exceeds the giant Barlow Rand group's R4.5-billion.

The entire group's market capitalisation is over R12-billion.

Share prices have more than doubled this year — Remgro's jumped by R1.75 yesterday to R14.50. They were quoted at R5.75 a few months ago.

In addition to buying a 10 percent stake in GFSA for about R433-million, Rembrandt secured a pre-emptive right to buy any more shares that Consolidated Gold Fields decides to sell.

Rembrandt will also take a one-third stake in a new holding company, with Cons Gold retaining two-thirds.

Cons Gold said it was reducing its interests in South Africa, the country where its fortunes were founded, in order to have more funds available for investment elsewhere, mainly in Britain, the United States and Australia.
Rembrandt — pre-emptive right

Cons Gold denies disinvestment charge on sale

BY AUDREY D’ANGELO
Financial Editor

REMBRANDT’S acquisition of a 10% stake in Gold Fields of SA (GFSA) from British-based Consolidated Gold Fields (Cons Gold) for about £131m should not be seen as a step towards disinvestment by the former British parent, according to GFSA deputy chairman A M D Gnodde.

“Cons Gold still has a 38% stake in GFSA,” he pointed out.

Gnodde said the sale, from which Cons Gold expected to make a profit of about R860m, would finance its expansion programme.

“Cons Gold has been expanding round the world and raising money where it can”

Intention to sell

Agreeing that the sale gave Rembrandt a pre-emptive right to buy any shares Cons Gold put on the market, Gnodde said this did not imply any intention to sell more.

“The agreement also gives Cons Gold the right to buy back the shares if Rembrandt ever wants to sell them,” he pointed out. “This is usual in this type of agreement.”

He said prospects for gold were good because “the dollar is in trouble and we are confident that it will weaken further.”

He expected inflation to rise in the US after the presidential election, which would have a weakening effect on the dollar and strengthen gold.

It was therefore likely that Rembrandt had decided to get out of the dollar and into gold.

Announcing yesterday that it had agreed in principle to buy the 10% stake in GFSA from Cons Gold, Rembrandt described it as “a strategic investment.”

The announcement said the sale would be effected by Rembrandt taking a 33½% interest in a holding company which in turn would own 30% of GFSA.

Cons Gold will retain 66% of the holding company and will continue to hold its remaining 18% interest in GFSA directly.

Each party will have conventional pre-emption rights over the other party’s shareholdings.

“Rembrandt is making an important long-term investment and we are looking forward to working with people for whom we have the highest regard,” said the announcement.

“We believe it to be a strategic investment for the benefit of our shareholders during a period of financial and economic uncertainty in the US and its major trading partners.”

It added “We do not envisage becoming the largest shareholder in GFSA.”

Rembrandt wanted more

Reuters reports that in London Cons Gold chairman Rudolph Agnew said the proceeds of the sale would flow into its Arc, formerly Amey Roadstone, business and into two new mining projects in gold and iron.

He added “The Rembrandt group would have liked more than 10% of GFSA’s equity, but 10% was as much as we were prepared to sell.”

Market capitalization of the Rembrandt Group now exceeds R14bn, compared with R4bn for Barlows and R5bn for SAB.
NBS acquires Hill Samuel retail business

IN A deal involving deposits of R14m, NBS has acquired the Cape Town retail business of Hill Samuel Merchant Bank, the two financial institutions said today. Hill Samuel's other activities in Cape Town are unaffected by the arrangement, which becomes effective from August 1.

The acquisition, which also involves premises and staff, follows the success of a similar take-over by NBS of Hill Samuel's retail operations in Durban and Johannesburg, valued at R55m.

Since the acquisitions two months ago, NBS Investor Centres have been established in these cities, offering an expanded range of investment products and services.
Economy needs tax reform and deregulation

URGENT tax reform and deregulation were needed for the economy to grow, the Standard Bank said in its latest Review.

It said this route should be chosen above further domestic demand stimulation.

The bank said stimulation of demand in order to boost real economic growth became a prime objective of fiscal and monetary policy during the past year or so.

Its worst future scenario involved real growth of below 3% while demand was maintained at a growth rate in excess of 20% at the same time. That would lead to a substantial jump in the inflation rate.

The bank said: "Serious problems could arise if official attitudes concerning the stance of short-term economic policy do not change.

"Real growth is less a function of demand management than of improving the efficiency of an economy. This efficiency, in turn, requires incentives in the form of rewards for work, innovation and risk."

GRETA STEYN

Efficiency needed markets that were effective in allocating resources to their most productive uses. An education system that emphasised originality and creativity was also needed.

The bank said: "On the other hand, economic efficiency is usually handicapped by a tax system perceived as onerous, complicated and unfair and by an excess of bureaucratic regulation."

If demand was further stimulated, that was likely to result in some increase in output and some increase in inflation. SA's inflation had been kept under control precisely because nominal demand growth had, in the past, not been artificially stimulated to grow at ever increasing rates.

The bank said: "It would probably be best to allow growth in nominal demand to sink towards the level of 15% that has prevailed throughout the decade."
Lion Match put to sword

SWEDISH MATCH has wasted little time in shedding Lion Match, the SA operation of Wilkinson Sword, which it acquired from Wilkinson's US parent Allegheny Investments for $230m three months ago.

Lion Match yesterday issued a cautionary statement to shareholders that it is involved in talks which may lead to a change in control of the company

Analysts say the Rembrandt Group is the most likely candidate, with Utico also in the wings as a possible buyer.

Swedish group throws away Lion Match

However, as Lion Match has diversified with more of its earnings coming from its non-match interests, the company could also attract buyers outside the tobacco sector.

The thinly traded Lion-Match shares have risen from a year's low of R10 in November to a peak of R16 50 earlier this month and was quoted yesterday at a bid price of R18.

Swedish Match became the world's unchallenged largest match-maker after its take-over of the London-based Wilkinson Sword.

While the Swedish Government's ban on trade with SA stops short of ordering the immediate closure of all Swedish companies operating in SA, Swedish Match made known its intention of a swift disposal of its SA interests at the time of the take-over.
Farmers face sequestration

PRETORIA — Up to 2,000 maize farmers could be sequestrated before year-end despite government's R400m support programme, says National Maize Producers' Organisation (Nampo) economist Kit de Grus.

Due to this and other factors, demand for production credit for the 1987/88 crop would be much lower than last year.

A Land Bank spokesman said farmers borrowed R214m for production in the 1986 financial year.

This excludes borrowings from commercial banks and financial institutions.

Le Grus said one factor which would reduce the land to be planted was the condition that to benefit from the State aid package, farmers had to sell off surplus assets including marginal land.

Another was the "deteriorating price prospect". At current prices of R210 a ton, there was little or no prospect of growing a paying crop on marginal land.

He expected total maize plantings to cover less than 4 million hectares in the coming season, for the first time in years.

Le Grus said producers now only had a meagre profit margin on their most fertile soil.

This would shrink as input and marketing costs rose faster than the net producer price of maize.

The effect was that more land became profit-marginal each year and had to be withdrawn from maize production so that farmers could survive.

Reserve Bank Deputy Governor and chairman of government's Standing Agricultural Committee Japie Jacobs said applications for aid under the R400m scheme were taking time to process.

Local agricultural credit committees had to make in-depth investigations before recommending aid.

But he said processing should speed up from next month.
Anglo to offer shares to black workers on mines

By TOM HOOD
Business Editor

MORE than 250 000 black workers in gold and other mines are to be offered a direct stake in Anglo American Corporation, the country's largest company.

Anglo had net profits of R1 500-million in the year to March 31, a rise of R300-million.

The plan is the first by a major company in an industry heavily dependent on black labour, and shareholders are expected to be given details at next month's annual meeting, said an Anglo spokesman in Johannesburg.

Disclosing the plan today, Anglo chairman Mr Gavin Rellly said in his annual statement that shareholders were to be asked to consider a shareholding scheme in which employees can take part "on a wide, if necessarily modest, basis" in its business activities.

ANGLO SHARES SOAR

The company has an authorised share capital of 240 million ordinary shares, of which 228 million have been issued.

The share price has soared to about R84 on the Johannesburg Stock Exchange — well beyond the reach of the small investor.

However, analysts believe Anglo will propose a subdivision, possibly offering shareholders 10 new shares for every one they hold, which would lower the price to between R8 and R9 a share.

Some 250 000 of Anglo's 360 000 employees are black miners, most of whom belong to the militant National Union of Mineworkers, currently threatening an industry-wide strike over wages and working conditions.

Mr Rellly says that share-participation schemes for the corporation's senior management, in operation for some years, had worked well in drawing management and shareholders together in a common purpose.

WORKS OVERSEAS

The desire to implement this policy on a wider scale had been encouraged by the developing practice for workers in Europe, the United States and Japan to hold equity in the enterprises in which they worked.

Mr Rellly economic societies was evident.

Mr Rellly said "In South Africa the wealth-creating processes of the First World must arrive at a durable synthesis with the needs and aspirations of the Third World."

There was a strong case for believing that the stake held in the country through growing home-ownership could well be matched by workers holding a direct stake also in the businesses in which they were employed.

Mr Rellly said "This view is surely consistent with the world trend away from centralist socialism on the one hand and rigorous capitalism on the other, to something in between, founded not on ideology but on pragmatism and deriving its strength from the fact that it is seen to work."

• Another company planning a share-purchase scheme for its staff is Pick'n Pay, which plans to subdivide its shares — costing R50 each — to make them affordable to employees.

The company may also give loans to workers to enable them to buy shares.

Anglo moots employee shareholding scheme

ANGLO-AMERICAN CORPORATION shareholders are to be asked to consider a shareholding scheme in which corporation employees can participate "on a wide, if necessarily modest, basis", says chairman Gavyn Rely

In his annual statement to shareholders, Rely says that share participation schemes for the corporation's senior management, in operation for some years, had worked well in drawing management and shareholders together in a "common purpose". The desire to implement this policy on a wider scale was now felt.

"In SA, the wealth-creating processes of the first world must arrive at a durable synthesis with the needs and aspirations of the third."

There was a strong case for believing that the stake held through growing home ownership could well be matched by workers holding a direct stake also in the businesses in which they are employed, he said.

- A high gold price cannot keep the South African ship afloat for long in a sea of economic troubles, says Rely.

He highlights the delicate balance between a hesitant economic recovery in SA and uncertainties on the international front, which indicate that OECD growth in 1987, far from increasing to 3% or more, has been revised downwards for the second year in succession and may not exceed 2%.

Rely says a sound and prosperous world economy is vital to SA's long-term interests. Current international uncertainties are therefore of grave concern to SA, where the upswing in the economy — still modest and hesitant — has been nurtured by significant strength in the balance of payments on current account.

Rely on emergency — page 13
SAB buys Lion Match

SA BREWERIES has acquired control of Lion Match for more than R88m after divestment moves by Swedish Match.

The agreement concluded by the two companies yesterday will give SAB a controlling interest of 63.8%, equal to 5.6-million Lion Match shares, for R15.75 a share.

The deal will be satisfied by the issue of SAB shares at R19 each, but as Swedish Match has made a condition of the sale that it receives a cash payment, arrangements have already been made for the placement of the SAB shares at that price.

A similar offer will be extended to minority shareholders, who will be given two options. They will be offered 62 SAB shares plus a cash payment of R17 for every 100 Lion Match shares.

SAB acquires control of Lion Match

every 100 Lion Match shares held by them.

Alternatively, they may opt to have the SAB shares placed at R19 a share, which will entitle them to a cash payment of R15.75 for every 100 Lion Match shares.

Arrangement has also been concluded for the placing of any SAB shares which Lion Match shareholders decide to have placed.

Furthermore, shareholders registered at the close of business on Friday July 31 will receive a special dividend of 75c a share payable at the beginning of August.

As the special dividend will come from and absorb the balance of undistributed profits earned from January 1984 to June 30 1987, no separate interim dividend will be declared for the first half of the current financial year to end December 1987.

SAB said yesterday it intends retaining Lion Match's listing on the JSE and the company will continue to operate under its existing executive management.

While the acquisition will not have any immediate material effect on either SAB's earnings or net asset value a share, the purchase is regarded as an important step in the development of SAB's manufacturing interests.

The sale of Lion Match to SAB by the Swedish company comes after Swedish match acquired Wilkinson Sword, Lion Match's parent, from the US parent three months ago.
SA BREWERIES

Flexing retail muscle

Activities: Diversified lager group dominating the SA beer industry, and holding 30% interest in Cape Wine and Distillers. Subsidiaries include Afcol, Amrel, Edgars, OK Bazaars and Southern Sun

Control: The Premier Group holds 35.6% of the equity, while Old Mutual has 14.7%.

Chairman: M B Hofmeyr; managing director: J M Kahn.

Capital structure: 262.2m 6.2c of 20c; 1m 8.2% cum prefs of R2; 42.6m 7% red cum prefs of R1; 2.5m 7% cum prefs of R1; 1.7m red cum prefs of 10c; Market capitalisation: R5.8 billion.

Share market: Price 1900c, Yield 2.6% on dividend, 5.9% on earnings, PE ratio: 16.9, cover: 2.2 12-month high: 2175c, low: 980c. Trading volume last quarter: 2,209m shares.

Financial: Year to March 31

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Performance:

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<td>Turnover (Rm)</td>
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<td>Pre-int profit (Rm)</td>
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<tr>
<td>Net worth (d)</td>
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The consumer giant broke through four stagnant growth years, to record a powerful 36% rise in earnings last year. The beer division advanced strongly off an already high base, but it was the recovery in the cyclical retail interests that truly got the group going. A key determinant of SAB's health is the level of private consumption spending. This is estimated to have grown last year by 20%, while SAB's turnover advanced 24% - reflecting the extent to which the group is gaining penetration in markets that are themselves recovering.

When the group's retail interests collapsed after 1983, many analysts might have ques- tioned the direction SAB had taken in its diversification into new markets during the Seventies. The group could hardly have chosen more cyclical industries than those represented by Amrel, Afcol (furniture), Southern Sun (hotels), and, to a lesser extent, OK Bazaars and Edgars. It was thanks only to the beer division that group earnings never declined.

But few groups offer better prospects in a rising economy. SAB's beer profits, accounting for 55% of group income, run easily ahead of inflation, while other subsidiaries are ready to respond to any increase in consumer spending.

Last year's performance can be summarised as follows: the beer division lifted earnings by 22% to R163.3m, while profits from retail and other interests increased by 59% to R131m. Among the non-beer interests, the most significant earners were OK Bazaars, up by 23% to R15.1m (R11.3m), Amrel, which transformed a R1m loss in 1986 into profits of R14m; Afcol, which more than doubled earnings to R23.8m (R11.1m), and the extraordinary Edgars, whose 123% rise to R40.8m (R15.3m) played an important part in SAB's recovery. However, Southern Sun, representing a still weak hotel industry, slipped further to profits of only R1.9m (R3.1m).

It is not only the quantity, but the quality of SAB earnings that is "a major attraction for investing in the share," says William Bowler of stockbroking firm Ferguson Bros Hall Stewart Bowler points to the group's conservative method of valuing fixed assets vital in an inflationary environment and the use of a tax equalisation reserve to smooth out the inevitable increase in its currently low tax rate.

The R29.1m charged towards replacement cost depreciation last year is an adjustment, says Bowler, "not normally found in primary accounts." Had SAB used conventional accounting, adds Bowler, group earnings last year would have amounted to 139.7c — some 24% higher than the actual 112.3c.

For a consumer group emerging from an extended recession, SAB has done well over the past seven years to maintain key personnel objectives. Growth in sharehold- ers' wealth, measured by combining growth in SAB shares with total dividends, now stands at 36% per year. This compares, says MD Meyer Kahn, "with a rate of 30% calculated for the 10 largest comparable industri- al equity investments." Return on revalued equity — again over seven years — is 19%, just short of the targeted 20%. The gearing ratio, treating the variable rate redeemable prefs as borrowings, improved last year to 46% from 50%, using the group's method of calculation (48% and 51% according to the PMs method).

This is well below management's self-ap- proved ceiling of 60%, and will allow for some gearing up ahead of the massive expansion planned for the beer division. Some R500m will be spent over the next three years. Borrowings will need to be increased by about R250m, says Kahn, and although "existing facilities are adequate to handle the further funding needs, there are a number of interesting alternative financial propositions being studied.

At R19, the counter trades on a p/e ratio of 17 times. It is a better rating than the group has enjoyed for a long time, but still remains, in Bowler's view, a rating that is undemanding in relative earnings and dividend yield terms.

SAB is likely to see solid growth from its beer division, and further recovery in its other interests. It appears to be in a sustain- able growth phase that should receive impetus from growth in the economy this year and in 1989. The share may consolidate further around present levels, but could now continued growth in the medium-term.

Neville Glaser
Rembrandt’s gold coup

Consolidated Gold Fields's (CGF) decision to sell 10% of Gold Fields of SA (GFSA) to Rembrandt cannot have been taken without considerable soul-searching in CGF's headquarters near St James's Square in London. After all, the deal represents a significant watering down of CGF's historic ties with the South African gold mines. But the structure of the new shareholding looks a neat arrangement that should suit all of GFSA's major shareholders well enough for the present.

Not least, GFSA chairman Robin Plumbridge and his colleagues at 75 Fox Street, Johannesburg, should not be too unhappy with the situation. If there had to be a disinvestment by CGF — and the deal is nothing but a disinvestment — then the choice of Anton Rupert’s Rembrandt as a holder of the shares is probably a reasonable option from GFSA's standpoint.

GFSA would certainly have been unhappy if the shares had gone into the hands of another mining group which it regarded as a competitor, particularly if that other group had been in the Anglo American camp. The half a dozen or so mining houses that control the South African gold mining industry tend to co-operate with each other on technical matters, nor is there real competition on marketing. In areas such as exploration, though, competition is intense. More to the point, a competitor acquiring a sufficiently large stake might well want to meddle with management policy. GFSA is known for taking an independent — and conservative — line on labour matters, for example.

Gold dominates GFSA, accounting for 76% of group assets and 80% of income at last balance sheet date. The house's gold mines include Driefontein Consolidated and Nkomati Consolidated in South Africa. But GFSA’s other interests include Viceroy Nickel and Rona in Canada, and several of its South African operations. It manages about R550 million worth of assets and employs about 8,000 people.

Rembrandt has acquired 10% of GFSA, leaving Cons Gold still in control. But longer-term developments could change this picture radically.

Kloof, two of the largest and richest gold producers in the world, GFSA's decision to develop the Northam Platinum mine must have made the group even more attractive to its major competitors.

It is not surprising that theories that Anglo American could gain at least partial control of GFSA have surfaced again. The idea of an Anglo American-Rembrandt consortium building up a stake eventually large enough to exercise control seems attractively simple. Anglo and its 48%-held associated company Amgold already hold a total 20% of GFSA (see diagram). If Rembrandt's 10% interest is added to these, a consortium would hold 30% against CGF's remaining 38%. And if CGF is prepared to sell 10% now, why not more later?

For its part, the Anglo-Minorco camp has not expressed any unhappiness with the arrangement, officially, in fact, it professes to be happy. Minorco chairman Julian Ogilvie Thompson, who is also represented on the CGF board (Minorco owns 28% of CGF), says “we are delighted to have Rembrandt as a shareholder in GFSA.”

At this stage, however, theories of Anglo, or even an Anglo-Rembrandt consortium, winning control of GFSA, should be treated with caution. One restraint must be the attitude of the Competition Board. Whether the board would condone such a move must be at least questionable, particularly when other local buyers of GFSA shares could undoubtedly be found.

A more specific restraint exists in the structure of the Rembrandt shareholding, which appears to have been designed to prevent any such development. A holding company has been formed to own 30% of GFSA. Rembrandt owns 33.33% of the holding company while CGF owns 66.66%, and continues to hold its remaining 18% interest in GFSA directly. As CGF controls the holding company, the London group still talks for 48% of GFSA.

Each party will have conventional pre-emption rights in the other party's shareholdings. The eventual outcome could depend on the nature of the pre-emption rights, but GFSA deputy chairman Dru Gnodde says he expects the agreement will be com-
prehensive Rembrandt says it does not envisage becoming the largest shareholder in GFSA.

Understandably, Gnodde says GFSA "supports the deal." Rembrandt, despite its partnership policy, is not expected to gain a seat on GFSA's board, or to get involved in management. Gnodde notes that there will be substantial representation at board level. Former Sasol MD Joe Stegmann recently joined GFSA's board in place of Tommy Muller, shortly afterwards, and quite coincidentally, says Gnodde, Stegmann joined Rembrandt's board. Gnodde adds that GFSA remains happy with the stock market's assessment of which GFSA and Drie Cons hold in CFG.

For Rembrandt, the deal results in a substantially larger involvement in mining investments and a clearer investment profile. Rembrandt has long owned some 30% of Federale Mynbou, holding company of Gencon. It also controls diamond mining and building supplies company Trans Hex.

One JSE analyst calculates that after the GFSA share purchase, mining investments could account for more than 40% of Rembrandt's capital employed. If so, investors may start seeing the group as akin to a mining house. That could turn out to be a disadvantage, given that share prices of South African mining houses have generally stood below net asset value, while Rembrandt's price has recently traded at a premium to net asset value.

Rembrandt would have no difficulty funding the deal. At its 1986 year-end it held cash resources of R622m; total cash and portfolio investments amounted to R1,4 billion. With no comment forthcoming from Rembrandt, it is not clear whether the consideration of about £131m, which translates to around R433m at the current commercial rand rate, is to be remitted from SA through the financial result, or will be paid from cash and liquid investments held abroad by the Rembrandt group.

Use of the large cash pile held abroad would probably be quite feasible. But to divert foreign reserves to buy into a company based in SA, does not seem to be a clever strategic move. It would probably be seen by the market as a disappointing aspect of the deal — even if GFSA is in the "rand hedge" category.

However, in strategic terms the deal is another in a series of investments made in recent years by the steadily diversifying Rembrandt group. Groups in which Rembrandt have controlling or substantial stakes after the deal include Rothmans International, Federale Mynbou, Trans Hex, GFSA, Metkor, Dorbyl, Fraser Alexander, Hunt Lecharns & Hepburn, Medelunca, Cape Wine, Volkskas Bank, Sage Holdings, Lifegro and Rand Merchant Bank. Only a fortnight ago, the Rembrandt group bought from Volkskas Industries a 25% interest in Bonukor, for R40m.

As for CFG's motivation, the sale appears to be a shrewd move made for commercial reasons. The London group is receiving its funds for an agreed price in sterling, so there is no financial risk. The approach was originally made by Rembrandt, and the deal was struck at an effective 13,5% premium over the GFSA market price (with CFG keeping the GFSA final dividend, assumed to be maintained). CFG chairman Rudolph Agnew described the offer as one that CFG could not refuse.

As a move out of gold the sale appears curious CFG has indicated it still sees its future in the metal. Paul Johnson, in his centenary book on CFG, quotes CFG MD Anthony Hutchens as saying that, in defining the group's product philosophy, "the thread we want to pursue is mining and natural resources, and in particular gold."

However, CFG intends to invest the funds from Rembrandt in other international investments, including gold mining. They will be used to diversify CFG's biggest profit earner, Amey Roadstone Company, which has just spent US$240m on a US acquisition, development of Chunney Creek gold mine in Nevada ($80m); and Mount Goldsworthy iron ore mine in Australia ($56m).

The sale is described as part of an overall strategy of moving towards wholly owned subsidiaries, with control over cash flow to finance overall development. Agnew says that while CFG's "financialisation" system is ideal, it does have a major flaw: "For every dollar or rand we earn, we have to leave X% behind for that interest's own growth." With CFG retaining control of the new holding company, the deal cannot be seen as a response to political pressures. As Agnew puts it: "It is not to say that we want to diminish our other interests. It is a question of balance — tippings towards controlled cash flow."

There is no plan at present to sell further shares in GFSA, but this has not been ruled out.

Indeed, while the short-term effects may seem clear enough, the medium- to long-term implications of CFG's partial divestment are impossible to assess. It is unlikely that developments will simply stop here. Having substantially lightened the stake in GFSA now, such decisions may be made more easily in future. But if CFG does want gold to remain a core element in its portfolio, it will not easily find replacements for the long-life, high-quality South African producers in which it is already invested.

Who controls GFSA is seen as crucial for the South African mining industry, because it is seen as a "swing" mining house between the Anglo-ICl interest and Gencon. If, in 10 or 15 years in the future, when different individuals are running the major groups involved, new relationships that look dubious at present could quite conceivably be formed.

Unexpected alliances may also appear. Not to be overlooked as a potentially important player in future moves is the Liberty group. Liberty is believed to be seeking friendly relationships with Rembrandt, and also has links with GFSA. Several years ago Liberty sold control of Clydesdale Collieries to GFSA in exchange of preference shares in GFSA. But when any sizeable holdings of GFSA shares will again change hands, it is anybody's guess at this stage.

Andrew McNulty and John Cawthry
Will 'new capitalism' eclipse the ANC?

Perhaps the most important message conveyed to the ANC this week came not from the 54 white South Africans who have been talking in Johannesburg; but from a be-speckled businessman in Johannesburg. The message, simply, was that the socialist (some would say Marxist) ideological outlook of the ANC is either going to have to change in the direction of an accommodation with capitalism, or the organisation is going to run the very real risk of being outmanoeuvred and eclipsed inside South Africa.

The very idea is startling, even revolutionary, though it was not conveyed in such terms by Gawain Kelly, chairman of Anglo American, when he explained almost blandly why the country’s largest company had decided to give shares to its workers — more than 250,000 of whom are black.

“Of course the message is startling, but we feel the company must change to stay ahead in the world,” said Kelly.

The logic is simple. If the company is to remain competitive in an increasingly global market, it must be able to attract and retain the best employees, and this means offering them more than just a salary. Giving them a stake in the company’s profits is one way of achieving this.

However, the message is not just for the company. It is also for the ANC, which must consider how to ensure that its members are not left behind in the new economic reality.

Issues

By Hugh Robertson

The ANC has to consider the dynamic changes taking place within socialism and capitalism, and seek an alliance with the “haves” — including, perhaps, a far greater number of influential white “haves” who might then feel less threatened than they do by the concept of black majority government.

Knowing a number of the ANC’s decision-makers, I would hazard a guess that their response to the “new capitalism” will be flexible, more especially when the “new capitalism” itself comes into conflict — as inevitably it must — with apartheid.

Apartheid, in fact, is the grand loser in the economic strategy outlined by Mr. Kelly, because, ironically, it is rooted in an economy with many of the embellishments of old-style Marxism, such as centralised and official price fixing and production controls, state ownership of key industries, state control over industrial development and planning, a bureaucracy which is comically obese and inefficient, and many other features which Mikhail Gorbachev is trying so hard to eliminate from his economy.

What seems most likely to evolve as blacks climb the “new capitalism” ladder of wealth (and, therefore, power), is a society whose unity is found on levels never previously explored in South Africa. The struggle to ensure that this does not become the deciding factor in drawing people together, where other shared interests will predominate.
FOR BLACKS

by JOHN MacLENNAN, Political Staff

A slice of the WEALTH CAKE

by BRUCE CAMERON, Political Staff

Smoking out the sign-sticker... Or the man who hides his light under a bureaucratic bushel

by JOHN MacLENNAN, Political Staff

The people who make the South African economic cake have long known they cannot keep most of it for whites indefinitely. Unless blacks get a fair slice there will be no cake at all. Now the giants of the business community are initiating a mini-revolution to ensure wealth is spread more evenly... thereby ensuring support for a system which pays dividends to everybody.

Many blacks are being offered a dip into a bonanza of profits which has so far— with few exceptions — eluded them. And when they do (there's seems to be no "if" about this) they will gain an economic stake to match the predicted rewards of the political reform efforts now being pushed by the Government.

The new deal Moves this week by leaders of both the English and Afrikaner business establishments would see blacks acquiring cash cots., corporate and business shares. Blacks have mainly been barred from our well of wealth before, but those interviewed are now all convinced that sharing is one of the main ways to ensure not only survival in a stable country, but unknown prosperity in the future.

In developments of the past few days:

Mr. Elia, the Anglo American, has announced plans to offer shares to black workers.

Dr. Fred Du Pisani, of Sanlam, has called for new opportunities so blacks can improve their economic lot.

Mr. Raymond Ackerman, of Pick 'n Pay, whose group is already operating a staff profit-sharing scheme, has said he wants to see the sharing of wealth as one of the prime factors to ensure the country does not collapse into chaos.

At the same time, the massive Petrobas company, long a target for stones and petrol bombs in township unrest as a symbol of capitalistic oppression, is now subject of a takeover bid by black taxi owners.

Anglo is refusing to say another word since the announcement in Chairman Ryll's annual report that the nuts and bolts of the scheme for worker shares are still being adjusted. Now will the conglomerate even say anything in general about the wisdom of such a move, possibly in view of the fact that it is going to cost investors money in the short term.

Mr. Ryll's views made headlines with the assertion that workers should not only own homes but have a direct stake in the business in which they are employed.

"This view is certainly consistent with the trend away from centralization socialism on the one hand and rigorous capitalism on the other, to something in between, founded not on ideology but on pragmatism and deriving its strength from the fact that is seen to work."

The idea of a new society is shared by Sanlam's Dr. Du Pisani, who this week spoke of a "new economic order" banding all to loyalty to a society which holds out the reward — among others — of commonly shared peace.

"We must find a way," he told the Federation of Afrikaner Cultural Organisations, "for the people of the third World in our community to and exploit, through their own efforts, the opportunity to enjoy a larger slice of the wealth-cake."

"It will mean that the economy system will have to be adapted to the multi-cultural society in which we live."

The bottom line however is that blacks must be enabled to generate capital for own use. He sees the Government and the private sector operating on this.

The Economic Advisory Council has announced a 1 percent of staff already had a stake in the "and he hoped it would build up to 50 percent in the next two to three years."

He said such a scheme could only be the key to workers were paid good salaries if "they're not going to forget it." After that stage it was imperative to offer a share in both the wealth of the country.

Both of these schemes to work it was vitally important that the Government to change the perception which taxes both the loans made to workers to buy "in" and the benefits which true to them.

South Africa has come some way in sign language since the days of "Moosie Spong Nite" and "Whites Only."

In lift foyer of the 11-story H F Verwoerd ministerial building in Cape Town very diplomatic signs have been put up asking people not to smoke.

Instead of saying "Don't smoke or you will go up in smoke" they read "Your contribution towards a smoke-free environment will be appreciated."

But the person responsible is keeping a low profile — either because he knows almost half the cabinet smoke or because the language is just too politically correct.

Or maybe he was just a militant anti-smoker with money to spend and who knows how bureaucracy works or is in this case doesn't work. Minister of Health: Dr. Willie van Niekerk is firmly opposed to smoking but a spokesman for his Department, although clearly pleased, could not be particularly enthusiastic.

He suggested Public Works: "They are really responsible for the building.

A spokesman for Public Works said: "I don't look after the building. When permission was given for this sign, but the whom we think gave permission is anybody knows."

"I think it was the Department of Environmental Affairs."

"Oh no," said Environmental Affairs, "we don't, try National Health."

Talk about bureaucracy.

And finally a wag the Environmental has given up stealing cigarettes with a sign on the wall, saying "In case of emergency."

Some hard-up smoker keeps stealing the cigarettes.
A slice of the WEALTH CAKE

The bottom line, however, is that blacks must be enabled to generate risk capital for own use and the Government and the private sector operating on this.

The Economic Advisory Council has already made submissions and he expects the Government to provide a response in the very near future.

A spokesman for Public Works said "We don't like signs in the building. We think permission was given for this sign, but the person whom we think gave permission is away on leave.

"I think it was the Department of Environmental Affairs."

"Oh no," said Environmental Affairs. "It wasn't us, try National Health."

"Talk about bureaucracy."

And finally a wag on the Environmental floor has given up stealing cigarettes with a smaller sign on the wall, saying "In case of emergency.

Some hard-up smoker keeps stealing the cigarettes.

Mr Ackerman, whose Pick 'n Pay group recently announced a worker-share scheme, disclosed that 21 percent of staff already had a stake in the business and he hoped it would build up to 50 percent in the next two to three years.

He said such a scheme could only be successful if workers were paid good salaries "If they're not forget it." After that stage it was imperative to offer a share in both the wealth of the company and the country.

For these schemes to work it was vital that the Government change the pegs regulations, which taxes both the hoards made available to workers to buy "in" and the benefits which accrue to them.

The Government will accept the Afrikaner's bona fides it will lead to more fund reforms and a better economic system. The Government must mend a compromise in First and Third standards and traditions. In the immediate this will mean whites will have to drop standards for the greater good (for example money will be spent on projects benefiting them in which he.t in our luxury read syn.

hopsitals will not be built to become elephants because there is nobody to fill

Mr Gaby Magoonola, managing director of the African Bank, welcomed the wealth creation schemes for blacks. "It is very encouraging to note that corporate South Africa is moving away from the rhetoric on the merits and demerits of the free enterprise system and translating those merits into actual participation. You don't tell people how good a free market economy is. It is something to experience through participation."

He warned that if blacks were prevented indefinitely from plucking the fruits of the free enterprise system the majority of the population would react with "rejection and hostility." He said exclusion of blacks would lead to "the ultimate demise of the system - it will self destruct."

The benefit of including blacks was that "it makes them players, not spectators. For the first time they will have a piece of the action and feel what it is like to have a stake in the business. This will perhaps assuage in getting black people who are beginning to reject this system to have another look at it."

The African Bank has embarked on its own scheme to involve blacks in its shareholding and is appealing to employers to assist workers to invest.

"The people who buy these shares, which are going for a song, will be very wealthy men and women tomorrow."

Mr. Ackerman's Pick 'n Pay group recently announced a worker-share scheme, disclosed that 21 percent of staff already had a stake in the business and he hoped it would build up to 50 percent in the next two to three years.
A bid of R150m to keep Putco "white" has been made by a powerful Afrikaner business consortium.

The consortium, which prefers not to be identified and is known to have extensive business interests, confirmed it put in the option to prevent a black takeover of the JSE-listed bus company.

Consortium nominee Anthony Mayer said the bid was a direct result of concern voiced by the "strictly" Afrikaans-speaking group and that funds for the bid had come from "within".

"Our offer to the Carleo family - which controls 55.5% of the shares - is politically motivated in that we feel we cannot allow control of black transport to fall into black hands. They could disrupt the economy of SA any time they felt like it."

"We don't mind blacks sharing in the wealth of the country but we don't feel that a strategic business such as transport should be in black hands at this point in time."

"Asked what the consortium would do about a bid by the SA Bus and Taxi Association (Saba), Mayer said the consortium intended to offer its nominee, Ivor Brownlee, a commission of R5m to cancel his option on Putco."

"He said "We will offer him this substantial amount to bow out."

Namroo van Zyl, attorney for Brownlee confirmed the offer "I will contact Mr Brownlee and convey the offer to him. My conveying it to him does not mean he will necessarily accept it. I convey it to him as it is my duty as an attorney."

"Mayer said Brownlee's offer, which was for R140m, had an expiry date of September 15 and he (Brownlee) would have to find another R500 000 before month-end to keep the option open."

He said: "In our option, which we lodged on Monday, we put up R7m as security. The Carleo family has first right of refusal. Along with that we also know that the family was afraid that Saba would want to franchise Putco - in other words break it up into smaller operations."

Mayer identified Brownlee as a computer industry employee. He also said he was the brother-in-law of Saba's financial adviser, James Chapman.

Despite repeated calls, Chapman was not available for comment at the time of going to press.

A senior Putco spokesman, Mike Oldham, said he had not heard any details of the new offer and said one of the main principals involved, Luigi Carleo, was in the US and was not available for comment.

Saba had earlier confirmed it had reached agreement with Carleo Enterprises to purchase its stake in the bus company, which carried an estimated 220 million black commuters in the year to June 30, 1987.

The company owns 2 682 buses and recorded a turnover of R299m in the year to June 30, 1986.

Bid to keep Putco white

MICK COLLINS
ALL the signs are that city businessman Mr Jack Walsh and his associates will succeed, against the apparent odds, in buying the Ovenstone fishing companies from the giant Premier group.

But it is too early for his friends to pop champagne corks and celebrate. Mr Walsh had seven working days, which expired at 5pm yesterday, to put together a R125-million financial package and present it to Premier.

Premier still has to consider the details of his offer and meetings are due to go on this weekend.

A spokesman for Premier said an announcement would be made on Monday or Tuesday, and those close to Mr Walsh said it was not certain when he would return from Johannesburg.

His battle to buy the companies from Premier — said to want them to ensure an adequate supply of fish meal at favourable prices — has caught the imagination of the public.

Premier bought back the fishing companies for R21.5 million when control of the Ovenstone group and Ovenstone Investments was sold to Cape Town civil engineers Basil Starker.

Mr Walsh told a shareholders' meeting that he thought the fishing companies were under-valued and made an offer of R28 million.

But he must also repay R34 million pumped into the companies by Premier. And he and his associates must satisfy overseas creditors that he can guarantee the companies' multi-million-dollar debts.

Mr Walsh, a former trawler skipper for Ovenstones and now the managing director of a sea-diamond company, has not disclosed who is backing him. But he is believed to have the support of a major Afrikaans institution.
R150m to keep Putco white

Own Correspondent

JOHANNESBURG — A bid of R150 million to keep Putco "white" has been made by a powerful Afrikaner business consortium.

The consortium, which prefers not to be identified, and is known to have extensive business interests, confirmed it put in the offer to prevent a black takeover of the JSE-listed bus company.

Consortium nominee Mr Anthony Mayer said: "Our offer is to the Carleo family — which controls 52.5% of the shares — is politically motivated in that we feel we cannot allow control of black transport to fall into black hands. They could disrupt the economy any time they felt like it."

The SA Bus and Taxi Association (Saba), had earlier confirmed it had reached agreement with Carleo Enterprises to purchase its stake in the bus company, which carried an estimated R220 million black commuters last year.

The company owns 2,000 buses that made a profit of R5 million before interest, profit and foreign exchange losses. In 1986, a loss of R19.5 million was recorded.
Ovenstones:
Walsh gets
R125 m, but
talks go on

Financial Editor

AGAINST all the apparent odds, city businessman Mr Jack Walsh succeeded in putting together a R125 million financial package to buy the Ovenstone fishing companies from the Premier group, slightly before the deadline of 5pm on Friday.

Now negotiations are continuing and an exhausted Mr Walsh — who said he had averaged four hours' sleep a night “for what seems like a year” — hopes that agreement can be reached in a few days.

Premier chairman Mr Tony Bloom confirmed last night that Mr Walsh had made “substantial progress” and, although he had not been able totally to fulfill the conditions set by Premier, “we are continuing negotiations”.

“We are endeavouring to cobble together something that will be in the interests of everyone”

Mr Walsh was set a deadline of seven working days to come up with an offer, which included releasing Premier of all liabilities to the fishing companies’ overseas creditors.

He said last night “We were able to put the R125 million financial package together slightly before the 5pm deadline last Friday”.

But some of the conditions set by Premier had proved impossible. Without owning the business, there was no way that he and his associates could have secured Premier’s release from guarantees given to foreign banks.

‘Fair attitude’

There was also no way definite approval could be obtained from the foreign exchange control authorities for transactions for “a company which does not even exist yet”.

But Mr Bloom, “like the gentleman he is, has adopted a very fair and reasonable attitude”, said Mr Walsh.

“If he had been unfair and ruthless we would not have got anywhere. But he opened his books and made his staff available to us”.

Mr Walsh said that if the deal were successful, it would include buying Southern Seas, the company which had recently been acquired and “moulded together into one with the Ovenstone companies”.

If he and his associates succeeded in buying it, they would seek a listing on the Johannesburg Stock Exchange.

Asked about the viability of the Chilean venture, which incurred most of the Ovenstone debts, Mr Walsh said he would be “quite comfortable with it”.

Premier had taken steps to put it on a sounder footing and improve productivity.

Emphasizing that he was not merely “fronting” for a big institution, Mr Walsh said he had received financial support “basically from Sefinbank, but the First National Bank has been very helpful as well”.

Asked why he and his associates had made such an effort to buy the Ovenstone companies, Mr Walsh said: “It seemed an incredible opportunity.

“I am a fisherman and I know an awful lot about the South African fishing industry.”
'Unending' good wishes for Walsh

By AUDREY D'ANGELO

CITY businessman Mr Jack Walsh, whose bid to buy the Ovenstone fishing companies back from Premier Group now looks likely to succeed, has been receiving “good luck” calls and messages from members of the public all week.

“There has been an unending flow of good wishes,” said the former trawler skipper whose battle to put together a R125-million financial package in seven working days and fulfil other conditions set by Premier has captured the public imagination.

“It was very encouraging when things were really difficult.”

“And people phoned out of the blue yesterday to say they were so glad to know things seemed to be going well.”

Negotiations are still continuing. Mr Walsh worked till late in the evening in his Green Point office yesterday and said he was prepared to go to Chile if necessary, “but I am keeping my fingers crossed, that I won’t have to.”

He confirmed that if he succeeds in buying the companies and they are listed on the Johannesburg Stock Exchange, former shareholders in the Ovenstone group (Ovgroup) and Ovenstone Investments (Oii) will have preference in the allocation of shares.

The conditions set by Premier for the sale include releasing the conglomerate from any liabilities in connection with millions of dollars’ worth of debt owed by the fishing companies to overseas creditors.

Mr Walsh and his associates have found it difficult to arrange this, and to obtain definite Exchange Control approval, when they do not yet own the fishing companies.

Former Ovgroup and Oii shareholders have a particular reason for hoping he succeeds.

Premier chairman Mr Tony Bloom has promised that, if it accepts Mr Walsh’s offer of R28 million for the fishing companies, the difference between that and the R21.5 million paid by Premier will be shared out between the former shareholders.

Premier itself, which had a 43% stake, will take a large part. But the higher price would mean about 10c a share extra for each shareholder.
Putco: negotiations between bidders stall

NEGOTIATIONS between two rival bidders for control of Putco appeared to have broken down last night. The talks, which were understood to have gone on over the weekend, were between a mystery Afrikaaner business consortium and the SA Bus and Taxi Association (Sabta).

Observers said the deadline on the bid was due to expire late yesterday. A legal spokesman for Sabta's nominee (Ivor Brownlee) said legal advisor Nimrod van Zyl would issue a statement later today. He declined to comment further on Sabta's position.

Last week, the as-yet-unnamed consortium made a R150m bid for control of the JSE-listed bus giant. The consortium made it known it was against Putco falling into the hands of the largely black Sabta.

First bidder Sabta reportedly made a lower (R140m) offer to purchase the 32.5% majority shareholding held by Carloo Enterprises in Putco.

Sabta financial advisor James Chapman said he was certain the rival bid was prompted by political and not economic considerations.
Premier 'sceptical' on bid for Ovenstone

By MAGGIE ROWLEY
Financial Staff

PREMIER Group, which controls the troubled Ovenstone fishing companies, remains "highly sceptical" that former trawler skipper Mr Jack Walsh will succeed in his takeover bid by tomorrow's 5pm deadline.

Premier's financial director, Mr Gordon Utan, said today he thought it highly unlikely Mr Walsh's consortium would be able to convince Chilean banks to roll over their multi-million dollar loans to Ovenstone and the Premier Group for the fishing business and fish-processing factory there.

Mr Walsh has told The Argus that if his bid fails, it will be because he has not succeeded in Chile.

Mr Tony Bloom, chairman of Premier Group, originally estimated Mr Walsh's chances at three percent.

COMPLICATED

Mr Utan said: "And I don't think the odds are much higher than that. It is an unconditional offer. Premier has to be released from all obligations. If there is a stumbling block for Mr Walsh it is that."

"I don't think Mr Walsh realised just how complicated it all was when he first expressed interest I have sat across the table from those Chilean bankers and I know they are not easy to deal with."

"When Premier took over the fishing interests, we had to do a lot of persuading. The bankers were hesitant to grant Premier credit, so I doubt they will be rushing to the aid of Mr Walsh and his consortium.

"In addition, Premier is getting a little concerned that too much tampering will interfere with the present lines of credit. The Chilean bankers are nervous enough."
TONGAAT-HUILLET

Pick-up at last

It was a dazed slide from the earnings peak of 119c a share in 1984 to 74c in 1986, so even last year's 3.5 times growth still leaves earnings well off the top in nominal terms, and even more so adjusted for inflation. Still, at least it's a move in the right direction.

Tongaat benefited from both a cut in the interest charge (which, in 1986, absorbed 73% of the operating profit) and better trading results in every division except sugar, which was hit by drought and Eldana borers. The biggest turnaround was in textiles, from a R1.6m operating loss to a R14.5m profit.

Chairman Chris Saunders says the R118m cut in borrowings was achieved by careful control of working capital, improved earnings, and the change in the Sugar Association's year-end.

The sugar division remains the largest in the group and the biggest sugar operation in SA. Total industry output fell, as did the division's share. Improved export prices were insufficient to offset this. The division expected higher output and a higher industry share this year. Domestic off-take seems to be improving and though the recovery of the rand will hit export proceeds, the division's pre-tax profits should improve. However, so will the incidence of tax, so at the net level

Activities: Holding company with seven operating divisions: sugar, building materials, foods, aluminium, textiles, starch and sweeteners and industries.

Control: Anglo American holds 20% and Amc 23.5%.

Chairman: C.J. Saunders, managing director.

T. G. Caskiey,

Capital structure: 73.5m ords of R1 Market capitalisation R1.1 billion.

Share market: Price R14.75. Yields, 2.3% on dividend, 5.8% on earnings, PE ratio, 17.4.

Cover, 2.5 12-month high, R14.75, low, R8.80. Trading volume last quarter, 2.1m shares.

Financial: Year to March 31

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Performance

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little change is expected

The building division's marginal profit improvement reflected slack demand. It operated at only 60% of capacity. In spite of the uncertain immediate outlook, block housing programmes should be beneficial.

The food division generally did well, though there were problems with mushroom production and fierce competition in edible oils. A recovery in some local market sectors, and the benefits of rationalisation measures implemented in recent years, helped aluminium boost its profit contribution by R9.5m. Rationalisation and strong demand were also the key to the turnaround in textiles.

Starch and sweeteners enjoyed a 17% growth in sales volumes. Coupled with successful cost containment, this resulted in a significant profit improvement. The industries division sold all except its specialises horticulture activities.

Except for the reservations on sugar and building materials, all divisions are looking for a better year. Saunders adds that debt containment will remain a priority, despite increasing capex (budgeted at R70m, mostly on renewals and replacements) and working capital requirements. So the interest bill could fall again.

Earnings last year were at the top end of, but just within, analysts' forecast ranges.

Reviewing the interim report in November,

The FM suggested earnings might be 82c; if so, the price (then 790c) "could maintain its upward trend." It sure has, with an 87% gain, against only 45% by the industrial index for the same period.

This year, some analysts are looking for earnings of 120c, a prospective PE of 12.3. That could permit distribution close to 50c, to yield just over 3%. Rationally, that may not leave much room for further advance, but the share seems to have regained market favour, and in current conditions that could keep it running.

Michael Coates
Deposit growth doubles

NBS investor centres, established in Cape Town and Durban after the society's takeover of Hill Samuel's retail operations, valued at R55m, have doubled net deposit growth in just six weeks.

NBS southern Transvaal regional manager Terry Bradshaw said yesterday most Hill Samuel clients had been retained, while new business — 90% from notice deposits — had pushed up growth by 100%.

Bradshaw ascribed the success of the notice deposits, which require a R5 000 minimum deposit with a R50 000 ceiling, to their filling a gap in the market between daily call and one-year-term.

He said the investing public was looking for ever-wider provisions for more upmarket services.

Designed to provide a specialised portfolio management service for clients with larger-than-average balances, the centres will not carry the NBS corporate identity so they can't be confused with building society branches.

In a deal involving deposits of R14m, NBS acquired Hill Samuel's Cape Town operation last week and the offices are now being converted into a third centre.
Weary Walsh fails to net his catch

By AUDREY D'ANGELO
Financial Editor

CITY businessman Jack Walsh, whose attempts to buy the former Overstone fishing interests from the Premier group caught the public imagination, said yesterday he had failed.

Premier chairman Tony Bloom issued a statement last night that, although the Walsh consortium had been given an extension of the original deadline of seven working days to release his group from all liabilities relating to the fishing companies' debts, it had failed to do so.

Accordingly, he said, "the negotiations have been terminated".

Walsh, returning disappointed from talks in Johannesburg yesterday, said it was true he and his associates had not been able to obtain written releases for Premier from overseas bankers.

But Premier's guarantees to the bankers had been verbal. He had been assured by the chairman of the Chilean fishing company that there would be no problem in obtaining written releases for Premier once he owned the assets. And his bankers in SA had been willing to provide Premier with an indemnity against any claims Chilean banks might make. "That would have got Premier off the hook completely,"

News that the negotiations have broken down will surprise Cape Town fishing and business circles where it had been thought that agreement had been reached apart from a few minor details.

Walsh said last night that he and his associates had thought the same thing.

Their doubts had begun when, after reaching heads of agreement in Johannesburg that would have given Premier a 40% stake in the fishing company Walsh and his associates proposed to form, they received a draft that differed markedly from this.

Admitting that he was disappointed — "it is 30 years since a fishing quota in this country has changed hands and I suppose it is never likely to happen in my lifetime now that this has fallen through" — Walsh said Premier had been entitled to withdraw.

Although he was confident that he could have obtained written releases for Premier from the banks once he had bought the fishing companies and become known in Chile, it had been impossible in the time available.

"We worked incredibly hard," said Walsh, "but we did not succeed."

During the negotiations Bloom said he admired Walsh's courage in trying to buy the companies and succeeding in putting together a R125m financial package within seven working days.

He gave Walsh and his associates a further week, which expires today, to meet the other condition for the sale.

At a shareholders' meeting in Cape Town, Bloom said in answer to questions by the chairman of the Shareholders Association, Issy Goldberg, that he would not have bought a stake in Ovgroup had he known the extent of the fishing companies' debts and that he was "the unwilling custodian" of the companies.

But Walsh said yesterday that he had discovered the companies' debts totalled under R60m, less than thought earlier, and the chairman of the Chilean company expected to make profits in excess of $1m this year.
Walsh fishing takeover bid 'sunk by Bloom'

By TOM HOOD, Business Editor

Attempts by former skipper Mr Jack Walsh to take over the Ovenstone fishing empire have been sunk. "We didn't throw in the towel — the rug was pulled from under us," he said today.

Negotiations were terminated by Premier Group, controlling shareholder of the two listed Ovenstone companies, last night.

Mr Walsh said his bid was sunk because he was not able to get written releases for verbal guarantees given by Premier to Chilean banks for about R12-million.

He asked Premier to accept an unconditional bankers indemnity against such guarantees to cover Premier in full, giving the consortium time to get written releases.

Mr Walsh disclosed that he and Mr Bloom signed a "heads of agreement" this week whereby Premier would sell 60 percent of Ovenstone's assets and keep 40 percent.

Rejected

However, negotiations were broken off by Premier over the question of the Chilean releases and "alternative proposals were rejected by them."

Had the negotiations succeeded, in the 60 percent context, shareholders would have benefited by at least 5c a share and if the Walsh group had bought 100 percent, they would have received a nearly 10c a share.

Despite gloomy reports about the Chilean fishing business, Mr Walsh said he had found the Chilean management confidently expected a profit of more than R5-million and enjoyed a positive cash flow.

Mr Tony Bloom, Premier's chairman, said the Walsh consortium had been unable to procure Premier's release from guarantees given to foreign banks by substituting for Premier.

In an attempt to be doubly reasonable and in spite of his statement at the Cape Town meeting that no extension of time would be granted, he had nevertheless extended the deadline for a further week.

This was done to give Mr Walsh every opportunity to meet the condition which was fundamental to agreement.

"The further extension of time had proved inadequate from the Walsh consortium's point of view and the negotiations were accordingly terminated," said Mr Bloom.
THE executive director of the South African Dairy Foundation made an appeal last night to Cape Town's existing dairy processors and the newly-formed Homestead Independent Dairy not to fight issues on the basis of personality clashes.

Responding to yesterday's Cape Times report of threats of legal action and allegations of intimidation surrounding the formation of Homestead, Mr Marius Kritzinger — who welcomed the new development — said from Pretoria: "If we are talking free enterprise, the proof of the pudding is in the eating."

At Thursday's press conference announcing the formation of the new dairy managing director Mr John Jacobs said the names of suppliers were not being released because of attempts to block the new dairy's entry into the market.

Mr Kritzinger said he hoped Homestead would service the home delivery market and the coloured and black markets.

Milk: Challenge to cartels, page 15
Problems with Privatisation

Chris Carancross in Cape Town...

The commission is considering whether to proceed with the privatisation of the national railway network. The railway sector is a major component of the economy and plays a crucial role in the movement of goods and passengers. However, there are concerns about the impact of privatisation on the sector. Some argue that privatisation will lead to a more efficient and competitive railway system, while others believe it will lead to higher costs and reduced services. The commission will need to weigh the pros and cons before making a decision.
Triomf: creditor meetings approved

JENNY BOBERG

The provisional liquidators of Triomf Fertilizer (Richards Bay) (Pty) were yesterday granted leave to call meetings of creditors to consider a scheme of arrangement proposed by Indian Ocean Fertilizer Holdings (Pty). A Rand Supreme Court application to call the meetings had been brought by Triomf's joint provisional liquidators, David John Rennie, Schalk Willem van der Merwe and Barend Gert Steyn de Wet.

Triomf, one of SA's largest distributors and manufacturers of fertiliser, was provisionally liquidated on July 14 when, because current liabilities exceeded current assets by R163m, it was unable to pay its debts.

In terms of the scheme, Indian Ocean will offer, for distribution among creditors: R79,5m plus the value of Triomf's stock in trade — provisionally valued at R23m. Another R800 000 will be put up for concurrent creditors other than Nedbank, who has a R280m claim against Triomf of which about R100m is unsecured.

In an affidavit, Rennie said if Triomf were wound up in the normal course, concurrent creditors would receive a dividend of 6,9c in the rand. In terms of the scheme, however, they would get 9,8c.

If the scheme is sanctioned, the total of R79,5m and R800 000 put up by Indian Ocean will be capitalised by the issue to it of one Triomf share having an issue price of R8,03m.
Group Five fights off takeover bid

SHAREHOLDERS in the Darling and Hodgson (D & H) and the R3bn Group Five construction group have been warned to trade with caution following rumors of a takeover bid of Group Five by rival construction group, Murray and Roberts.

Murray and Roberts apparently made an offer for the shares to Malbak, which has a controlling interest through its managerial control of D & H, who in turn hold 76% of the Group Five shares.

Told of the bid last Thursday, Group Five management apparently reacted strongly against it and made it clear it wanted to make a counter bid.

Sources said it was given until Monday afternoon to do so — but were told it had to better the Murray and Roberts offer.

At a meeting in Rivona on Saturday, Group Five MDs from all over the country reportedly expressed unanimous opposition to the takeover. They pledged to raise R10m by Sunday evening in an attempt to avert the change in control.

Indications are that this figure was exceeded and, by yesterday afternoon, it became clear that Group Five had also managed to raise the bridging finance required for its a counter bid.

Jubilation at Group Five has been tempered by a fear that the battle for control of the group may not be over.

The company employs more than 12,000 people, many of whom believe they will lose their jobs if the Murray and Roberts deal goes through.
Group Five management was yesterday given two weeks to formulate a formal offer for control of its R50m construction interests.

This follows a takeover bid late last week by competitor Murray and Roberts (M & R).

In an attempt to avert a takeover, management yesterday lodged a counter offer — believed to be in excess of R50m — with controlling shareholder Malbak. Malbak has control of Group Five through Darling and Hodgson (D & H), which holds 76% of the equity.

After a lengthy board meeting yesterday, D & H chairman Hugh Brown confirmed there had been two offers. He said: "The offer from management is significantly higher. We have now given them two weeks to formulate that offer. We are giving management a chance, after all they know the company."

Denying the M & R bid was hostile, Brown said Group Five did not fit into the long-term plans of D & H, hence the interest in the M & R offer.

However, suggestions that 9,000 people would lose their jobs if M & R got control were last night strongly rejected.

M & R Construction Group CEO Geoff Knudsen said: "Nothing is further from the truth. Jobs are not on the line. M & R has a sound track record with acquisitions, and that would be the last thing we would want to do."

Knudsen also disputed suggestions the acquisition was a move by M & R to wipe out its competition. He said: "Our culture and background is in the construction sector. It is natural we would look in that area for acquisitions."

"Our bid is certainly not hostile, but I'm not so sure we would want to take over Group Five if it didn't want us."

Group 5 slipped into the red in 1985 but is now said to be in a strong position with initial profit estimates for the year ranging between R8m-R9m.
Activities: SA's fourth largest assurer, created from the merger in 1985 of Southern Life and Anglo American Life

Control: Anglo American has a 40% interest and The National Bank 30%

Chairman: ZJ de Beer, chief executive Neal Chapman

Capital structure: 160m ords of 5c; 4,1m convertible prefs of 5c; 1 special class A share of 5c

Market capitalisation: R1,32 billion

Share market: Price 830c Yields 3.1% on dividend, 4.7% on earnings, PE ratio, 21.2, cover, 1.5 12-month high, 830c low, 546c

Trading volume last quarter, 1,1m shares

Financial: Year to March 31

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<td>Debt</td>
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<td>5.5</td>
<td>7.7</td>
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<td>Total Assets (Rm)</td>
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<td>Premium Income (Rm)</td>
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Performance:

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<td>30.5</td>
<td>39.0</td>
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<tr>
<td>Dividends (c)</td>
<td>—</td>
<td>20.5</td>
<td>26.0</td>
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emerged from a sparkling trading year, characterised by 66% growth in new business, 40% growth in total assets to R7.7 billion, and EPS 27% higher at 39c (30.5c)

That the merger of such vastly different groups must have been difficult, goes without saying. But, as studies in the US have confirmed, while very few of the large mergers actually work, those that do survive often spawn a robust new entity, hardened by adversity. In terms of the fundamental issues that make or break an insurance company, Southern seems to have got its act together under C E Neal Chapman.

The investment division — handling a portfolio worth R7.1 billion — performed well in terms both of inflation and industry norms. Funds managed for pension clients recorded returns above 35% and 49%, while yields of 30.3% and 30.8% were declared on the linked portfolios of the adaptable taxed and untaxed portfolios respectively.

Book value of total investments grew 39% to R7.1 billion, and the stockmarket component thereof soared to R3.25 billion, equivalent to 45.5% of the portfolio. In 1986 only R2 billion, or 39%, of total investments were in the JSE. Given its relatively heavy exposure to the JSE, Southern was an obvious beneficiary of the bull market that prevailed for most of last year.

Southern increased its investment in First National Bank by R220m last year, for a total stake worth R404m, following a decision by Barclays Bank Plc to divest from SA.

This now constitutes the largest single investment, followed by shareholdings in Anglo American (R210m), De Beers (R266m), Rembrandt (R344m) and Gencor (R139m). Virtually all these investments performed well last year.

Total premium income grew 32% to R859m, following a concerted marketing drive to launch the group's new rate book. Both the life and pension divisions performed well, and of R482m life premium income received, R300m was in respect of recurring business.

The pension division, accounting for 50% of Southern's R7.7 billion asset base, is said to be garnering new business at a rapid rate. Due partly, as it seems, to the controversial policy statement issued last year, calling for grassroots employee representation at pension fund meetings. Although the idea of having union members sitting in on pension meetings and involved in investment strategy has proved controversial in some quarters, Southern's attitude appears to have gone down well across a broad spectrum of industry.

After languishing for some time, Southern shares have risen sharply recently to 830c, where they trade on a high of 20.5 times. It is a rating that reflects the group's confident new image. Among the heavyweight insurers, only Liberty is better rated.

Neville Glaser

SOUTHERN LIFE

Bedded down

With its latest set of results, Southern must have dispelled any lingering misgivings about the 1985 merger of the old Southern with Anglo American Life. The group has
DELSWA

Conservative cut

Activities: Holding company with subsidiaries which manufacture women’s and children’s outerwear, women’s and girls’ knitwear, sportswear, schoolwear and boys’ wear.

Chairman: S.L. Jaff, managing director: S.H. Jaff

Capital structure: 693,000 ordinary 50c each Market capitalisation R6.7m

Share market: Price 1250c Yield 7.2% on dividend, 21.5% on earnings, PE ratio 4.5, cover 9 x 12-month high. 1250c, low, 925c. Trading volume last quarter, 5,000 shares.

Financial: Year to April 30

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Performance:

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<td>Turnover Index</td>
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<td>Pre-tax profit (Rm)</td>
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<td>Earnings (c)</td>
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<td>78</td>
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<td>Dividends (c)</td>
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<td>Net worth (c)</td>
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Long-established clothing manufacturer Delswa produced unexpectedly good final results at its April year end. The share price has doubled since September, currently standing at a record 1250c. Even at this level, though, the share offers a 7.2% dividend yield and looks attractive when compared with the 3.2% sector average.

Reasons for this apparent undervaluation are difficult to establish, although, with less than 700,000 shares on issue, the share is obviously thinly traded. In the 1987 year earnings a share leapt 137% to 269c on a 32% increase in turnover. The board declared a record 90c annual dividend, 80% up on the previous year’s 50c. Management expects to do at least as well as this in 1988.

Perhaps the company’s conservative image and family management have been an inhibiting factor. Although the factories at Kimberley and Kroonstad, established in 1947, demonstrate an early involvement in decentralisation, chairman Samuel Jaff has adopted a “wait-and-see” attitude toward further moves in this direction.

“It remains to be seen what decisions the authorities will make and whether or not industries are to be encouraged in the urban areas where the provision of superior management and close contact with suppliers will apply,” says Jaff. The company avoids supplying the export market, given its tight delivery requirements and foreign exchange exposure.

Delswa’s domestic market remains highly competitive. Certain durable textiles still have to be imported while problems are being experienced in obtaining suitable, reliable supplies of textiles and yarn. Moreover, according to MD Stephen Jaff, the factories are working at about 80% capacity, leaving limited potential for turnover growth.

Even with the trend toward higher gearing, which has seen debt/equity rise from 0.23 in 1984 to 0.63, management is planning expansion through acquisition.

Says Stephen Jaff: “Most of our debt is short-term — along with the increase in our business, debtors have risen 38% to R11.2m (R8.1m). Year-end group borrowings totalled R6.1m, but we have the capacity to borrow up to twice shareholders’ funds. Thus we have ample scope to increase debt should we find a suitably related company.” Delswa’s policy has been to allow subsidiaries to operate autonomously, managed by existing directors, with the holding company holding the purse-strings.

Provided the company does not show signs of over-borrowing in future, it appears to be no more exposed than its competitors to business risks common to most clothing manufacturers. On fundamentals, I think the share seems cheap. But much depends on what Delswa achieves in terms of next winter’s orders, which will only be known in two months’ time. Meanwhile, any shares that become available might be worth picking up.

Dave Edwards
Remgro profit leaps 46pc

By TOM HOOD, Business Editor

A SURGE in profits from tobacco and liquor helped the R4 445-million Rembrandt Group to boost its net profit by 46 percent to R558-million (R382-million) in the year to March 31.

As a result of this outstanding performance, shareholders are to get a 25 percent increase in dividend, which is up from 10c to 12,5c a share.

The dividend will put R355-million into their pockets — R86-million more than they received last year.

Net income from tobacco and liquor soared by 48 percent to R241-million after a 41 percent (R310-million) increase in investments in these fields.

Earnings from mining rose by 32 percent to R96-million — here the group raised its investments by R56-million to R496-million.

Profits from banking, insurance and financial services jumped by 77 percent to R28-million, reflecting an 85 percent hike in investments in these fields.

Dr Anton Rupert’s worldwide empire made investments totaling R655-million last year — all but R32-million overseas — and since March has made R138-million of new investments and additions to existing investments.

Capital employed has soared by R693-million to R4 445-million, of which 99 percent is shareholders funds.

Most of the capital (R1 396-million, a drop of R104-million) is tied up in cash resources and portfolio investments and another R1 067-million — up by R310-million or 41 percent — is employed in tobacco and liquor businesses.

Changes in currency rates added R123-million from normal business operations to reserves — below last year’s addition of R453-million, when the rand rate was lower.

The balance sheet discloses reserves of R4 283-million, up almost 20 percent, from R3 577-million a year ago.

Borrowings have been slashed to R5-million from R25-million and bank overdrafts are a mere R200 000 — down from R1,9-million.

Rembrandt Controlling Investments, which owns 51 percent of Remgro, is paying 9,25c a share dividend, up from 7,40c. Net profit rose to R285-million from R195-million.

Technical Investment Corporation, which owns about 49,6 percent of Rembrandt Beh, is paying 8,11c a share, up from 6,49c. Net profit of R115-million is up from R79-million.

Technical and Industrial Investments’ dividends rose to 8,8c from 6,88c after a jump in earnings to R97-million from R66-million.
Govt moves on privatization

By CHRIS CAIRNCROSS

The government is to indicate on Monday which way it has decided to go on privatization when a White Paper is due to be tabled in Parliament.

This was confirmed yesterday by sources from the Department of Economic Affairs and Technology.

It is understood that the role of SA Transport Services (Sats) will be highlighted in the report, providing an example of the way the privatization process is to be handled.

An important element in this regard will be the recommendations of ex-Gencor chairman Wim de Villiers, who has been investigating Sats' operations, after completing a similar exercise at Eskom.

Early publication of the White Paper on privatization is viewed as having considerable relevance to the deliberations about a future tax system for SA which will inevitably follow publication of the Mar
go Commission's report.

Tabling of this report has been promised for the latter stages of the current Parliamentary session by Finance Minister Barend du Plessis.

It will also be accompanied by a White Paper outlining government's generalised responses to the commission's recommendations.

It is understood that at least 16 state or semi-state activities have been identified as potential privatisation candidates.

The private sector has expressed the hope that government will go beyond merely tagging service areas for privatization.

The argument is that government has the opportunity to emulate the British example and 'hedge' off a number of large state-controlled operations.
JOHN ORRS has sold its department store division to the revived Tradegro group.

In terms of the deal, Tradegro gets three John Orrs department stores to add to its three Stuttafords/Greatermans stores and the core of a department store chain.

Tradegro chairman Mervyn King said in a statement that with this acquisition, Tradegro's expanded department store division will have an annual turnover approaching R100m.

He added that Tradegro is considering listing this division soon.

John Orr Holdings, which plans to focus on speciality retailing, will now call itself The Speciality Store Company (Storeco).

Storeco joint MD Stewart Cohen said the disposal of the department stores has been on the cards for some months.

"The sale disposal, along with the sale of certain properties which we are currently negotiating, means that we will almost eliminate borrowings, with a resultant reduction in our interest payments.

"In addition, the cash flow will provide the group with a sound foundation for the rapid expansion of our existing businesses.

"We will be in a position to acquire additional speciality store chains and develop innovative speciality store concepts. We have already set Storeco on the speciality retailing path and believe that this will be exciting for the group."
PREMIER GROUP

More to come

Activities: Diversified group in broad spectrum of consumer industries — food, fishing, pharmaceuticals and leisure Investments include 36% of SA Breweries and 18% of Hi-Score Holdings

Capital structure: 56.8m ords of 50c each, 6.8m pref ords of 50c, 194 220 "A" share purchase pref of 50c, and 25 400 "B" share purchase pref of 50c. Market capitalisation: R2.6 billion.

Share market: Price R40.24. Yields 2.7% on dividend. 8.8% on earnings. PE ratio: 17.3.

Cover: 2.2 12-month high; 4 325c, low; 2 235c.

Trading volume last quarter, 244 000 shares

Financial: Year to March 31

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Performance

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<td>Turnover (Rm)</td>
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<td>Pre-profits (Rm)</td>
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<td>Pre-profit margin (%)</td>
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<td>Dividends (c)</td>
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As chairman Tony Bloom notes in his review, the Premier Group’s turnover correlates closely with personal consumption expenditure (PCE) Continued real growth in PCE of more than, say, 2%, this year must bode well for further earnings growth. As was the case in the 1987 year, indications are that the substantial boost that would be derived from growth in consumer spending should again be accompanied by favourable internal developments in Premier’s trading divisions.

Premier’s share price strengthened in the weeks before the release of the preliminary year-end results, as investors took heart from booming profits announced by companies in the SA Breweries group, held 35.6% by Premier. In fact, while SAB’s EPS rose by 36% (Premier’s EPS were a record 233c and, at 43.8%, the rate of increase was the best the group has achieved for many years.

Reasons for the faster pace set by Premier lay in the group’s balance sheet and in strong trading performances. Notable improvements were achieved in Premier Food industries (PFI), with some operations rising off a very low base. Group trading profit (excluding discontinued operations) rose 21.6% to R152.8m. Of this, PFI accounted for 66.3% (60.8%). With all the PFI divisions performing better, the food operations’ total trading profit jumped by 32.6% to R101.3m (R76.4m)

Interest-bearing debt stood at some R377m at end-March 1986, so the bottom line was bound to be sensitive to falling interest rates. A stringent working capital programme instituted two years ago enabled a 2% dip in net working capital, despite 17% turnover growth. Even with the first-time inclusion of the offshore liabilities of Ovenstone (47m), previously off the balance sheet, group borrowings rose only R24m to R401m. Cash and bank balances rose to R24.6m (R14.5m), and net interest paid dropped by R19.4m to R55.7m.

A further boost was derived from the decision at the previous year end to write off all remaining foreign exchange losses, which in 1986 totalled R11.8m. All told, net financing costs declined by R31.2m, with a bottom line impact of some 35c per ordinary share and accounting for nearly half of the EPS advance. The bottom line was restrained by an increase in the effective tax rate, which rose to 29.4% (18.4%). Financial director Gordon Utan expects the tax rate will remain roughly at current levels this year.

Unless significant debt is repaid, earnings will be more reliant on trading profits this year. And, market conditions aside, there are encouraging indications of recovery in the group’s main problem division: agriculture, animal feeds, farming and processing. The division’s trading profit jumped to R13.9m from the nadir of only R2m in the 1986 year. But this still represents a poor return from turnover of R593m, so there must be considerable potential for further improvement.

Utan says management is firmly against closing the troublesome brothel operations. To ensure that the problems are resolved, Premier deputy chairman Peter Wrightson is currently running the brothels on a virtual full-time basis, and only the Transvaal branch is now performing better than standard. Utan says the division’s profits should rise by about 22%—25% this year.

In the milling division, major improvements in margins are not expected, but there is some prospect of better volumes, thanks partly to the maintained maize price. Also,
the industry was required last year to contribute R6m to the bread subsidy, this may not happen this year. Competitive pressures have depressed margins in the edible oils and derivatives divisions, but here, too, there is hope of volume growth.

Among consolidated, non-food interests, CNA Gallo is doing well, and the pharmaceutical interests, Utian says, are "going like a train." Group profits should also be helped by the remaining Overstone interests. Last year these lost R8m, if they merely break even — and Bloom expects they will do better — that means an additional R8m for group trading profits. All of the downside of Overstone is through Premier's accounts.

Talk in the market is that a restructuring may soon be announced for Premier's pharmaceutical interests, which are held with a partner New wholesaling vehicle Gresham, with its strengthened balance sheet, is well placed to make new investments. Premier now has a substantial investment in consumer electronics via 50%-held Teltron, which is budgeting for sales of more than R100m in the 1988 year. Teltron must be a candidate for a listing later.

Both Premier and SA Brews have lots of potential to substantially boost profits. But much depends on the pace and sustainability of growth in consumer spending. Utian says that spending so far appears patchy, and the outlook uncertain. Unless the economy does lift off, profits could lose steam sooner than was expected a couple of months ago. However, I understand that the group exceeded its budgets in the first quarter of the current year.

At R40.50, the share has retreated from the peak of R42.45 but still offers a thin dividend yield of only 2.7%. The stock market is clearly anticipating powerful future earnings growth. Notably, SA Brews, at its price of R21.75, currently has a market capitalisation of some R8.7 billion. Premier's 35.59% stake is therefore worth over R2 billion, or about R32 per Premier share. That leaves the remainder of Premier's share price — no more than R8 — to cover all the rest of the group's investments. If one accepts SA Brews' price is realistic, that implies Premier's share is undervalued.
Due for re-rating?

It was another year of slow but steady progress, belying MD Gert Liebenberg's comment a year ago that "we shall be lucky if we maintain earnings." Chairman Pietman Hugo refers to the expansion of commercial banking and home mortgage finance services as particularly significant.

Three new branches were opened, in line with the planned rate of expansion of the network. Hugo says that though Boland's roots are rural, future expansion will take place mainly in "growth areas." After a period of concentrating on diversifying the service base, more attention will now be put on setting up more offices.

Since March 31 Boland has held a one-for-one rights issue at R5, raising R33.6m. This will increase disclosed equity capital by more than 50%. The directors say these funds "provided the opportunity to transfer income to internal rather than disclosed reserves," which suggests that real earnings performance may have been stronger than published figures indicate.

Hugo expects "moderate growth in assets" this year, profits should increase accordingly. The dividend should at least be maintained on the increased capital, and be covered about twice by earnings.

This implies disclosed earnings of at least R10.8m this year, which some would consider more than "moderate." However, given that a more generous (or realistic) disclosure policy could be followed, and that the expansion of the equity base will allow substantial volume growth, it could be on.

The major caveats must be continued slack demand for credit and hotted-up competition as liberated building societies enter the banking market. Moreover, the new areas Boland is pursuing penetrating as it expands geographically may not show the same client loyalty as its rural heartland.

A degree of market scepticism is reflected in a market price barely higher than a year ago (a period during which the banks index has risen almost 50%), or for that matter than the rights price. But the yield is comfortably the highest in the sector, and there should be little downside risk. On the other hand, surely the sound record will sometime lead to a positive re-rating of the share.

Michael Clapham
After-tax income rises by 83%  

Macadams pays maiden dividend  

By JANE ARBOUS  
CITY-BASED Macadams, one of the country's largest suppliers of bakery and catering equipment, has declared a maiden dividend of 2c after taxed profits exceeded the prospectus forecast by 17%.

In the results for the financial year to February 28, published today, net after tax income rose by 83% over the previous year to R28 000.

It was achieved on a turnover of R15m — up 30% on last year's figure and 9% up on forecast.

The results also show that net income before interest and taxation amounted to R1,5m. Of this, interest accounted for R619 000 while tax took a further R178 000.

Earnings a share in the past year were 8c.

Strategic acquisitions

Commenting yesterday, chairman and joint MD Arnold Resnick said he was confident that the company would more than double income after tax in 1987/88. Performance since year-end was "on line", he added.

Since its recent listing, Macadams has made a number of strategic acquisitions, absorbing RJoffe Manufacturing (one of the largest catering and fast food equipment manufacturers in the Cape), the PE-based Status factory, Omega Bake Equipment, Omega Shop Equipment, and more recently, Aloe Catering Equipment.

However, Resnick said the results were achieved without the benefits of the acquisitions and the accumulation would be felt in the coming year.

Omega has strengthened the group's distribution spread on the Reef and has provided entry to the growing delicatessen bakery and convenience store market.

Aloe Catering concentrates on the manufacture and supply of mass feeding equipment to institutions and organisations such as hospitals, mines and the Defence Force.

Separate entity

The Macadams board believes, however, that the companies should address a much broader spectrum and it will seek opportunities in the hotel, restaurant and fast food industries.

As these areas have major growth potential, research and development is being undertaken using existing expertise and facilities to design equipment for their specific requirements.

Aloe will continue to be marketed as a separate entity, but its manufacturing division is being integrated into the Joffe operation to become Macadams Manufacturing (Pty) Ltd.

Resnick said the Aloe deal was only concluded in the course of the current financial year and did not figure in last year's results. Similarly, the Joffe and Status acquisitions only became effective in the final month of the financial year and, consequently, their impact on results was negligible.

On prospects for the current financial year, Resnick pointed out that the market for the group's bakery equipment products and services was continuing to grow with new demand coming from the rural areas.

"This, coupled to our entry into the catering equipment industry, points to a further phase of rapid and sustained growth"
Sanlam takes up Furnfair offer

SANLAM has indicated that it will be taking up a significant portion of the rights issue by Cape-based Furniture Fair (Furnfair).

The furniture retailing group intends to use the R2.9m raised through the offer to accelerate its expansion programme.

The announcement published yesterday by sponsoring brokers Senekal, Mouton and Kitshoff, states that the furniture retailer will raise R289 350 through an offer of 2 628 500 ordinary shares of no-par value at 110c a share.

The shares will be offered on the basis of 35 ordinary shares for every 100 ordinary shares held in Furnfair.

One of the country's fastest-growing furniture retailing groups, Furniture Fair's performance in the current financial year, which ends on June 30, has exceeded expectations.

Earnings per share for the nine months to March 31 were already ahead of the forecast of 5.6c a share for the full year.

To accommodate the rights-offer deadlines, the company brought forward the declaration of its final dividend. At 3.5c a share this brought the total dividend for the year to 6c — 114% ahead of the forecast 2.8c.
New giant will represent Transvaal

Commerce, industry chambers merge

THE Johannesburg Chamber of Commerce (JCC) and the Transvaal Chamber of Industries (TCI) merged yesterday to form a powerful new giant to represent commerce and industry in the Transvaal.

JCC president Aubrey Pitt and TCI president Henne Viljoen said the new chamber would be known as the Witwatersrand Chamber of Commerce and Industry and would incorporate both organisations' membership.

Last night's merger means the new chamber will represent 1.5-million employees and ends 75 years of division between the two chambers.

The move to create a single voice to represent what is considered to be 65% of all business activity in SA, has been on the cards for some time. The membership level of the chambers gives the new organisation nearly 5,000 employers.

The presidents said recent developments in government policy emphasised the devolution of power to regional levels.

"The establishment of RSCs, the draft Witwatersrand guide plans and government's urbanisation and job creation strategies indicate the need for a unified approach by business as a whole to these and other issues."

The presidents said the move was the first step towards unification of commercial and industrial representation at regional and national level.

The merger still has to be ratified by members of both chambers but the requirement is seen as a formality. The officers of the chamber, a president and two vice-presidents, will be elected at a later stage.

Asked if the merger meant moves to consolidate with other chambers were under way, the TCI's Viljoen said that while formal talks had not been held the matter was under consideration. He said the reported financial difficulties of the TCI had not had any bearing on the merger moves.

JCC immediate past president Pat Corbin said the new chamber would increase pressure to look at the formation of a national body. "A strong voice is needed to protect and promote commerce and industry. This is the first step in an ongoing drive."

JCC's Pitt said Assocom had already been asked to initiate talks with the Federated Chamber of Industries (FCI) with a view to amalgamation. He said, "This merger could go a long way towards getting these bodies together."
'Reluctance' by UK parent led to buyout

RELUCTANCE by its UK parent to invest any further cash in SA is the reason given for the management buyout (MBO) of the Simon Africa group of companies.

The sale, for an undisclosed amount, has now been finalised with a local consortium of directors and managers taking over one of the biggest process plant contracting organisations in SA.

MD Jim Black said the pressure to sell came from local management. The group's turnover exceeded R20m in 1985 and at present major projects valued at over R100m are being undertaken.

"Future prospects for all our divisions appear promising due to possible participation in the Mossel Bay project and the Majuba power station project."

He said unlike many MBOs the company would not carry additional loan capital. The financial reserves of the group remain at a high level.

He said the use of the Simon name and logo would be retained.

The consortium has purchased all of the issued shares of Simon Holdings, which owns and controls the operations of its subsidiary companies — Simon Carves Construction, Simon Macform, Simon Cape and Simon Macawber.
TAKEOVERS

What's the success rate?

With takeover mania gripping Europe and the US as never before, one of the US’s most influential business school professors has issued a blunt warning that many acquisitions fail because their rationale is flimsy and their execution inadequate. They later have to be divested—seldom at a profit to anyone except lawyers, merchant bankers and the original sellers.

The alarm comes from Michael Porter, whose work on competitive strategy at Harvard Business School has made him a bestselling author and sought-after consultant.

Porter’s warning is all the more weighty for the fact that it applies less to the recent spate of raids by “greenmailers” and arbitrages than to the equally heavy flow of supposedly “respectable” takeovers based on the conventional rationale of either industrial “synergy” or portfolio management.

Porter’s conclusion, that “the corporate strategy of many diversified companies has failed, for much diversification just doesn’t work,” is drawn from a mammoth study of every acquisition, joint venture and start-up by 33 large diversified US groups since 1950.

His advice on how to escape the yawning pitfalls of diversification includes the application of three rigorous tests to every project, and much more careful selection of the right diversification strategy. However respectable it may appear, the fashion for amassing portfolios of unrelated companies should be avoided at all costs, he suggests—unless the predator is prepared to restructure with the aim of selling acquisitions at a profit.

Since 1950 the 33 companies examined in his study (as yet unpublished) have together made nearly 4,000 takeovers, joint ventures and start-ups. Just over half took the company into new products and/or markets.

The average divestment rate of these diversified acquisitions was just over half—in line with the results of past studies.

But the average cloaks a remarkable range of corporate performances. At one end of the spectrum is a group of successful diversifiers, notably Johnson & Johnson and Procter & Gamble, the consumer products giants, and Raytheon, the electronics group. These paragons have divested little more than 10% of their diversifications. United Technologies and GM, despite being two of the most widely diversified US industrial groups (some would say conglomerates), have performed almost as well, divesting around a quarter.

At the other end of the spectrum lie CBS (broadcasting and entertainment), RCA (entertainment plus consumer electronics), General Foods and retailing), Gulf & Western (financial services, publishing and entertainment), and Xerox, the reprographics giant. These have all divested three-quarters or more of their diversifications by acquisition. Even General Electric, usually noted for good management, has divested well above the average.

Part of the explanation for this disparity, Porter says, is that successful diversifiers rely unusually heavily on internal start-ups rather than takeovers. They also make disproportionately few acquisitions in fields unrelated to existing businesses.

But there is far more to it than that. Even when diversifying into an apparently unrelated business, Porter argues, many companies fail to use three key tests:

- Attractiveness (The industry chosen for diversification is or can be made structurally attractive)
- “It doesn’t matter if the ‘fit’ between acquirer and acquired is close if it’s a useless business,” Porter told a seminar in London on competitive strategy, organised by Britain’s Strategic Planning Society. This test is often suspended because of the low cost of the acquisition and its apparently close fit, he added. “Alternatively, companies do the analysis very badly.

- Restructuring (A conscious approach of buying a wide range of companies with potential for restructuring, and then selling them at a profit. Unlike portfolio management, Porter argues that this can be effective, but only if several conditions are met: the management must have superior or insight in spotting and acquiring under-valued companies (a very difficult task these days, inside trading apart). The acquirer must also have sufficient resources to turn round businesses in unfamiliar industries. Companies following the restructuring route will inevitably make a lot of mistakes,” says Porter, citing a US restructure which has three failures for each success.

A further pitfall for restructurists, however widely diversified, is that as the size of operations in a particular industry increases, they become subject to pressure to grow still further, rather than sell. “Too many restructurists chase on the need to sell, and are tempted to hang on,” Porter says.

Whereas these strategies fall largely into the category of unrelated diversification, Porter’s two most favoured strategies focus more on related expansions. With these, companies can draw competitive advantage from various inter-relationships between their different business units.

- Transfer of skills. This may smack of vague old-fashioned “synergy,” but is far more specific. Porter emphasizes that sharing generalised “motherhood” skills such as “good at managing international companies” and “good at dealing with government” has no real meaning.

- Shared activities. Under this strategy, which can only apply to the acquisition of related businesses, key activities such as procurement, marketing and distribution are shared between acquirer and acquired.

A company that follows this approach obviously creates the organisational structure to exploit inter-relationships between its businesses. Yet in practice most companies are organised and managed in ways which discourage this, Porter claims.

Whoever of Porter’s diversification concepts a company chooses, the pitfalls are many and various, and dangerously easy to fall into. So managers should undertake any diversification extremely cautiously, he warns, even if all the pressure of today’s takeover climate is to decide quickly and buy just as fast. Otherwise the high divestment rates of the past 30 years will continue.
Delta's new vehicle sales highest for several years

By RALPH JARVIS
Motoring Editor

NEW vehicle sales figures for Delta Motor Corporation in May soared to the highest total for several years, climbing an encouraging 20.4% over the April, 1987, sales.

The combined total for passenger cars and commercial vehicles rose to 2 797 units, setting a new record for Delta, the company which took over from General Motors South African.

Delta managing director Mr Keith Butler-Wheelhouse said the company was obviously elated with the May results.

"We believe our showing to be the tangible evidence of public confidence and support for Delta and its product range."

The combined sales for the first five months of the year was also the highest since 1985.

Mr Butler-Wheelhouse said the May passenger sales figure was 1 477, the highest on record for May since 1985.

In the commercial sector, the figure was 1 320, the highest May total since 1984 and the highest figure for any month since December, 1985.
A NEW wave of sequestrations of farmers in the western grain regions is expected in the next six months in the wake of the drop in the world maize price and the drought.

Agriculture Minister Greyling Wentzel said as many as 3,500 faced bankruptcy. But government's special R400m aid package could save between 2,000 and 2,500.

Government has established a special day and night emergency office to handle calls from farmers requesting assistance. Officials from other departments have been seconded to the Directorate for Agricultural Credit to deal with the rush.

Commercial bank officials said sequestrations were due to start as soon as cash flow figures for recent crops were known. The commercial sector's share of agricultural credit now outstrips Land Bank loans by R1bn.

The figures for insolvencies since July last year in the agriculture, hunting, forestry and fishing sectors has been put at only 41.
Another big US firm pulls out

First Bank pays R130m for Citibank

FIRST National Bank is buying Citibank SA from its US parent Citicorp for R130m cash with effect from July 1, 1987.

This is a another disinvestment move by a major US corporation and follows the announcement of Ford's intention to withdraw from SA.

Citicorp chairman John S Reed said in a statement from New York that 'current constraints on Citicorp have made it increasingly difficult to meet the needs of its SA clients'.

He added that Citibank's cross-border exposure to SA borrowers would continue to be serviced in accordance with SA's foreign debt settlement agreements.

The US bank will pay dearly for the move as the R130m will be repatriated through the financial rand, realising $43m.

Negotiations for the buy-out started about four weeks ago when Citicorp made an approach to First National. Subsequent negotiations in London and New York led to the deal being finalised yesterday afternoon.

First National was not buying assets but profit-earning expertise, MD Chris Ball told yesterday's Press conference.

Citibank's assets totalled about R150m on which forecast taxed profit for the current year to December was about R5m, but Ball expected the 1988 taxed profit would rise to R15m, 'having a positive effect on First National's earnings a share'.

Ball emphasised that Citibank's profit for the current year would have been negatively affected by constraints on its normal domestic and international business.

Citibank, which will undergo a name change, will not be absorbed into the First National structure. It will remain a separate entity with its present staff, all South Africans, being left intact under MD David M Lawrence.

The bank will continue to operate in its specialist corporate market as well as maintaining its identity and competitive force in the money and forex markets.

Ball said: 'We believe that the addi-

First Bank buys Citibank SA for R130m

tional skills and expertise that this business unit has in local and international treasury trading, as well as in wholesale banking, will enhance First National's thrust into the corporate market.'

To some extent the operations of First National and Citibank overlapped but the volume of Citibank lending was not the material factor Ball said First National was buying management and an enthusiastic staff with special skills for researching and developing new products, supplementing the work done by First National's corporate division.

The acquisition of Citibank would not affect First National's capital requirements under the Banks Act.

First National senior GM Jimmy McKee said Citibank had special relationships with its clients and with a full commitment by First National it would be able to grow and expand.

Although many of its customers were multinationals he did not think that the bank would suffer too severely from further disinvestments from SA.

The Competition Board regards the transaction as acceptable.

Shortly after yesterday's First National board meeting news of the transaction appeared to have reached the JSE, where First National shares gained 100c to 2.150c just before the market closed.
Three Off Highway companies liquidated

SUSAN RUSSELL

Three associated companies — Multimac Powders (Pty) Ltd, Chamdar No Two Hundred And One and Chamdar No Two Hundred And Two — were liquidated in the Rand Supreme Court yesterday.

All three are part of the Off Highway Group of companies. A fourth company in the group, Off Highway Equipment Mining (Pty) Ltd, was liquidated on May 21 with liabilities of more than R1m.

A representative for the companies, Felix Pierre, said in affidavits the liabilities of the three companies did not exceed their assets.

However, they had numerous contingent liabilities as a result of inter-company guarantees for Off Highway Equipment Mining’s commitments to its bankers and shippers amounting to about R1m.

Person said the Off Highway group had secured a licence and know-how agreement with a company based in Finland.

He said the group had no prospect of trading itself out of its precarious financial situation.
Triomf’s provisional liquidation extended

THE provisional liquidation of Triomf Kunsms (Richards Bay) was extended to June 30 in the Rand Supreme Court yesterday.

This was done so that the offer to creditors could be redrafted after the full bench decision relating to schemes of arrangement between companies and their creditors.

In May, the full bench refused to sanction meetings between Robin Consolidated Industries and its creditors to consider a proposed scheme of arrangement.

The court found the proposed scheme did not comply with the logic of the Companies Act and merely substituted one creditor for the previous ones, leaving the company as insolvent as when it was liquidated.

On March 9, Indian Ocean Fertilizer Holdings (Pty) (IOF) submitted an offer for the business of Triomf Kunsms (Richards Bay) comprising its assets, fixed assets and the stock.

The offer was accepted by the provisional liquidators on March 11.

One of the provisional liquidators, Barend Gert Steyn de Wet, said in an affidavit that a term of the IOF offer was that the company bound itself to propose a scheme of arrangement in terms of Section 311 of the Companies Act.

De Wet said since the conclusion of the offer, IOF, the provisional liquidators and the company's largest creditor, Nedbank, had been engaged in the preparation and settlement of an appropriate scheme document.

However, the full bench judgment in the Robin case had necessitated the redrafting of the original terms of the scheme.

De Wet said this had taken longer than anticipated and the final agreement had not yet been put in writing.

Asking the court to extend the provisional liquidation, De Wet said Triomf Kunsms (Richards Bay) was an industrial giant and a national employer.

He said it was essential that the present position be maintained since any change could adversely affect the company's employees.
Du Plessis defends capex role

Sanlam controls no ‘monopolies’

By JANE ARBOUS

Taking up the issue of concentration of power and control, Sanlam chairman Fred du Plessis told policyholders last night that not one of the many companies in his group operated as “a single monopoly”.

Addressing 450 policyholders at a City function as part of his on-going communications programme launched three years ago, du Plessis said there was an attitude that “if you’re big, you’re a monopoly”.

This was unfair criticism and the advantages of Sanlam’s widespread interests far outweighed the disadvantages, he said.

Capital investment

Many of the big companies quoted on the stock exchange required extremely high capital investment which virtually no small shareholder could afford. For example, the opening of a new gold mine required between R800m to R2 billion with no returns for at least five years.

Du Plessis pointed to the new production facility in the Eastern Transvaal of one of its companies, Sappi, which earns a great deal in foreign exchange.

Original estimates were that the facility would cost R800m. However, with the importation of all capital equipment, unforeseen factors such as the dramatic increase in interest rates and the fall in exchange rates caused the cost to almost double.

“If we had not been big, we could not have done it. And the whole project would have been down the drain.”

Training

Questions on whether Sanlam was doing enough in the area of social responsibility, he said that it was considered a high priority and was being concentrated on education and training — one of the country’s most pressing problems.

More money also needed to be spent on housing and security for the elderly, he said.

Du Plessis has addressed 130 meetings attended by almost 35,000 policyholders so far in his campaign. His efforts last year earned him the title of Communicator of the Year by the SA Association of Industrial Editors.

He has also invited any policyholders with problems to write to him personally.

So enthusiastic has been the support, Du Plessis said, that where it had taken the company 65 years to achieve an annual premium income of R1.6bn, the second R1.0bn was added in only three years, making Sanlam the first life assurer to receive more than R2.0bn in SA premium income.
Number of liquidations declining

HELENA PATTEN

IMPROVED economic conditions had brought down the number of company and close-corporation failures recorded in April this year by more than 50% from its peak in June 1988, Information Trust Corp (ITC) said.

The number of liquidations dropped to 142 in April compared with 301 in June last year.

The finance, insurance, real estate and business services sectors bore the brunt of the failures, with 32 recorded liquidations.

ITC MD Paul Edwards said: "Many people who lost jobs during the recession decided to set themselves up as consultants or suppliers of business services of one sort or another. Inevitably, in an overcrowded and competitive market, many of these businesses fail."

Wholesale, retail, catering and accommodation services recorded the second largest number of failures with 42 or 29.3% of all liquidations, while the construction industry ranked third with 20 failures or 14% of the total.

ITC said agricultural failures were still relatively low, despite the poor season in many parts of SA. It said this was due partly to the state support for farmers who might otherwise be forced off the land.
The Minister of Law and Order

No. 16/54D-3

The Hon. Mr. Speaker,

This is to certify that Section 304 of the Penal Code has been applied to the following case:

Case No. 123456

The case involves an alleged breach of Section 304 of the Penal Code, which deals with the offense of...
Deregulate to aid economic growth

DEREGULATION was now a crisis matter, Job Creation SA MD Ian Hetherington told the Conference for Concerned Business Leadership in Johannesburg yesterday.

Hetherington said an overwhelming body of codified rules and regulations had been a major contributor to low economic growth and high and rising unemployment over the past 15 years.

It was senseless to codify so much of the law in a country where more than half the population was illiterate.

"As much as possible should be left to common law," he said.

Where this was done, especially in the areas of health, safety, labour relations and voluntary commercial transactions, there should be quick, cheap access to justice for all.

Hetherington said this could be found in extending the powers and scope of the Small Claims Courts. Most entrepreneurs started as proprietors of small businesses and there should be minimum barriers to entry.

At present more than 2 000 Acts impinged on business.

Estance Davie, administrative director of the Free Market Foundation of Southern Africa, said the answer to a sluggish economy and runaway public expenditure would not be found in tax reform or attempts to reduce government spending.

Davie said total budgeted expenditure at R46,6bn was more than double the value of Anglo American's assets, while the budgeted deficit of R6,4bn exceeded the Reserve Bank's total gold and foreign assets of R2,8bn.

There was a growing recognition worldwide that privatisation not only reduced public spending but improved the use of resources and increased the range of choices.

Privatisation in SA would have the added advantage of removing targets for political incidents, he said.
Norton warning on Wit Nigel

Share swap: George set to defy JSE

WIT NIGEL chairman Peter George will proceed with the controversial share swap to make Joe Berardo a 15% shareholder in the company, even if the deal is not approved by the JSE.

But in response to this announcement yesterday, JSE president Tony Norton said the deal would not be approved and that the suspension of Wit Nigel shares was a possibility in the face of "unacceptable and offensive action by a JSE listed company".

"The timing of the deal - which places 1.99-million Wit Nigel shares in the hands of the Berardo group controlling company, Johannesburg Mining and Finance (JMF), in return for 401 976 shares in Consolidated Modderfontein Mines - is regarded as crucial ahead of next month's AGM.

George hit back at the JSE, saying its requirements had become "distinctly unreasonable" and that he was fully entitled to proceed with the swap in terms of the powers vested in him at the last AGM.

"I have acted on the advice of senior counsel and the company's auditors who say all requirements have been abided by."

The row centres on interpretation of the purpose of the deal ahead of the AGM.

Three dissenting shareholders -

Wit Nigel's George resolved to defy JSE

from Consolidated Modderfontein of 120c a share would raise R482 250. This would have boosted earnings 22% from 6,5c a share to 10,4c a share on a pro forma basis.

George confirmed the AGM would be held towards the end of July, but said the actual date was still undecided. Earlier notices issued by Tatiz, Eccles and Stevenson, which called for another special general meeting in early July have been dismissed as technically invalid by the Wit Nigel board.
PICK 'n PAY

Seeking growth

Activities: Mass retailer of food and general merchandise through 12 hypermarkets and 81 supermarkets
Control: The directors have a controlling interest
Chairman: R D Ackerman, joint managing directors R D Ackerman and H S Herman
Capital structure: 19,57m ords of 10c each
Market capitalisation. R812m
Share market: Prices 100c Yields: 2.6% on dividend, 5.3% on earnings, PE ratio, 18.9, cover, 1.2. 12-month high, 4 550c; low, 3 075c. Trading volume last quarter, 335 000 shares

Financial: Year to February 28

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Performance:

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<td>Taxed profit (Rbn)</td>
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Pick 'n Pay has emerged relatively unscathed from a torrid period, when striking labourers and revamped competitors battered at its profits. Checkers mounted a massive marketing drive early in the year, to which Pick 'n Pay was slow in responding. Interim earnings rose by a mere 13%, but after that the group got itself into high gear, and ended the year creditably, with earnings up 21.3%

Turnover rose 15% to R2.47 billion (R2.14 billion), while trading income rose 26% to R67.8m (R53.7m). The operating margin improved to 2.7% (2.5%), which is probably the best in the industry. But falling interest rates and a lower cash balance reduced interest received to R3m (R7.9m), partially eroding the bottom-line advance.

Ackerman forecasts a profit growth of not less than 20% this year, while noting the economy appears stronger than in the previous few years. But it is the long-term prospects that interest most analysts, particularly as some suspect Pick 'n Pay might have seen the best of its growth years.

One potential long-term growth market is contained in the entrepreneurial explosion of black traders. Pick 'n Pay is currently testing this market through its "PriceClub" cash-and-carry chain. An experimental outlet was opened in the Vaal Triangle last October, with another having opened in City Deep.

"Initial experience has confirmed that this market holds promise and this arm of the company's activities will be promoted and developed actively in the years ahead."

The group is also continuing its policy of refurbishing existing outlets, which has resulted, management says, in a marked improvement in the trading performance of those stores concerned. Operations at the hypermarkets at Boksburg and Bloemfontein, and the Welkom supermarket, were improved last year, this will be followed by the upgrading of the Springs supermarket, the Brackenfell hypermarket and four older stores. Refurbishment allows for a higher proportion of high margin products to be carried, which is expected to contribute to higher overall margins.

Pick 'n Pay also continues to develop its scanning and electronic funds transfer system. This will be progressively introduced during the next few years, and is expected to improve efficiencies.

Despite cries that the supermarket industry is overtraded, Ackerman remains convinced that there are still "important trading areas" to be tapped. But the group's rate of new store openings has dropped. This year only three standard superstores are to be opened, with a small convenience-type development at Camps Bay. Cape Town Pick 'n Pay currently retails through 81 supermarket outlets, making its rate of new store developments seem relatively low.

Nevertheless, with the share at R40.50, and on a p.e ratio of 18, investors have accorded the Cape-based chain a high rating, suggesting few believe that Ackerman will be content to live on past successes. "

Pick 'n Pay's Ackerman ... developing new markets

Dave Edwards

Graph: Pick 'n Pay Stores
All its companies contribute as... Rembrandt

profits soar

From CHERILYN IRETON

JOHANNESBURG — Companies within the blue chip Rembrandt group have weighed in with an average 24.5% increase in taxed profits for the year to March.

The Rembrandt Group (Remgro) raised its taxed profits to R347.1m, taking earnings from normal business operations to 106.9c a share from 73.2c the previous year.

Remgro’s final dividend of 6c a share gives a total dividend of 12.5c against 10c in the year to March 1986.

Earnings for all companies within the tobacco, liquor, and banking empire reflect the recent subdivision of shares.

Meanwhile Rembrandt’s Technical Investment Corporation (Tegkor), Rembrandt Controlling Investments (Remb Beh) Technical and Industrial Investments have reported taxed profits of R247.0m (R278.8m).

Tegkor’s earnings from normal business operations amounted to 62.46c (47.56c) while the final dividend of 4.54c (3.47c) means a total payout of 8.11c (6.49c) a share.

Remb Beh’s earnings from normal business operations rose to 79.11c (54.18c) with the final dividend of 5.18c (3.66c) lifting its total to 8.25c (7.40c).

Tib’s earnings topped 73.73c (50.38c) while its total return increased to 8.60c (6.88c) after a final dividend of 4.82c (3.68c)

And Rothmans weighs in more

From BRIAN ZLOTNICK

LONDON — The more than doubling of Rothmans International’s earnings per share to 28.6p from 10p, on a fully diluted basis, is good news for shareholders in the Rembrandt group.

Rothmans Tobacco Holdings, which is under the effective control of the Rupert Foundation Societe Anonyme, which is in turn controlled by the Rembrandt group, has about a third of the equity of Rothmans International.

The stake is currently worth about R750m. The other major shareholder in Rothmans International is Philip Morris, the giant US tobacco group, with slightly less than a third of the equity.

Rothmans International’s operating profits soared from £115.9m to £293.6m on a little changed turnover of £1.5 billion in the year to March.

A final dividend of 5.2p (4.5p) has been declared to make a total of 7.7p (6.7p) for the year.

Moreover, the group’s main business is the manufacture and sale of cigarettes, other tobacco and related products — consolidated balance sheet shows that it finished the year off with net liquid funds of £328.3m against net borrowings of £62.3m in the previous year.

Rationalization benefits of previous years are certainly flowing through strongly. In the 1987 financial year the total rationalization costs fell to £15m from the previous year’s £47.4m.

Profits from the group’s interests in luxury consumer products again advanced with good results from Dunhill and Cartier boosting overall performance.
PEP STORES

High base

Activities: SA’s largest clothing, footwear and household goods retailing chain, comprising the Pep Stores and Ackermans chain and eight factories

Control: Pepkor is the holding company
Chairman: C Wiese, managing director, B Weyers

Capital structure: 45.6m ords of NPV Market capitalisation R467,4m.

Share market: Price 1 025c Yields 3.9% on dividend, 8.7% on earnings, PE ratio, 11.5. cover, 2.2, 12-month high, 1 075c, low, 900c.
Trading volume last quarter, 1.5m shares

Financial: Year to February 28

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<td>Return on cap (%)</td>
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Pep Stores, listed last November, is one of a small number of companies offering a direct investment into the burgeoning black consumer market. The company has proved itself virtually recession-proof, thanks to a product range that is basic and low in fashion content.

In fact, although clothing is a large component of Pep Stores’ sales, management claims that sales show the group’s sales to be closely tied with the cycles of basic foods. While this gives the company a contra-cyclical profile, it also means that Pep Stores is trading off a high earnings base, without the recovery potential that investors may be looking for.

Earnings a share grew by a highly respectable 32% last year. The bottom-line performance was somewhat misleading, though, as it owed much to falling interest rates, which helped trim finance costs from R10,8m in 1986 to R4,9m. Growth at operating level was a more sedate 11.1%.

But financial management is important, and the group is clearly concentrating on this. Debt was reduced to R11,1m (R61m) last year, and the debt/equity ratio fell to 0.05 (0.52). Improved asset management is shown by the fall in stocks to R166,3m (R198,9m), despite the rise in sales. Creditors increased to R87,7m (R65,3m), indicating suppliers are being stretched as part of a plan to reduce debt.

Stock turn improved to 3 times (2 times), which many analysts would regard as still being too low. Stock build-up seems a problem inherent in the Pepkor group, because of its peculiar make-up. Pep Stores is vertically integrated, owning eight factories which produce exclusively for its outlets.

Because its products are low-fashion, and therefore can safely be held in the store for an extended period, there must be a temptation to keep the factories working at 100% operating capacity, even at the cost of overstocking the stores. Management has started addressing this issue, although they may still have some way to go.

Other productivity ratios look impressive, such as the 21.6% reported return on total assets, and the 34.8% return on shareholding funds.

While it operates a large network of 565 outlets, Pep Stores’ markets appear to be a long way from saturation, as evidenced in its expansionary plans for this year. “In line with our view of SA’s urbanisation into the year 2000, and the projected population increase,” says MD Basil Weyers, “we plan to open 24 Pep Stores and 10 Ackermans outlets during the current financial year.”

That, with organic growth from existing stores, should enable the chain to maintain a healthy growth rate this year, even though the benefits of falling interest rates are past.

At 1 025c, the share trades on a p/e of 11.5 times, on the low side for a company in the stores sector. There is one shadow overhanging the share — holding company Pepkor, left with an excessive stake in Pep Stores after the subsidiary was reverse-listed into Bearing Man last year, will be forced soon to sell off a large part of its holding, to comply with JSE regulations on spread. This could place some downward pressure on the share.

Neville Olshager
Samcor will ride out bumpy road

ANGLO AMERICAN, it seems, simply isn't fated to enjoy a smooth ride in the motor industry. Just as its investment seems to be coming right after several years of frustration, its Samcor partner — Ford Canada — has confirmed it wants to pull out of SA. It is uncertain at this stage whether the workforce will accept Ford's offer of a 24% stake in Samcor Ford, with a 42% share of the company, is unsure of its next step if the unions reject the offer, as they have hinted they might.

Whatever the outcome, it is an interruption Anglo — with its 58% controlling interest in Samcor — could have done without.

In theory, say analysts, Anglo could welcome a bigger share of what is becoming a profitable venture, particularly if it picks up Ford's remaining 18%. In practice, they say, it has benefited from the partnership.

Struggled

Prior to 1985, when Samcor was formed, Anglo — through its Amcor investment arm — had struggled for some time to make its motor industry involvement pay.

Sigma Motor Corporation became Amcar in the early Eighties in the hope that a change of name would lead to a change of fortune for the struggling company. But the Sigma story could not be shaken entirely, and Anglo/Amcor was glad to pitch in with Ford Canada to rationalise their vehicle manufacturing operations.

Both were functioning well below capacity and losing money, their vehicle ranges were similar and it made economic sense to merge.

Sense, that is, unless you were from Port Elizabeth — in which case Ford's decision to transfer nearly all its operations to Samcor's Silverton plant near Pretoria meant the loss of thousands of jobs and a huge dent in the Eastern Cape economy.

Having achieved the merger, albeit as the motor industry was sinking towards the depths of a depression, Anglo might have hoped it could concentrate on selling vehicles.

But almost immediately, the Ford connection caused problems elsewhere for its new Japanese partners, Mazda and Mitsubishi. There were fears that Ford's unacceptability in parts of the Middle East would spread to the two Japanese manufacturers because of their SA link with the American company. It took several months and action by the US government to remove the threat.

Next, it was the turn of the fourth Samcor founding — Peugeot — to suffer. At the same time as its fellow French car-maker Renault was leaving, Peugeot announced it, too, was abandoning the overcrowded local car market.

Industry slump and Samcor's decision to stop production of Mitsubishi cars notwithstanding, the company has appeared to settle since those traumatic early days. It is second only to Toyota in overall vehicle sales.

MD Spencer Sterling told me recently: "Samcor is in good shape. The merger was traumatic for our people, but we have come through. We made our first profit in June last year, and in the first quarter of this year we are in the black. We had a very good first quarter and increased market share each month, and made very good money doing it."

"We were actually ahead of schedule in coming from the red. We had budgeted for losses in 1986 and break-even in 1987. Now this year there should be a reasonable profit — at the very least, we will meet our shareholders' expectations." If the merger was traumatic, how will Ford's latest announcement affect Samcor — and Anglo's investment? Sterling agrees with analysts that there is likely to be an immediate impact on sales of Ford vehicles. Even with US assurances that supplies of vehicles, components and back-up will continue, uncertainty over the company's future is certain to affect sales.

'Up-front'

However, analysts expect any reaction to the Ford announcement to be temporary. "There's bound to be some effect on sales," says Sterling. "But if we are up-front about the negotiations and Ford's plans, it should be kept to a minimum. "Ford may be going, but its products aren't. Once people appreciate that, there shouldn't be any problems."
SA management team to take over

Two banks put up money for Leyland buyout

TWO SA banks are to finance the Leyland (SA) management buyout which is expected to be completed at the end of this month.

Leyland (SA) MD Brian Fuller yesterday would not disclose the identity of the banks but said "very comfortable" credit lines had been offered to relaunch the Anglo-Dutch company's truck and bus operation in SA.

"There are still a few minor loose ends to be tied up before the buyout is scheduled for completion at the end of June," he said.

Fuller also said the local operations of British-owned parts and accessories producer Unipart, an SA subsidiary of Leyland's trading arm, Associated Automotive Distributors, would not be sold off.

The buyout team comprises Fuller, Leyland (SA) chairman Ellis Rhodes-Harrison, deputy chairman and President's Council member Francois Jacobz, group financial director John Dean, technical director Jean-Jacques Massardo and parts director Mike Elsbury.

It was widely rumoured that another Leyland (SA) management team was pitching to buy Unipart. "We've decided to keep Unipart," said Fuller.

Buyout talks were not affected by the merger in April of Dutch vehicle manufacturer DAF and Leyland's worldwide truck and bus operation, in which Leyland (SA)'s former British parent Rover Group holds a 49% stake.

Leyland's decline in the SA market has reportedly been ascribed to Rover's shortage of cash to finance new models.

Latest HCV sales figures show Leyland (SA)'s share of the market in the five months to May dropped to 4.8% on 143 units from nearly 7.8% in the same period last year. But its market share of LCV's rose to 8.1% (7.4%).

A name change for Leyland (SA) is being discussed.

Martin & Co
Member of The Johanner
(Reg No 7200119/21)
Acquisition of two firms costs Danech R4.3m

DANECH Mining Supply has made two acquisitions, at a total cost of R4.3m, which will boost earnings in the year to September by 10%, CE Neville Parry says.

Danech, and its pyramid, Danech Investments (Dcor), have acquired a Cape-based materials handling operation, Beltling and Sprockets, in return for the issue of 750,000 new Danech shares valued at the transaction at 240c a share — or R1.8m in total.

Zenith Electrical, a Johannesburg-based distribution operation is costing the group R2.5m — Danech will issue 1.11-million shares at 225c a share.

In order to maintain the Dcor 51% control of Danech, the vendors in both transactions will receive as payment about half of the new issue of Danech shares, while Dcor takes up the remainder.

PETER STACEY

Dcor will issue shares to make up the balance of the consideration. Parry calculates the deals will enhance current year earnings by 3c a share, to 33c.

The acquisitions are conditional on JSE approval of the listing of the new shares. This has been applied for.

Beltling and Sprockets has as its major markets the mines in the northern Cape and the canning industry.

Its 34 outlet distribution network stretches from Sishen/Saldanha to Mossel Bay — an attractive target growth area.

Parry says Zenith, which has already been merged with the group's Comet Electrical operation, is the first step in a major restructuring and expansion of its electrical division.
Privatisation not grounds for paying lower wages

PRIVATISATION, sometimes billed as the great road to efficiency and economy, can have major drawbacks for the workers concerned.

The arguments for privatisation, in the public mind, probably run on the lines of seeing State and municipal bodies as large, inefficient bureaucracies, in which the workers have a high degree of job security and are therefore not strongly motivated to work hard and productively.

Private enterprise, still thinking with the public mind, is run on efficient business principles and therefore the workers are more highly motivated and therefore can more cheaply perform services carried out by public bodies.

Ergo, take functions away from inefficient public bodies and let them out to private businesses and the public saves money. Possibly that the private business may perform these functions at lower cost than the public body is probably undeniable, and it's often argued that this is due to economies of scale.

However, some instances I've come across recently seem to indicate that this is not because of superior efficiency and better business methods but because private companies are paying workers the lowest wage they think they can get away with.

In one instance workers were being paid about R250 a month for a privatised service, while the minimum wage in the public body is about R500 a month. The public body is unionised while the private concern is not.

It's not that the workers involved were taken from one concern at one rate of pay and then found themselves working for someone else at a lower rate. Ructions would have been more than likely over a move like that.

But through work being turned over to a private non-union concern, a service previously performed by a group of workers protected against exploitation is now being done by workers without any protection.

With privatisation having become something of a buzz-word with all the talk about selling off bits of Sats and other parastatals or contracting services out, it's quite likely that unions will be taking a hard look at conditions of pay and service in the private companies when discussions about the process take place.
Ovbel shows
R1,7m profits
for first half

By AUDREY D'ANGELO
Financial Editor

The eagerly awaited results of Ovbel —
the new company formed from the prop-
erty and construction interests of the
loss-making Ovengate Group
(Ovgroup) — were released yesterday,
and, as forecast, they were good.
Ovgroup shareholders who suggested
the property market was about to rise
may again question the wisdom of sell-
ing off Bellandia Homes, construc-
tion firm Ovcon and property develop-
ing and time-sharing firm Ovlond, when they see
that Ovbel has ended the six months to
March with attributable profits of
R1,7m.

This is equivalent to earnings
of 5,6c a share and although no ordi-
nary dividend has been declared
there is a preferred ordinary
dividend of 3,75c
in respect of the
five months since
shareholders
bought their shares.

However, critics should remember
that Ovgroup was faced with multi-
million rand debts, interest rates were
higher at the time the sale was agreed
and a rights offer at that stage would
have been unlikely to succeed.
Ovbel chairman Andrew Ovengate
forecasts that attributable profits for
the current year to March 31, 1988, will
exceed the placing forecast of R2,7m or
9,3c a share, provided the company suc-
cedes in selling off rented properties and
more construction work is obtained at
reasonable margins.

He confirms that Ovbel intends to
seek a listing on the Johannesburg
Stock Exchange (JSE) this year.

Financial director Justin Millar said
in an interview that the group had no
need to raise a significant amount of
cash by way of the listing.

Millar said the reason for the listing
was that a number of shareholders
would like the liquidity this would give,
and the company would benefit from a
higher profile.

Ovengate says in the annual report,
circulated to shareholders yesterday,
that Ovbel does not intend to retain its
rental producing fixed property portfolio
and "has mounted a strenuous realiza-
tion programme for the current year.

Just in Millar said that R2m had
already been raised from the sale of two
Cape Town properties. These were a
commercial property abutting on
Somerset Road and a site on the Fore-
shore.

Discussing the current year,
Ovengate says in the annual report
that "Prospects appear quite favoura-
ble as our property interests are
concerned and our housing business has
a full order book.

But, he continues, "the construc-
tion market remains very tight although
encouraging signs are beginning to ap-
pear.

Ovbel discloses total assets of R227m
of which R55,1m are in current assets,
R16,5m in fixed assets, R16,5m in
investments and R4,3m in undeveloped
lands.

Total liabilities of R55m are spread
between short and long-term borrow-
ings of R26,5m, and trade creditors and
other non-interest bearing liabilities of
R28,5m. Total shareholders' funds are
R37,5m.

The report shows that between
October 1 and March 31 the new com-
pany achieved a turnover of R65,3m and
after-tax income of R1,6m.

The report also shows that in the
previous year to March 1986 the com-
panies making up Ovbel achieved an-
tax income of R5,1m compared with
R1,1m in the year to March 1986 and
R5,4m in the year to February 1984.
Major shipping companies merge

IN a major shipping move, Grincor has announced the merger of a main operating division, Grindrod & Company, with the Mitchell Cotts group in SA.

In a statement released in Johannesburg yesterday, chairman of the JSE-listed Grindrod Unicorn group, Murray Grindrod, said the merger of the shipping and transport divisions would be effective from July 1.

The move follows a recent cautionary statement issued by the board of the Grindrod Unicorn group and is expected to have a significant effect on Grincor's earnings in the medium term.

While the merger will have no impact on earnings in the current year, Grindrod says it will have a significant effect on earnings in the medium term.

"The merged operations will be managed by Grindrod Cotts Limited with Grindrod & Company holding two-thirds of the capital and Mitchell Cotts the other third," Grindrod said the merger was in keeping with Grincor's strategy to increase its role in SA's national and international transport infrastructure.

"The merged group will continue to provide a full range of shipping and transport services including shipping agency, international sea and air freight clearing and forwarding and domestic groupage and freight distribution." Grindrod also said the merger would provide the opportunity for major rationalisation of the two groups with a resultant improvement in customer service levels and reduction in costs.

Grindrod & Company MD Andre Schoeman has been appointed MD of the new group.

Grincor, which controls assets of R156m and generates an annual turnover of R245m, was established in its present form on July 1 1966 when it acquired 100% of Grindrod & Company.
THE government's privatization initiative, spelt out in a white paper tabled in Parliament yesterday, stops short of placing the "for sale" signs outside any State or semi-state body.

The government spokesmen have emphasized that the sale of public sector assets ranks fairly low in the list of priorities governing privatization.

South Africa is not about to emulate the example established in Britain.

The government emphasizes that it is not in favour of selling public sector enterprises or assets to the private sector just to obtain the non-recurring additional income from the proceeds.

Nor is it prepared to sell undertakings that will in any way result in private sector monopolies.

Government sources indicated yesterday that the privatization policy outlined in the white paper has purposefully not been specific — because the Cabinet remains divided on which State assets should be sold and how this should be effected.

恫 Privatization: Govt gives details — Page 5

The white paper does, however, signal the start of an intensified three-year programme during which special further attention is to be given to privatization and deregulation with the aim of curtailing the public sector's involvement in the economy.

This is to be orchestrated directly from the State President's office, under the stewardship of Mr Alwyn Schlebusch, the minister entrusted with administration and broadcasting services.

Our Johannesburg correspondent reports that private sector employer bodies yesterday welcomed the white paper, but appealed to government not to wait three years before taking any action.

They also asked for the private sector to be included in a joint body to evaluate progress.

"It is essential that the programme of privatization be tackled as soon as possible," said a statement by the Private Sector Privatization Committee, representing Assocom, the Afrikaner Handelsinstituut, the Chamber of Mines, the Federated Chamber of Industries and the SA Agricultural Union.

"The proposed three-year planning programme should not preclude interim action being taken, with the help of the private sector."

The statement said the white paper's approach was broadly in line with representations by the private sector.

It accepted government's view that privatization must not be seen as an end in itself but as part of a broad strategy for achieving economic development, growth and a stable social environment.

While agreeing with general implementation guidelines in the white paper, the employer bodies said, "The committee of ministers on privatization should be expanded into a formal joint body incorporating representatives of private sector organizations for the purpose of initiating and evaluating progress."
Soap opera cliff hanger as . . .

Starke gets Ovgroup/Oil, Walsh an offer deadline

By AUDREY D'ANGELO
Financial Editor

A SHAREHOLDERS meeting in a city hotel yesterday left everyone still waiting for the final chapter of the Ovenstone group (Ovgroup) story, which has taken on some of the characteristics of a soap opera.

The end will be known in seven working days. Minority shareholders led by Jack Walsh, chairman of sea diamond company Mervest and a former Ovgroup skipper, have until then to put together a R125m package which will include paying R28m in cash for the Ovgroup fishing companies.

They will have to release the Premier group from all liabilities in respect of the fishing companies by convincing creditor banks overseas that they can guarantee multi-million dollar debts which might have to be paid in financial rands.

And they will have to repay a loan of R34m which Premier has made to the fishing companies.

Meanwhile, the meeting agreed to an offer which has given civil engineering firm Basil Starke control of Ovgroup and Ovenstone Investments (Oil) from April 1 for a consideration of R17.6m.

The names of the companies will be changed to Basil Starke group and Basil Starke Investments and shareholders can either retain their shares, sell them or accept Premier shares — or choose a combination of all three.

If Premier, which has bought the fishing companies back from Basil Starke for R21.5m, sells them to Walsh and his associates the difference in price — about R100 a share — will be distributed to all shareholders including itself.

This compromise was reached after a lively and lengthy meeting in which Walsh pointed out that Premier was “in a dual-hatted position” in asking shareholders to dispose of Ovgroup’s main assets to itself at a price described by its financial director, Gordon Utsan, as “hypothetical”.

Premier chairman Tony Bloom warned that it was not easy to deal with overseas banks who regarded Chilean debts guaranteed by an SA company as “the worst possible combination”.

Bloom said Ovgroup’s Chilean operation owed $15.5m in short-term loans from different banks in Chile who were “extremely nervous about it and particularly about guarantees from SA in view of the debt standstill” and could “pull the rug out at any minute”.

He and Premier financial director Gordon Utsan had found negotiations with these banks “difficult and torrid”.

In addition to this, Ovgroup owed $9.5m to other overseas creditors.

Bloom said he thought it unlikely that the Chilean operation would catch the 160,000 tons of fish budgeted for this season, and any profits made would have to be used to pay off creditors.

Walsh said he considered the Chilean operation “the joker in the pack”.

Fish meal prices had risen and he thought that if 150,000 tons of fish were caught it would finance the interest burden and allow certain debts to be paid.

In answer to questions from Walsh, Bloom said a decision to replace the factory ship in Chile with a land-based factory had been taken before the introduction of a two-tier financial system making overseas debts payable in financial rands. And the factory had cost $9.5m more than expected.

In addition to this, a further $1.5m or $2m would have to be spent on making the factory more efficient.

He said some of the fish meal produced was sold to Premier.

Early in the meeting, Walsh said his offer was subject to the consent of Mercobank — mentioned in a Supreme Court hearing as providing bridging finance.

But after an adjournment he said he was “confident” that a firm offer could be made within seven working days.

...
SHARES SLIDE BUT PROFITS SET RECORDS

Business Times Reporters

THIRTY large listed companies reporting to September lifted earnings on average by 40%, but record profits did little to support a panic-bonded Johannesburg Stock Exchange. Notwithstanding excellent results this week from First National Bank, OK Beverages, Nalcor, Standard Chartered, and other companies, the JSE All-

index overall index weakened to 184.50, 2.7% lower than last week's and 187.97 below the high of 188.40.

Unseated

Rob Lee, assistant general manager, says central banks accepting dollars for gold are not the reason why gold prices are so high. He says that since gold is a "barometer of inflation", central banks are not the cause. However, the price of gold remains high because of the fear of inflation.

Bargains

A bank economist says central bank gold sales are a measure of desperation. He believes that the gold price is stable due to the high demand for gold. He predicts that the gold price will continue to rise in the near future.

Liquidity

Richard Jones, head of the Bank of England's monetary policy committee, said that the bank's liquidity position is satisfactory. He said that the bank is not concerned about the potential for a liquidity crisis. He also said that the bank'srepo operations are working well.

Outstanding

Colombo has failed to sell the remaining gold-bullion bonds. Chairman Gordon Fulford said that the bank expects to sell the bonds soon. He said that the bank will sell the bonds at a higher price than the earlier attempt.

In a month, Eureka has fallen from 100c to 80c. Eureka, from 50c to 40c and HJH Cable's from 25c to 20c.

Tim May, pension fund manager at Federated Life, says that high-quality shares offer outstanding value at current prices. He predicts that the gold price will continue to rise in the near future.

Bear sales

A dealer at the JSE floor says that professional investors are looking for opportunities. He says that the fundamentals have not changed, but the market is volatile and will continue to be so. He predicts that the gold price will continue to rise in the near future.
Labour 'wary of privatisation'  

BLOEMFONTEIN — Employers' enthusiasm for deregulation and privatisation is not shared by their workers, industrialists were warned yesterday.

Wits senior industrial sociology lecturer Duncan Innes said the trade union movement and some black political groups are solidly opposed to the concept.

Cosatu considers privatisation a transfer of monopoly from State to private sector, with no benefits for labour. Share-ownership may spread but not control, which affects the union.

They fear privatisation will result in the loss of thousands of jobs in the name of efficiency.

The privatisation campaign shows little to allay workers' fears on that score.

"One of the main arguments used to justify privatisation of the public sector is precisely that it is over-staffed. In other words, the first thing many workers can expect from privatisation is massive retrenchments."

Some aspects of privatisation, notably of social services, run contrary to stated black political objectives. The Freedom Charter calls for free education and medical care, while other organisations demand State housing for all.

Innes said "if the business community wishes to convince the trade unions that privatisation is the best way to deal with the provision of social services, you will either have to convince them that privatisation can meet their goals for equality of opportunity or convince them their goals are unrealistic."

"The one thing the business community should not do is simply pretend those goals do not exist for workers or are not deeply held by workers."

The labour movement is even more opposed to the deregulation campaign. Where it affects all business, it is described by Cosatu as "a political attack on the living standards of all the workers, which will take away all the protection of minimum wages and working conditions from many workers". It has resolved "to oppose the deregulation campaign with all its force."

Innes said Cosatu regards deregulation as an attempt to wrest back gains made by unions — notably basic employment, health and safety regulations, and industrial relations agreements.

Nor do unions like the argument that to create more jobs, labour costs must be reduced by cutting minimum wages.

Employers should avoid this argument, Innes said. Workers should not be faced with a choice between lower wages and loss of jobs.

"If workers gain the impression that this is the best capitalism can offer them, inevitably they will look to socialism as a better alternative."

Nevertheless, there is no union objection to deregulation that creates new jobs, so long as it does not diminish existing rights. Nor will they oppose an end to racially discriminatory regulations.

But employers must not press ahead with demands for privatisation and deregulation without consulting organised labour.

"Should privatisation be imposed on the people of this country without their consent, and should it fail to live up to expectations, then inevitably the pendulum will swing back in the other direction, unleashing demands for massive State control."
Jobs cut as Wispeco acquires Fredk Sage

By DICK USHER

Fredk Sage, Glass SA's shop-fitting and ceiling and partitions contracting company, with two factories in Cape Town, has been taken over by Wispeco.

About 800 workers will lose jobs, some of them in Cape Town, says the chief executive of Glass SA, Mr Rod Fehrenz, who announced the sale.

He said Wispeco would take over many of the employees and contracts of Fredk Sage but "unfortunately Wispeco could accommodate only 300 existing employees in means about 800 will have to be retrenched."

The Cape operations affected are Fredk Sage's Wetton and Glass SA's contract glazing operation in Epping.

Mr Fehrenz said employees had been told and meetings with them and their unions would take place over the next few days to discuss retrenchments.

He said it is no longer a viable proposition for us to offer craft-intensive contracting services on a national basis. "Traditional skills such as timber joinery have been overtaken by modular chip-on assembly."

Financial support had to be withdrawn in the face of 50 percent over-capacity in the general aluminium and glass contracting fields and a slow recovery in the building industry.

Pillar Naco, a Maritzburg-based supplier of aluminium fittings, was also acquired from by Wispeco from SA Glass.
From LINDA ENSOR

JOHANNESBURG — Cheering results from SA Breweries (SAB) have become almost a norm, and those for the six months to September are no exception.

Earnings per share climbed 32% to 40c (30.5c) and an interim dividend of 16c — a 26% increase on the previous period’s 12.5c — was declared.

Turnover rose 19.4% to R3.8 billion (R3.2 billion) which Group MD Meyer Kahn regards as a remarkable achievement, given the fact that the beer price increases lagger inflation by about 30%.

“I am very pleased with the results,” Kahn said yesterday.

“Every division did well relative to the industry in which they operate, and we achieved our objectives both in terms of the management of earnings as well as of assets. Generally, there was not one weak link — and that includes Southern Sun.

In the past six months SAB was struck by a series of labour disputes which Kahn said “certainly impacted on our bottom-line performance.”

However, he added, the impact was “manageable.”

Margins improved on higher volumes and increased productivity from 6.4% to 7.3%, which on the rise in turnover translated into a 36% increase in trading profit to R278.4m (R205.5m).

An 11% decline in finance costs to R57.7m due to low interest rates and the reduction in borrowings from R901m to R819m was offset by the significant hike in 15.4% in the tax rate — imposed so funds could be transferred into a tax equalisation reserve:

This conservative accounting policy has been adopted since 1993 to maintain an even flow of earnings when the company, SA Breweries, becomes liable for tax in about 12 months time.

Compared to the 36% rise in trading profit, after-tax income excluding outside contributions, rose by 22.6% to R118.7m (R97.0m).

A strong performance by associated companies such as Cape Wine and Distillers, Romex and Sun International, meant a 60.9% rise in dividend income and equity accounted earnings to R38.4m (R24.5m).

This lifted attributable income by 32.6% to R150.3m (R79.4m) after the deduction of a hefty R19m (R16.5m) for additional replacement cost depreciation (based on the revaluation of assets).

Beer volumes rose about 12% and the division’s contribution to attributable earnings rose 30% to R85.3m (R65.3m) and the other interests’ contribution was up by 36% to R36m (R26.1m).

The balance sheet is sound with gearing down to 45% (55%), due both to a reduction in borrowings and the R322m increase in shareholders’ funds, which resulted from the acquisition of Lion Match. Net asset value currently stands at 642.5c (507.4c).
**Visible benefits**

Tedexx was pulled out of the red by Ellerme in 1986 — in the eight months to August, Ellerme again provided a shot in the arm. In 1986 the profit contribution was important,

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<tr>
<td>Income after extraordinary profit</td>
<td>3.2</td>
<td>22.2</td>
</tr>
<tr>
<td>Earnings before extraordinary profits (c)</td>
<td>6.3</td>
<td>11.9</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>nil</td>
<td>2.0</td>
</tr>
</tbody>
</table>

* year end changed to February 28

but now the sale of Tedexx’s 60.2% interest to Gencor for R91.3m significantly perked up the balance sheet. (The financial year-end has been changed from December to August to conform with the new holding company, Malbak, all figures and comparisons are for eight-month periods)

The sale substantially reduced Tedexx’s R150m-odd indebtedness to Gencor and was transacted when the group was less dependent on Ellerme’s profits. Net income before tax was up from R14.1m to R14.7m, reflecting only six months from Ellerme and the trimming of unprofitable areas. Financing costs were dramatically cut from R14.2m to R11.2m as stock levels were addressed, after overstocking in a depressed consumer market last Christmas season.

Chairman Tom Chalmers says stocks have been brought in line with demand. This is evidenced in the R175m reduction in current assets to R226.9m, with about R20m represented by Ellerme stock and a further R19m by its debtors’ book.

The low tax rate of 36% is due to assessed losses of R140m. Chalmers says Tedexx will not pay tax for some years, though this depends on acquisitions.

An extraordinary profit of R14.9m on the sale of Ellerme after R5.4m provisions for losses of minor divisions saw earnings after extraordinary profits at R22.2m. According to Chalmers, most losses have been stemmed. The lighting division, though still suffering from the depressed construction industry, is expected to break even this year.

Chalmers says selling Ellerme improved gearing, putting Tedexx in a good position to make acquisitions. Interest-bearing debt is down to R75.9m from R171m, paring debt: equity from 1.62 to 0.55. The current assets to liabilities ratio improved from 3.7 to 4.9.

Indications Chalmers has received from traders for the October-December period look good. Though consumer electronics are still sluggish, he says the reduced ad valorem tax on TV sets released pent-up replacement demand. Tedexx on a stronger and tighter base is well poised for any upside in the industry.

Kay Turvey
ERPM in R90m rights offer bid

JOHANNESBURG. — East Rand Proprietary Mines — ERPM — is going to the market for an additional R90m to finance the completion of its Far East vertical shaft complex — a project that will enable the mine to double gold production from present levels.

An announcement today says the R90m will be raised by way of a rights offer.

News of the rights offer comes on the heels of an announcement 10 days ago that ERPM will start mining from the Far East vertical shaft system earlier than planned.

Turning to the mine's considerable ore reserves, the announcement says that reef has been exposed in the Far East area from 56 level down to 68 level, and sampling of more than 2,000m of reef horizon this year has revealed values of 869 cm g/t against 730 cm g/t shown in the sedimentological extrapolations made in 1985.

The announcement says the company — one of the major gold producers in the Rand Mines group — is to convene a general meeting to approve an increase in its borrowing powers from the present level of R200m to R300m. ERPM believes that by shifting the focus of operations to the Far East section, gold production can be considerably increased and the mine returned to profitability.

In the longer term, with additional production facilities, it is envisaged that gold output can be doubled from present levels.

Completion of the plan will give ERPM greater flexibility of operation and put it into the position of reducing its borrowings and resuming dividends in about three years.

By January next year, the main service shaft will have been sunk to 34 level, while the sub-vertical service shaft has already been deepened to 72 level. Equipping of this shaft is in progress and commissioning is scheduled a year down the line — in November 1988. The sub-vertical ventilation shaft is expected to reach its final depth by the end of this year. Furthermore, certain major surface installations have been completed and the establishment of the surface infrastructure is on schedule.
Malbak chalks up almost R2-bn worth of sales

From LIZ ROUSE

JOHANNESBURG — Malbak chalked up sales of nearly R2 billion in the year to August, a period which includes only two months' contributions from most of the industrial interests acquired from Gencor.

Year-end results reflect the creation of a giant industrial group with enormous potential. It is already capable of achieving sales of between R3 billion and R4 billion.

In the past three years the group's earnings have grown at an annual compound rate of 54% while dividends have risen at a compound rate of 26%.

Following last year's 131% hike in earnings, Malbak this year notched up a further 104% improvement in attributable profit to R61.6m from 1986's R29.1m.

Malbak's issued share capital was increased in exchange for acquisition of certain of Gencor's industrial interests and, on a weighted average basis, earnings advanced 36% to 65c a share (47.9c).

The final dividend has been raised by 3c to 13c, making the year's total distribution 29c (15c).

Sales surged to R1.56bn, up 97% from last year's R96m, while pre-tax income climbed 118% to R133.4m (R81.3m).

Utilizing assessed losses in certain subsidiaries, Malbak has a tax rate of 37.7% (1986: 42.3%). Tax of R49.5m (R25.9m) left taxed income 137% higher at R24.8m (R73.5m).

Outside shareholders' interest increased substantially, largely for major shareholder Gencor, and this, plus preference dividends, accounted for R18.3m (R29.9m) of the year's profit.

Malbak's balance sheet highlights the strength of the group. Gearing in the form of interest-bearing debt to permanent capital has declined to 29% from 47% at February 1987. Total assets soared to R1.87bn from 1986's R478.1m.

Executive chairman Grant Thomas reveals that some pro-forma calculations have been done to give shareholders some indication of what the group would look like had the Gencor acquisitions been effective for a full 12 months.

The consumer products division would have contributed 21.5% to operating income, which would have totalled R316m, the engineering division 21.2% and the paper division 20.5%. These three divisions would have jointly earned 62.8% of sales, which would have totalled R3,50bn and used 66.5% of the group's R1.36 billion funds employed.

Thomas says that all divisions performed well.

Malcor Holdings, which once again becomes a pure pyramid of Malbak, achieved an 88% rise in earnings to 166.1c a share (132.5c) and the dividend total is 29c (15c)
JOHANNESBURG — Spending some of its cash resources, cash-rich Darling & Hodgson (D & H) is rapidly taking shape as the building and contracting company in the Malbaks Group.

Yesterday D & H announced that it has bought two businesses from wholly-owned Malbaks subsidiaries — the Rocla pipe manufacturing business, and the locks and door furniture and insulation panel businesses of Solid Manufacturing.

The consideration placed on the combined transaction is R50.2m which will be settled by way of a cash payment of R37.5m and the issue of R4.25m new D & H shares. The value placed on the shares is R3.00 per share.

Rocla manufactures concrete, asbestos cement and high pressure pvc pipes at factories throughout South Africa. The solid businesses consist of the solid hardware division, which is a major manufacturer of locks and door furniture, and thermaglas which manufactures laminated insulated boards.

Hugh Brown, the chairman of D & H, said that the acquisitions were effective from September 1 and will make a contribution to D & H’s future earnings.

He said “Had the transactions been effective from September 1 1986 D & H pro forma earnings for the 12 months to August 1987 would have been increased by 44% from 32c a share to 46c. The transactions have the effect of reducing the net asset value per D & H share slightly, from 263c to 248c.”

The new D & H shares will rank pari passu with the existing shares but will not participate in the final dividend for the eight months ended August 1987.

The transactions will have no material effect on the earnings, dividends or net asset value of Malbaks.

The transactions are subject to the approval of D & H shareholders. — Sapa
Short time

In a long way

Coming a

Business is a place for honest

life is what we do.

One reason for...
Group continues first-half improvement

C G Smith earnings rise 36%, div up 25%

DURBAN. The C G Smith group has continued the improvement shown in the first half of its financial year. Earnings for the year to September 30 are up by an impressive 36% to R394c a share and the dividend up by 25% to 163c.

C G Smith Foods has also done well, with a 29% rise in both earnings and dividends.

C G Smith, which was hit by the recession, made a convincing comeback in the first half of the year, when it reported 46% growth. But the directors warned in the interim report that this rate of growth could not be sustained for the whole year because second-half results were off a significantly higher base.

The three principal subsidiaries — C G Smith Foods, Nampak and Romatek — lifted profits substantially this year.

Group turnover for the year rose by 18% to R8 518,5m and pre-interest operating profit by 32% to R829,5m, "mainly as a result of cost-containment and increased productivity".

Attributable profit was up by 36% to R183m (R135m).

Interest paid declined substantially, due to the good cash flow and lower rates, and income from investments was virtually unchanged at R66,5m.

The tax bill was 54% higher, largely as a consequence of the withdrawal of investment allowances, with the tax rate rising from 38,1% to 41,8%.

Growth rate

Looking to the year ahead, the directors see further improvement, but they say detailed comments will be made in the annual report due in the first week of December.

C G Smith shares are currently priced at about 3 200c and the latest earnings and dividend yield 12,2% and 5,1% at that price.

Because of the seasonal nature of its sugar interests, C G Smith Foods' growth rate slowed in the second half compared with the 36% improvement in earnings achieved in the first half.

But attributable profit was 34% higher at R174,4m.

The weighted average number of shares in issue at the year-end was 4,9% higher as a result of shares issued in settlement of various acquisitions over the year, and this reduced growth at the share level to 28% with earnings of 124,4c, on which a 2,4 times covered dividend of 51c will be paid.

Turnover for the year was up by 19% at R5 869m and operating profit 25% higher at R330 6m.

The directors say the rise was due to "improved trading conditions, greater efficiencies and better capacity utilization".

Interest paid at R68,6m was down by 10,5%, raising growth to 37% at the operating profit level. Income from investments rose by 6% to R57m, to give a 30,7% higher pre-tax profit of R329m.

Tax rose by 24%, leaving taxed profits up by 28,5% at R203,3m.

C G Smith Foods shares currently stand at about 1 100c, at which level the earnings yield is 13,1% and the dividend yield 4,6%. — Financial Staff and Sapa
Massive goodwill payment for Makro

Woolru was created in 1981 through the amalgamation of the long-established Woolworths and Truworths organisations, developing into a diversified group with retail and wholesale interests.

The most significant event in the past year was repurchasing 68.67 percent of Makro that included a staggering R32.6 million goodwill payment. Redeeming the preference shares, high capex and Makro's purchase has more than doubled total debt.

Makro's profitability has been disappointing and its stock provisions have been increased. Ominously, the annual report states that Makro's sales for the first eight weeks of the current year are only four percent up on last year.

Was Makro's purchase price excessive and was Woolru caught on the rebound after discussions with Pep Stores terminated midway through the past year?

Turnover increased to R1.1 billion (1986 - R744 million), of which R212 million came from Makro. Net income before tax was R84 million (R61.6 million). Pre-tax profit as a percentage of sales was only 7.6 percent, but would have been 9.3 percent without Makro — up from 8.3 percent in the previous year.

Ordinary shareholders' earnings totalled R40.3 million (R29.2 million), giving 118c of earnings per ordinary share (86c), while the dividend was raised by 8c to 69c — a cover of two times (1.7 times).

Chairman David Susman says the company experienced real growth, with private consumption expenditure up by 13.5 percent and inflation slowing to 17.2 percent. He justifies the hefty premium paid for Makro on grounds of its potential earnings, but gives no numbers except that Makro is strategically important to Woolru since it provides Third-World trading experience.

Chief executive Mr A G W Williamson says it is bad and needs rejuvenation, but he is keen for the sales of its 100,000 passport holders Food and liquor comprise 70 percent of Makro's sales, with durables and clothing covering the balance.

The final payments for the group's R50 million new head office, ongoing capex, higher stocks (1987 - R134 million, compared with the previous year's R90 million), the R20 million preference shares redemption and the purchase of Makro have had a significant effect on financial structure.

Properties were revalued upwards during the year by R66 million. This revaluation was included with ordinary shareholders' funds of R266 million (R212 million).

Total debt increased to R141 million (R65 million) at end-June this year and already the income statement is burdened with increased interest to R10.7 million (R3.4 million).

In the operating companies, Woolworths increased its turnover to R665 million (R548 million). Major advances were in ladies' outerwear, lingerie and footwear. Increased theft in retail outlets resulted in higher shrinkage levels.

Fashion chain Truworths increased turnover to R177 million (151 million). Profits were substantially ahead of last year.

The Topco group increased turnover to R44.8 million (R46.5 million) in a year of further consolidation.

Makro's turnover was R464 million (R401 million) for the full year, but "profitability at the same level as last year was disappointing", says Mr Williamson.

Bowint Manufacturing reported unchanged turnover of R37.9 million (R37.5 million), with volumes affected by reduced sales to Truworths and quality problems with local fabrics.

The balance sheet shows a big leap in total assets to R594 million (R369 million), with shareholders' interest at R261 million (R233 million). This includes the property surplus, less R43 million goodwill paid for Makro written off.

Working capital of current assets, less current liabilities, shows a surplus increase to R48 million (R36.7 million). However, substantially higher stocks have reduced the current ratio to 1.21 to 1 (1.32 to 1), while the acid test of current assets, less stocks, to current liabilities is now a worrying 0.41 to 1 (0.62 to 1), reflecting deteriorating liquidity.

Current indications are that the economic upswing will continue through the financial year, Mr Susman says. Sales, excluding those of Makro, are 24 percent ahead of last year, says Mr Sussman in his report to shareholders.

These are in line with current budgets. If this trend continues earnings should once again show satisfactory growth.

Woolru must quickly get its act together at Makro because a significant overpayment in purchase price, especially goodwill, was possible.

The escalating debt must be checked and the working capital situation improved, especially liquidity, if the group is to remain buoyant.
Trencor: One of the JSE's star performers

By AUDREY D'ANGELO
Financial Editor

TRENCOR executive chairman Neil Jowell is the Cape Times Businessman of the Year. The award was presented to him by Cape Times executive editor Gordon Kling at a lunch attended by leading Cape Town business and professional people yesterday.

Describing Trencor as "one of the JSE's star performers", Kling explained that Jowell had been chosen to receive the award because of his group's consistently good performance over a period of years.

He said that from humble beginnings in Namaqualand when Jowell's father, a garage owner, started up a transport company to replace a railway which closed down, Trencor had grown to a group employing 5,000 people.

Road transport was still its core business, but it also manufactured trailers. A subsidiary manufactured containers for ships, and export earnings made a substantial contribution to profits.

Kling said it was impossible to refer to any dramatic turnaround for Trencor because it had never needed one. Unlike many other companies in recent years it had never been in any trouble, but had consistently increased its profits.

Jowell, who described himself as "a conservative businessman", said that company chairmen and CEOs who made political statements should make it clear whether they were doing so in a personal capacity or as head of their organizations.

But he thought he was justified in making a plea to the government for more privatization, as this was something he had a mandate from Trencor to do since its road transport interests were in competition with the public sector.

There was a wide consensus that the public sector was too large and must be reduced. Private business in a free economy had an important part to play in bringing increased freedom and progress in this country.

Jowell said the government had often repeated its commitment to proceed with privatization, but so far had done so little that it "almost amounts to sub-contracting".

Bold move needed

There was a need to get the ball rolling with a bold move.

- Neil Jowell took B Comm and LL.B degrees at the University of Cape Town. After gaining an MBA degree at Columbia and working overseas for three years he returned to SA to join the family business.

He is married to Kate Jowell, a senior lecturer at the University of Cape Town Graduate School of Business, who served on the Mango Commission.

This year Trencor achieved record profits for the fourth successive year. Earnings rose by 40% to 154c (110.6c) a share.

Jowell said at yesterday's lunch that "Trencor expects a very good year in 1988".
NATIONAL Explosives — one of the liquidated companies associated with insolvent Oliver Hill’s collapsed chemical empire — is involved in a second Supreme Court action in a week.

The dispute concerns R700 000 which Dantex Investment Holdings claims Natex owes it.

The claim arises out of a factoring agreement in terms of which Dantex bought Natex's claims against debtors.

A written factoring agreement was made between Natex and Dania Holdings. This agreement was ceded to Dantex in October 1965.

Natex was placed under final liquidation in October last year with debts of R46m.

Dantex claims former Natex director Andrew Bassil and GM Philip Smart retained payments received from debtors instead of paying them to Dantex and that the amounts misappropriated in this way were about R700 000 by July 1 last year.

In terms of their agreement, Natex was to act as an agent for Dantex and collect payments from debtors.

Dantex is asking the court for an order directing Natex to pay the disputed amount.

The liquidators of Natex do not dispute that there was a factoring agreement between the companies but claim Dantex is a concurrent creditor of the company and not entitled to the order sought.

The dispute first came before the court last year when all parties agreed to an interim order whereby further debtor payments would go in a joint account to be administered by attorneys.

The dispute now before the court is whether Dantex is a concurrent creditor for the amounts factored before July 15 last year or whether it can rely on its right of ownership in and to the ceded claims.

Argument continues before Mr Justice Kriegler today.

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in a light

New American Lights — experience the richest taste in a light cigarette.
You’ll be so pleasantly surprised.
AECI and Everite form new pipe company

aware the joint venture would increase concentration in the pipe manufacturing industry, it had nonetheless given its blessing to the venture.

"The deteriorating situation in the market has led to almost all manufacturers making losses. Some rationalisation was inevitable. DPI, which comes into being on January 1, will be the major supplier of PVC pipes and fittings to the local market.

Chairing the board of the new company will be AECI executive director, George Thomas, supported by GM accounting and administration Terence Woolley, and MD of AECI Converters, Ted Maybery.

The Everite representatives will be group MD Emmanuel Arai, plastics division MD John Wayland, group financial director Neil Carter and Pipeworks manager Mike Kerr-Peterson.

The executive committee responsible for the day-to-day running of the new operation will consist of Kerr-Peterson as MD, Wayland and Maybery.
HOLLANDIA RESHUFFLE

Behind the latest results for Hollandia Reinsurance is a veiled disinvestment. Since 1980, capital injections have progressively diluted the 100% control of former parent, Netherlands Reinsurance.

As the Dutch have been leaving, the Germans have been moving in. Hanover Reinsurance of West Germany, ranked sixth or seventh largest in the world, now has a controlling stake of 53.7% in Hollandia Holdings, which owns both Hollandia Reinsurance and Hollandia Life Reassurance. Netherlands is left with 16.4%. AA Mutual Insurance still has 10.3%, which has to be disposed of.

Interestingly, in addition to its recent interest in Al Insurance (See P48), Rand Merchant Bank has also bought into this group. Just before the financial year ended on June 30, it paid about R2m for an 18.3% stake in Hollandia Holdings. With another R4m from Hanover this represented a further capital injection of R6m, to bring Hollandia’s stated capital to R9.3m. Non-distributable reserves, plus the equalisation reserve, bring shareholders’ funds to R13.3m.

GM of Hollandia, Steve Murphy, believes SA offers tremendous opportunities for the reinsurer. “The local reinsurers’ market share of the total reinsurance premium available moved up from 32% in 1973 to 42% in 1982. Since then the percentage dipped, but I believe it is now back over 40%.

“We have argued for some time that prospects for the reinsurance market are good. We want to play a bigger role.”

Of course, the company needs cash to expand. And clearly the latest injection comes from shareholders keen to support Hollandia’s plans for growth.

But it won’t be easy. The reinsurance market in London and Europe has been softening for some time, and representatives have been calling on SA for business. This is despite heavy storm losses in Natal. With such a trend it is dangerous to go for growth.

Murphy acknowledges this, indicating the company’s plans are longer term. Meanwhile, Hollandia will continue to specialise in the liability market, and excess of loss reinsurance.
AGREEMENT was reached yesterday on the terms of Ford Motor Company's disinvestment from SA. Ford Canada is to donate a 24% equity interest in Samcor to a trust controlled by Samcor employees. Dividend income accruing to the fund will be used for community welfare and development activities. The rest of Ford's 42% stake in Samcor will be held by Anglo-American, AMIC and associates—-who presently hold the remaining 34% minority interest in the company—serve on Samcor's board of directors.
Gomma Gomma on forecast target

Cherilyn Metton

GOMMA GOMMA has reported earnings of 9.4c a share for the half-year to end-September, and is on target to achieve the 14.2c a share forecast in its prospectus.

However, sales appear to have been static, rising only 0.2% to R19,068m in the six months against R18,966m in the same period last year.

While attributable earnings show an increase of 20.6% to R1.2m, pro forma figures given for the six months to end-September 1986 have been adjusted to allow for the interest saving that would have arisen from the capital raised when the company was listed.

Operating profits rose 9.8% to R1.5m (R977,000).

Cargo Carriers buys up W & R

Mick Collins

RECENTLY-listed trucking giant Cargo Carriers has bought Emanques-based W & R Transport for R13m.

Cargo MD Prof Roy Marcus said yesterday the move was a strategic decision which gave the company a firm foothold on the North Coast.

"At present W&R is involved in moving about 350,000 tons of sugar cane a year. Added to this is the possibility of the establishment of an ethanol plant in Natal. We are obviously looking to the future."

Cargo marketing director Mike Bower said following the acquisition the group would look to expanding its activities into both the agricultural and industrial sectors.

He said Richards Bay in particular would benefit from the company's services.
US firm sells SA stake in Bostik, Formex

By TOM HOOD, Business Editor

AMERICAN-based Emhart Corporation has sold its local interests in Bostik and Formex Industries to a consortium of South African investors for an undisclosed amount.

The consortium is made up of management of the two companies, SA Bottling Company and First National Merchant Bank.

Bostik is a major manufacturer and distributor of adhesives, sealants, speciality chemicals, fasteners and sound insulators for the motor industry.

Port Elizabeth-based Formex Industries has a long history of supply and manufacture of footwear materials and components to the shoe trade as well as speciality hardened nails to the building and allied industries.

Mr Philipp Gutsche, the new group's executive chairman said Port Elizabeth had suffered more from disinvestment pressure than any other area.

"We are glad to see these businesses continuing intact under new ownership. The continued employment of all personnel is assured."

Ongoing user rights to the established trademarks — Bostik, Prestik, Pop and IVI — as well as the right to secure new technology from Emhart companies world-wide has been written into the deal.

• Santam Insurance posted record profits for the year to September, improving its solvency margin, net asset value, insurance funds and reserves.

Gross premium income rose 17 percent to R642-million while net premium income rose by 18,5 percent to R577,1-million (R486,9-million)

Cash paid on claims increased by almost 11 percent to R445-million and a R70,000 underwriting loss was converted into a R20-million profit.

Total assets, at market value, amounted to R413-million on September 30. Only R8-million was knocked off this in the share price plunge in October.

The company had followed the policy of remaining relatively liquid and was under-invested in ordinary shares, although it did hold substantial blocks of high-yielding prefs.

Earnings a share jumped to 41,5c (21,5c), the final dividend of 3c makes a total payout of 15c (10c).

• Teljoy Holdings, listed on the JSE in June, more than doubled its net profit from R2,6-million to R5,8-million for the first half. This is well ahead of the R4,5-million forecast.

The interim dividend of 3,5c is also above the 3c forecast.

The year's earnings will exceed 22c a share, beating the prospectus forecast of 16,6c, says the chairman, Mr Theo Rushein.

• After almost a year of strategic planning and careful examination of the group and its markets, Nedbank Group's management has decided that its thrust, in the wider financial services industry, will be towards greater specialisation by the divisions, says the chairman, Mr Owen Horwood.
Merger sanctioned by Supreme Court

By AUDREY D'ANGELO
Financial Editor

THE merger of the Old Mutual and Colonial Mutual — without money passing on either side — will be of benefit to policyholders with both institutions, Old Mutual MD Mike Levett said yesterday.

He issued a statement that the merger had been sanctioned by the Supreme Court.

Asked to comment on suggestions that the merger had been arranged with Colonial Mutual's parent company in Australia — and that the SA board of Colonial Mutual had wanted payment for assets worth more than R600m — Levett said the fact that no money had changed hands meant it was all in the joint pool from which bonuses would be paid to policyholders.

"Nothing could have been done that was more in the interests of policyholders," he added.

Levett said the merging of the two oldest mutual insurance societies in SA meant that more expertise would be available and costs would become a smaller percentage of income.

"All policyholders will reap the benefits of these facts," he said.

He said the former CEO of Colonial Mutual in SA, Doug Cleland, had been made an attractive offer to join Old Mutual but had declined. "We are very sorry Doug didn't stay," Levett added.

A former member of Colonial Mutual, who confirmed that he had been asked to join Old Mutual, said "I have heard the Supreme Court took about 45 seconds to agree to the merger. It's all over now. There is no point in saying anything."

In yesterday's statement Levett said Colonial Mutual policyholders would become members of Old Mutual, and all assets and liabilities would be transferred to Old Mutual.

"The transfer has retrospective effect from January 1, 1987.

"Colonial Mutual was established in 1873 in Melbourne, Australia, and has been operating in SA since 1883.

"At the time of the merger it was the 12th largest assurance company in the country, with total assets of over R600m.

"Premium income last year was R80.7m. Old Mutual has the largest asset base in the SA insurance industry and even before the merger was ranked No 1 in terms of both premium income and total income."

Levett added that no staff members would lose their jobs as a result of the merger.
Earnings soar by 30%

Barlow Rand reinforces top position

From CHERILYN IRETON

JOHANNESBURG. — Barlow Rand has reinforced its position as the country's top industrial/mining corporation with an impressive performance for the year to end-September. Earnings are up 30% to 275c a share, which, although in line with market expectations, are ahead of earlier forecasts by the group.

The final dividend has been lifted to 70c a share (56c) taking the total distribution to 100c (80c) for the year.

CE Warren Clewlow says the tone for the current year is "generally positive", a mood underlined by Barlow's plan to spend R1.5 billion (R1.6bn) on capital projects. Most of the expenditure will be earmarked for mining projects.

Industrial operations

Commenting on the results, Clewlow said: "We had a good half year, but wondered at the time whether we would follow through quite as strongly. As its turned out, it's been a little stronger than we thought."

The main contributors to the increase in taxed profit — from R699.6m to R872m — were the group's industrial operations which showed an overall improvement of 73%, off "a fair base".

These companies not only accounted for 35% of total profit, but usurped the mining and minerals beneficiation sector's position as the group's main profit generator.

Clewlow is, nonetheless, happy with the mix because it gives Barlow a very solid base.

Mining and minerals beneficiation contributed 31% (38% previous year) to profit after a good performance from PPC and Middleburg Steel.

Although Rand Mines earnings were marginally down, Clewlow says the mining house fared well to "turn in a performance fairly close to that of last year".

The group's food interests, through C.G Smith foods, again contributed 24% of profits, doing well "to improve its profits by 30% on a rather modest increase in turnover".

"Our international companies stayed the same. We lost a little on currency translation but are about the same internationally. The disappointing part was our American packaging group which had a difficult time."

This company has since been sold.

The contribution from the international operations amounted to 10% (12%)

Strong cash flow

Stressing the important role played by the group's unlisted subsidiaries, Clewlow said the 100% owned subsidiaries contributed a third of the group's profit and were good cash producers.

Almost 43% of the corporation's profits are earned either by exports or in foreign currencies.

In the year a strong cash flow of nearly R500m helped reduce borrowings which impacted favourably on all ratios. Gearing fell to 50% (63%) on yesterday's closing price of R19.25, the share yields 5.2% on dividend — against the industrial holdings sector average of 3.9% — and 14.2% on earnings, against the sector average of 10%.
TIGER OATS has acquired the assets of MSD, the SA subsidiary of giant US pharmaceutical company Merck & Co for about R25m, as US sanctions pressure has stemmed the flow of capital into the country

MSD MD Don Allen, emphasising that the agreement was not a disinvestment move, said the restructuring would continue all licensing arrangements, maintain technical access and assure the continued availability of Merck's products in SA.

Merck spends about $600m a year on research internationally, from which Barlow Rand subsidiary Tiger Oats will continue to benefit.

Allen said sanctions had motivated the move, preventing the group from injecting enough investment capital into SA to allow for growth commensurate with their product ranges. With 13 major drugs, Merck, unlike many other drug companies, does not depend on one or two drugs.

Barlow Rand executive director Robbie Williams said the acquisition fulfilled the group's long-stated intention of expanding operations in the pharmaceutical arena. He said MSD would be operated as a stand-alone business and would not be merged or integrated with

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**Tiger Oats takes MSD**

**KAY TURVEY**

Adeco-Ingram

No retrenchments were envisaged and Don Allen was to continue to manage the business until a Barlows appointment was made, he said.

Merck, with a market value of $28bn, is ranked No 7 in market value among US giants such as Coca Cola, Ford and American Express. Merck has been in SA since 1917, where it currently markets some 40 prescription pharmaceuticals and several major animal health and agricultural products.

Merck chairman and CE Roy Vagelos said action had been taken after intensive study and reflection. He said, "In the light of evolving circumstances, Barlow Rand is in a better position than Merck to maintain the availability and quality of our expanding line of human and animal health products and assure growth."

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**For pens and markers.**

Pentel.
AGREEMENT was reached this week between Ford, Anglo American Industrial Corporation, the National Union of Metalworkers of South Africa and Samcor, "whereby Ford Canada will donate a 24 percent equity interest in Samcor to a trust for the benefit of all Samcor employees". Anglo American Corporation said in a statement.

The employee trust would be administered by trustees "elected by both hourly and salaried employees."

"Dividends received by the trust will be used for community welfare and development activities. The trustees will nominate three of their number, two representing hourly employees and one representing salaried employees, to serve on Samcor's board of directors.

"A joint committee of trustees and management will be established to address issues of mutual interest. This committee will not substitute for the normal collective bargaining process.

"Ford has agreed to provide training over a period of five years, primarily at its US and European locations, for the purpose of upgrading the skills and qualifications of Samcor's employees, to improve their career development and job opportunities.

Fund

"In addition, Ford will establish and fund two community trusts, one in the Pretoria area and one in the Port Elizabeth area, with an equal number of employee and community representatives as trustees. Ford will contribute about R4 million to each of the trusts, with the trustees having complete autonomy over the disposition of the trusts' funds." — Sapa
Beware the pitfalls of share incentive schemes

SHARE participation schemes are essential to the promotion of free market principles among employees. But there are a number of problem areas which have to be addressed.

The share incentive scheme does not bestow an immediate, tangible cash benefit on staff. The share prices are often too high to allocate a tradeable lot to all levels of employees, and the dividend yields are far below alternative investments, like bank or building society deposits.

Hybrids

With the market being at unprecedented high levels, options at current market prices might not be attractive incentives for employees who believe that the market can only come down. Although stop-loss clauses — which prevent employees from having to chop in if the market comes off — are common features in incentive schemes, the potential benefit is not always perceived to be very large.

Schemes most frequently used by listed companies are option schemes, share purchase schemes or hybrids of the two. But the taxation benefits of these schemes have largely been thwarted by fringe benefit taxation.

Staff equity participation programmes are the issue of the day. Nearly all the newly-listed companies on the JSE have instituted schemes, and now Anglo American has announced its share scheme which extends to all levels of staff.

GRAHAM DRINKWATER, Manager of First National Merchant Bank, considers the advantages and disadvantages

The inclusion in taxable income of the difference between the option price and the market price on the date of exercise of the option, and the fringe benefits tax payable on soft loans to enable staff to buy shares, makes such schemes largely tax neutral.

From the employer's point of view, the administration of the purchase scheme and hybrid schemes are extremely complicated, as dividend receipts, interest payments and fringe benefits tax have to be balanced for each individual employee.

Schemes in terms of which shares are issued to employees are not very tax-effective from the employer's point of view, because the benefits given to the employee are not deductible while the benefit received is taxable.

A scheme which would satisfy both the capital building objective as well as tax efficiency would be one in which a bonus to the value of the difference between the option price and the price at a given future date be paid to employees.

Effective

While there are many other methods by which work incentives can be given to staff which might be more effective in an operating sense, as they can be more closely related to individual performance, these methods don't necessarily provide long-term loyalty and the ability to build capital in the equity of the employer.
Union says Anglo's share offer 'stinks'

The Argus Correspondent in Johannesburg reports

THE National Union of Mineworkers has rejected the Anglo American Corporation's employee share participation scheme.

The NUM's general secretary, Mr Cyril Ramaphosa, summed up the union's stance: "The scheme stinks."

This was the view of union members who had been consulted since details of the scheme were made known to the union, he said. He denied he was told of the scheme before this week.

Blackmail

"As we understand it, the scheme is a manoeuvre to ensure that free enterprise is entrenched in a post-apartheid society," Mr Ramaphosa said. "It amounts to political and economic blackmail."

The NUM, the biggest trade union in the country, claims a membership of 270,000, with about 100,000 members employed by Anglo American.

He said that based on meetings in three regions of the union over two days "the immediate reaction is that the scheme must be rejected."

"This initiative is an attempt to undermine the strength of the unions. What the workers are demanding is that they get a living wage and a bigger share of the profits of companies going towards wages. They won't be tricked into a paltry share-ownership scheme."

Five years

The scheme should be seen in the light of NUM's August strike and of the pressure which has been brought against the mining industry, Anglo in particular, by organised workers, Mr Ramaphosa said.

In introducing the scheme Anglo was "Trying to defuse the challenge against its hegemony," he said.

In terms of the scheme all Anglo employees who have served two years will be offered five free shares early next year. A similar offer will be made every year thereafter for another four years.

The number of shares offered may change, according to company results because the company will pay for the shares from profits.

After five years Anglo will review the scheme. If it has gone well, the offer will continue.

The shares taken up will vest in the Anglo American Group Employees' Shareholder Trust for four years. Thereafter employees will be entitled to keep them in the trust, sell them or hold them personally.

Voting

During the four years employees will be able to vote and exercise their rights as shareholders by instructing the trust and will receive dividends.

The scheme will apply immediately at Anglo's Johannesburg head office, where about 7,000 people on a staff of 2,800 qualify.

The boards of associated companies will meet shortly and if, as is likely, all accept the scheme, another 250,000 employees will be offered the shares.

At yesterday's price of R50.75 the first free offer should be worth more than R30.50.

A similar offer is being made to 20,000 De Beers employees in South Africa and SWA/Namibia. The initial offer will be 10 De Beers shares, worth R300 at yesterday's price.

Mr Gavyn Relly, chairman of Anglo American, said at a Press conference in Johannesburg that prospects for the scheme were improved by the lower price of the shares in the wake of the stock exchange crash because they were likely to rise in the long term. - The Argus Correspondent and Sapa
Relly: ‘Hope’ for share scheme

JOHANNESBURG — Anglo American chairman Gavin Relly said yesterday he hoped the Anglo and De Beers employee share ownership schemes would create a new system of relationships between management and employees.

Relly said the scheme may change perceptions all round through the existence of

However, the National Union of Mineworkers yesterday rejected the initiative General secretary Cyril Ramaphosa told Sapa “It stinks.”

“What the workers are demanding is that they get a living wage and a bigger share of the profits of companies going towards wages. They would never be tricked into a paltry share ownership scheme,” he said.

The scheme was a reaction to NUM pressures in the mining industry Anglo was “trying to diffuse the challenge against its hegemony,” said Ramaphosa.

Anglo's Bobby Godsell said the group was obviously concerned about the probable negative union reaction to the scheme. However, they were welcome to express their views and give advice to members, so long as it was used.

He said the issue of whether to consult unions in advance was discussed. It was decided, however, that unions should not hold a veto over the scheme.

Relly said the programme was outside the normal sphere of union interest. Normal collective bargaining activities would not be affected.

However, the Paper, Printing and Allied Workers' Union, which organizes at Anglo subsidiary Mondi, challenged this view.

General secretary Jeremy Baskin said it was significant the announcement came soon after the union entered a wage dispute with

Mondi. He noted the R300 a month represented almost exactly the difference between last year's wage settlement and the latest management offer.

“We will not accept this scheme as a trade-off against wages, which is what it appears to be,” he said. However, because the share offer was free, the union would obviously not advise members not to accept it, said Baskin.

He also criticized the absence of negotiation on the issue.

The programme will not have a material effect on earnings per share.

If all eligible Anglo employees participate, 7.5m shares may be allocated in the next five years, dependent on economic performance and share price. This is equivalent to a mere 3.5% of Anglo's present issued share capital.

In the case of De Beers, if all 20,000 employees participate, the scheme will involve the issue of a maximum of 250,000 shares over the present 360m issued share capital.

By AUDREY D'ANGELO

Financial Editor

UNDER the Anglo American group employee shareholder scheme about 259,000 people working for the corporation and its subsidiaries and 29,000 working for De Beers will each be offered free shares worth R300 at current market prices. These will be held in trust for them for four years.

If they leave or are dismissed the shares will be given to them at the end of the four years. If they retire, or are retrenched, the shares will be available immediately. If they die the shares will pass to their heirs.

Dividends will be paid to them during the four years as to all other shareholders, said, in a statement issued yesterday, the directors said it was hoped to issue more free shares each year for a trial period of five years.

The statement emphasized that the shares were not a substitute for pay increases.

A spokesman for the corporation said that if the scheme succeeded it would have a tremendous impact on remuneration packages.

"It will become difficult for other employers not to follow Anglo's example."

"It will become routine for job seekers to ask at the interview about the share option scheme, as they do about medical aid and pensions."

Anglo American Corporation chairman Gavin Relly, centre, surrounded by staff members who have been offered free shares. The offer has been criticized by unions who have said, however, that workers can make up their own minds whether to accept.
"Results justify JSE listing"

Ovbel chalks up R2m

By AUDREY D'ANGELO

Financial Editor

OVBEL Holdings — formed last year from the property and construction interests of the former Ovestone group — achieved after-tax earnings of more than R2m in the six months to September 30. Income attributable to ordinary and preferred ordinary shareholders was R1.9m compared with R1.6m in the previous six months.

The asset value of each share has risen to 102c compared with 98c six months ago and earnings at share level were 6.7c compared with 5.8c in the previous half-year.

Total liabilities have been reduced to R46.9m (R55m) with long-term borrowings down to R12.7m (R23.4m).

Chairman Andrew Ovestone forecasts earnings of 12c a share for the year to March 31, on the basis that the preferred ordinary shares are converted into ordinary shares at a meeting to be held on December 9.

He expects the final dividend to be 3.5c a share "which, together with the interim-preferred ordinary dividend of 4.5c, equates to approximately 6c a share".

Confirming that it is still intended to seek a listing on the JSE in the first quarter of the New Year "although we reserve the right to withdraw if the situation warrants that," Ovestone said the company did not need to go to the market to raise money and therefore the fact that the market has changed should not matter that much to us.

"When we put the group together to form Ovbel we indicated that we would go for a listing. The results certainly justify it."

The results are certain to revive the regrets of former shareholders who were not happy about splitting off the property and construction interests from the rest of the group, in spite of assurances from chairman Tony Bloom that it would be too expensive to continue to hold land and that there was unlikely to be a housing boom in the near future.

"We were fortunate to put together the team and the investors to take over these good companies with enviable track records," said Ovestone.

"But they did not fit in with what was required by the former controlling shareholder (Premier group)."

Ovestone is optimistic about the future, although he admitted that the stock exchange crash might affect time-share and resort developer Ovland's up-market schemes. These include the third phase of a resort at Cape St Francis, which will be launched this month.

"A lot depends on whether the stock market crash encourages people to invest in property rather than the equity market, or whether the loss of their paper profits made in the last year makes them feel less affluent so that they put off purchases like time-share units and serviced plots in resorts."

"That will become apparent in the next few weeks."

However, Ovland has traded well so far this year, with 25% of the units at its Bantry Bay time-share block sold in the first two months for a total of R15m.

The group has sold R7m worth of fixed property. Ovestone explained that this was part of a new policy to concentrate on property trading, with a quick turnover, rather than holding on to assets for long term growth.
JOHANNESBURG. — Disinvestment by US companies has seen the creation of 168 new South African millionaires in the 12 months that American sanctions have been in force, says the US Journal of Defence and Diplomacy (JDD).

The magazine, published by the Intel Research Corporation in Washington, says one of the major effects of sanctions has been to increase the concentration of wealth in hands of white South Africans.
Teconit, Monatic in takeover talks

Business Editor

TECONIT, the Claremont-based knitwear manufacturer, is negotiating to take over Knitwear Industries of Parow from Monatic.

The acquisition would allow it to manufacture knitwear under the Monatic label as well as two other well-known labels, said the company today.

"The takeover of Knitwear Industries will add greatly to the company's knitting capacity and it now has a wider range of machines in different gauges and is able to offer a wide range of yarns, both local and imported," said Mr Stan Wood, technical product development manager.

"The plant will operate independently but will greatly increase Teconit's production capacity and range of garments."

Teconit claims to hold 8 percent of the country's knitwear market and hopes with recent acquisitions and the purchase of sophisticated machinery, it can raise its market share up to 11 percent.

The takeover is subject to a few technical details being resolved.
Two more Cosatu unions attack Anglo employee share scheme

TWO more Cosatu unions have attacked the Anglo American employee share ownership scheme announced last week — citing it as a substitute for other forms of remuneration.

The Paper, Printing and Allied Workers' Union (Ppawu), which represents thousands of Mondi employees who could become entitled to take up the offer, believes the scheme is the reason for a wage dispute between Ppawu and Mondi declared recently.

General secretary Jeremy Baskin argued it was not coincidence that Mondi's wage offer for 1988 was 14c per hour lower than the 1987 settlement figure. The annual value of the share offer, R300, was the equivalent of 13c per hour in wages, he noted.

"We will not accept a trade-off between wages and this offer," he said. He added, though, that since the offer was free "we will obviously not advise members not to take it up".

Mondi's Alan Young described Baskin's argument as "spurious". He said wage negotiations were not yet over, and Mondi still had to decide whether to take part in the scheme.

National Union of Metalworkers (Numsa) spokesman Berne Fanaroff described the scheme as a disguised form of production bonus, and the corporation "was using the opportunity to also inject a hefty dose of ideology".

Numsa has a large membership at Anglo subsidiaries in the metal sector.

Fanaroff said workers will not be fooled by the offer. As well as being paltry, it was a deferred payment, while workers "wanted a living wage now". He predicted the offer would backfire in that workers would see the companies had funds available and this would prompt more determined wage demands.

At last week's media conference, Anglo chairman Gavin Reily insisted the scheme had nothing to do with wages, and that collective bargaining would be unaffected by it.
Senator Paul Simon's face is凑得那么近，使我们不得不把头凑近他。他的眼睛里充满了坚定的信念，仿佛在告诉我们要勇敢地面对困难。他的笑容温暖而有力，让我们感到力量和信心。这是一个值得信赖的领袖，他的决心和毅力激励着我们。让我们一起为我们的未来而努力。
Ford sends millions to save SA car company

WASHINGTON. — In a bid to prevent Anglo American liquidating Samcor, Ford has wired the car company $61 million (about R122 million) without waiting for formal approval from the US Treasury.

The move was "a flagrant violation" of the Comprehensive Anti-Apartheid Act's ban on new investment, congressman Mr. William Gray, chairman of the House budget committee, said yesterday.

Samcor, 58% owned by Anglo before Ford's departure, was a South African-controlled company and therefore not exempt from the law's ban, Mr. Gray said.

The congressman, who has been leading the effort to stop the transfer, accused Ford of signing a secret agreement with Anglo to help pay off Samcor's debts so that Samcor would remain viable to continue selling Ford products in South Africa.

This pact was separate from the disinvestment agreement reached with the National Union of Metalworkers of South Africa (Numsa) under which Ford undertook to give 24% of Samcor equity to create an employee trust fund, Mr. Gray claimed.

Ford was sufficiently worried about the legality of the transfer to seek Treasury approval.
Take the viper to your bosom

Sir — Your article "Time to sell the shop" (Leaders December 4) deals with the thorny issues of privatising/liberalising the telecommunications side of the Post Office (PO).

The article is highly critical of the current level of technology in the PO. This is a little unfair in that it gives no credit to the PO for the giant strides it has made, particularly in the data communications area.

The major problem at present is not one of technology. Between the PO and most of the end-user organisations all of the technology is in place which would allow for far greater use of the existing infrastructure. The problem, at the end of the day, comes straight back to the issue of costs/revenues.

The PO is concerned that a wholesale liberalisation of its telecommunications would erode its revenue base. It is our view that this need not be the case, for two reasons:

1. The tariff structure is low at the moment and business would undoubtedly be prepared to pay more for its communications infrastructure if it was accompanied by a loosening of the bonds, and
2. The widespread introduction of added value networking products which would accompany a liberalisation of the current restrictions would generate a very substantial increase in traffic and would also reduce the volume of data sent by post, thereby reducing the losses incurred by the PO's postal services.

Business and the PO need to stop viewing each other as adversaries and start to cooperate in this matter, which is of vital national interest.

To this end we would suggest the formation of a body to be composed of representatives of the business community and the PO to thrash out an approach to give business the service and the flexibility which it requires without damaging the PO's bottom line. We would be happy to play a facilitative role in the formation of such a body and would welcome feedback from the private sector on this matter.

David Jonas, The Malbuk Group, Sandown

Financial Mail

STRIKING THE SYSTEM

A case for privatisation?
Inevitable option?

According to the latest Standard Bank Review figures, Pretoria is in a bind. Government spending keeps going up — rising a real 5% a year in the Eighties — with no end in sight. Taxes have just about kept pace. GST collections have risen 140% between 1980 and 1987.

With State spending constantly over budget, and taxpayers increasingly unhappy about the bill, Pretoria will have to turn to privatisation, Standard predicts. It would be wise to do so, given the benefits privatisation is bringing countries rich and poor.

Among the benefits it sees:

- Preforia could reduce taxes and government borrowing. The former would boost economic growth, and the latter could reduce long-term interest rates by cutting the demand for credit.
- Private ownership of assets would boost the economy's efficiency and make the market more responsive to consumer needs.
- If privatisation boosts the number of shareholders — especially blacks and State employees — more people will have an interest in maintaining a market economy; and
- Privatisation would increase private-sector income and thus broaden the tax base.

To deal with potentially disgruntled civil servants, Standard suggests Pretoria guarantees pension benefits and offer blocks of shares at preferential prices. And to help offset job losses from privatisation, it suggests government deregulate the economy so it can absorb the new job-seekers.

"As pressure grows on government, privatisation is likely to become a prominent feature of economic policy," the Review says. "The economy would gain immeasurably regardless of whether the policy was forced upon policymakers or deliberately chosen for the benefits it could offer."

Standard calculates that the assets of Escom, Sat, the Post Office, the Land Bank, Iscor, the Industrial Development Corporation and Armscor total R80 billion. If those or other assets were sold off at a rate of R10 billion a year, government would take in the equivalent of a quarter of budgeted revenue in the 1987-1988 financial year.

Since privatisation was adopted as government policy in 1985, little has been done. Parts of Sasol were privatised, private firms have built toll roads and bridges, and private hospitals have offered more medical care.

Standard, calling progress "disappointingly slow," says the budget squeeze will change that. "The method of privatisation is bound to become more dramatic, implementation is likely to proceed faster, and the type of operations offered for privatisation will have a higher profile."
A SHARE incentive scheme which sidesteps a tax liability to which ordinary incentive schemes could fall prey has recently been devised by tax experts.

In a recent tax court judgment a listed company's trust administering a share incentive scheme was ordered to pay tax on a profit it made unintentionally.

"That profits unwittingly made can be taxed is somewhat anomalous," says Aiken and Peat partner Hendrik Coetzee. "Usually the intention to make a profit is central to deciding whether a gain is taxable, he says.

The trust in question earned a profit because, under the scheme, employees who resigned were obliged to sell their shares back to the trust at the price they had been when originally allocated.

The shares had often increased in value between the time of allotment and the time of resale to the trust. The tax court ruled these profits were taxable.

The recently devised "phantom share scheme" sidesteps this problem, says Fisher Hoffman Stride partner Anthony Chait. In this scheme, the listed company does not establish a trust. Rather, it creates a trust company.

Unlike the trust used in ordinary schemes, the trust company does not issue shares in the listed company. Instead, it produces shares in itself, which, in a sense, only represent the shares in the listed company.

Yet by "buying" these "phantom shares," employees still participate in any rise in price of the underlying listed shares. But, by allotting shares in itself, the trust company avoids making a profit by virtue of the increased value of the listed shares.